CHELSEA
A UDENNA Company

STRENGTHENING THE CORE

2019 ANNUAL REPORT

We are committed to deliver value. We have strategically positioned ourselves as a builder of business, and we believe that with our Group synergy and adaptability, we will see us through the ups and downs of the industry.

PhP 6.5B
Total Revenue from Shipping Services which was 34% growth year-on-year

12
Brand-new vessels acquired since 2015

PhP 2B
29% year-on-year increase in EBITDA

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Original Proponent Status (OPS)
Received OPS for Davao Sasa Port and Davao International Airport Modernization Projects

ASSETS

PhP 8.7B
27% growth in the Company's Total Assets

500,726
19% increase in Worklink's delivery transactions

CONTENTS

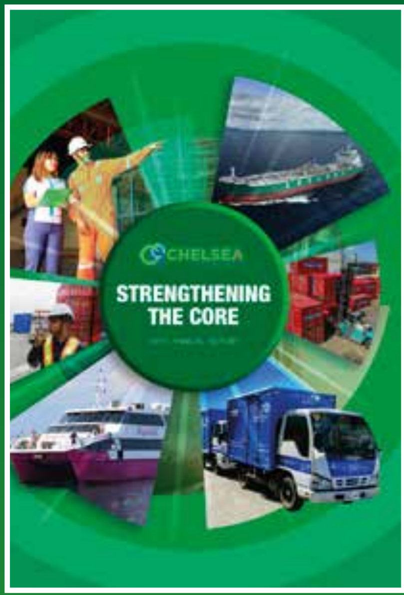
About the Cover

We are only as solid as what we build on.

In Chelsea Logistics, the first three years of our existence focused on strengthening our foundation to ensure that the shipping and logistics businesses were built on solid rock, not on sandy soil.

Solid. Strong. Spirited. The cover of this Annual Report, the core, vividly manifests how our business core brings life to the bold vision we committed ourselves to.

We are positive and confident that all our foundational works will result in a more reliable and sustainable Company, bringing long-term value to stakeholders.



VISION

To be the finest shipping and logistics company known for its unrivalled customer service.

MISSION

We transport passengers, cargos, petroleum, oil, chemicals and other bulk products.

We satisfy our customers' needs through reliable, punctual, efficient and safe service.

We constantly challenge ourselves to do better and to perform beyond what is expected.

We care for the community and the environment by applying the best practices in ship management, adhering to global standards.

We deliver superior returns to our stakeholders through prudent stewardship of our resources.

VALUES

INTEGRITY
We adhere to the highest ethical and professional standards. Our reputation defines who we are.

PASSION
We are motivated and driven in what we do.

ENTERPRISE
We seize opportunities to enhance our growth.

TEAMWORK
We work as one to deliver our commitments.

EXCELLENCE
We deliver unsurpassed performance in all our endeavours.

STEWARDSHIP
We utilize our assets responsibly.

MESSAGE FROM THE CHAIRMAN & FOUNDER

2,648
Total number of employees as of 31 December 2019 [Chelsea Group]

132%
increase in warehouse space

Dear fellow shareholders,

The shipping industry in the Philippines faced a rough year. Under the Tax Reform for Acceleration and Inclusion Law (TRAIN), excise tax on fuel further increased to PhP 4.50 per liter; due to this, cost of vessel operations hiked. With a total of 77 vessels, the increase in the cost of fuel affected the Company's operations with bunkering taking up the largest position in Chelsea Logistics' operating costs. The Over-Tonnage Policy that was implemented on domestic vessels also had a huge impact on the Company's tanker business as this resulted in a cut-throat competition on freight rates.

The year that was, taught us that there's truth to the saying "no pain, no gain". Despite the challenges and growing pains in 2019, Chelsea Logistics focused on strengthening its core: business position, partnerships, and people.

Strengthening our business position

Coming on the heels of acquiring various shipping and logistics businesses, we saw the need to consolidate and create synergy among these strong brands, wherein each is a market leader in the area where the Company operates. We invested our time and valuable resources to streamline, standardize, and improve the subsidiaries' business processes and operations. We also ventured into a re-branding exercise with our five major subsidiaries namely Chelsea Shipping, Trans-Asia, Starlite, Worklink, and SuperCat, to position Chelsea Logistics as a holistic and trustworthy brand, true to its vision of placing customer needs first and foremost.

In October 2019, we acquired SuperCat to strengthen our shipping portfolio and support Chelsea Logistics' business direction. But more than just increasing our fleet size, we saw this acquisition as an opportunity to operate in more strategic areas, open new routes, and serve more passengers nationwide through SuperCat's high-speed vessels, which currently serve Batangas, Bacolod, Cebu, Iloilo, Ormoc, Calapan, and Tagbilaran.

On the other hand, the unprecedented growth of our logistics business was truly promising. It has been bringing our service levels to new heights with the addition of 12 trucks and seven warehouses in 2019, increasing our warehouse space to 13,973 sqm, up by 132% from 2018. We also expanded our warehouse services beyond Metro Manila to cover key major cities such as Pampanga, Cagayan de Oro, and Bacolod.

Our infrastructure projects gained more headway this year as the Original Proponent Status (OPS) for the Davao Sasa Port Modernization was conferred on the Company by the Philippine Ports Authority (PPA) in August 2019. The Project targets to deliver among others, port capacity expansion, flow improvement of waterborne commerce and inter-island seaborne commerce and foreign trades, and streamlining, enhancement, and optimization of port maintenance and operations. The Project will also promote regional development through the dispersal of industries and commercial activities throughout the region.

Meanwhile, our Davao International Airport (DIA) Modernization Proposal was cleared by the National Economic and Development Authority - Investment Coordination Committee (NEDA-ICC) in December 2019. The modernization of DIA is expected to bring the economic growth of Davao Region and Mindanao to a higher level through increased trade and tourism activities. The scope of this Project includes reconfiguration and expansion of the terminal building, construction of parallel taxiway, improvement of airside and landside facilities, installation of modern airport IT systems, and all activities needed to improve airport services of DIA, the primary gateway to Mindanao and the third largest airport in the country.

Our telecommunications business, DITO Telecommunity, formerly known as Mislatel, received the Certificate of Public Convenience and Necessity (CPCN) or 'Permit To Operate' from the National Telecommunications Commission (NTC) on July 8. This is indeed a milestone not only for us but for the telecommunications industry and the Filipino community. Because in this era of globalization, telecommunications is vital and is the key to bolstering a country's productivity.

Strengthening our partnerships

The past three years have seen not only the entry of new and diversified corporations into the Chelsea Group but also the development of regional partnerships that further fortified the Company's market dominance. The second quarter of 2019 witnessed Chelsea Logistics and Udenna Corporation's partnership with China Telecommunication Corporation, the largest fixed-line service and third largest mobile telecommunication provider in China. The parties inked a USD 5.4 Billion investment to provide world-class telecommunications service in the Philippines. The signing of the investment agreement reiterates our commitment to take up the challenge of providing better and more reliable telecommunications services for all Filipinos.

Chelsea Logistics has entered into strategic partnerships with leading Japan-based shipbuilders, namely Kegoya Dock, Fukuoka Shipbuilding and ship owner Kumiai Senpaku for the construction and financing of brand-new vessels. These partnerships which provide financing of the construction of brand new vessels, represents an alternative to the present recourse to banks for construction funds. With this approach, Chelsea Logistics will answer the need for the growing number of RoRo passengers in the country and also provide more jobs to a significant number of Filipinos from the maritime industry. This year, we have launched new RoRo passenger ferries, Trans-Asia 19 and Trans-Asia 20, to ply the routes of Cebu-Tagbilaran/Tagbilaran-CDO and Cebu-CDO respectively. Starlite Ferries also deployed its brand-new vessel, Stella Maris, to expand its footprint in Cebu and serve the Cebu-Surigao-Cebu route.

Chelsea Logistics' regional partnerships mark its long standing and ongoing commitment to becoming the country's prime mover of vital goods, cargoes and people. We look to our business partners as leaders in their respective industries, whose excellence can bring the Philippines' local shipping and telecommunications industry to global standards.

Strengthening our people

Our tagline: "Together, we serve you better", motivated us to not just connect people and move goods, but to know customers' needs and serve them wholeheartedly. Guided by the principle, "You don't build a business; You build people and then the people build the business," we equipped our people with solid business orientation and development programs.

Our Human Resource Department was tasked to double its effort in making this happen. A total of 93 training seminars and workshops was conducted across the Group to equip our employees with relevant technical and soft skills both for land and sea-based personnel. The Human Resources Group is committed to providing internal and external training programs for the most important asset of the Company – our people.

The Company has also embraced the philosophy of "leaders at every level". The Group's Human Resource Department has put in place a bi-monthly Toolbox session, giving all employees the chance to develop their interpersonal skills through informative presentations. Each employee is tasked to promote destinations served by our shipping lines and discuss topics beneficial to employees' personal and professional enhancement.

In the second half of 2019, we launched Chelsea Connect, a monthly online internal newsletter. This communication platform aims to keep everyone abreast of where the Company is going and what each employee can contribute for the Company to get there. Guided by the core values of Integrity, Excellence, Teamwork, Enterprise, Passion, and Stewardship, majority of

93
Group-wide number of training programs conducted

We are eager to usher in the next wave of our initiatives, consolidating our various brands, providing new and sophisticated logistics solutions, and opening new ports and routes to cater to more passengers nationwide.

35%
Php 7 Billion
Record Gross Revenue of Core Businesses in 2019

home-grown leaders have now stepped up to ensure the Company is ready to take on the challenges and growth opportunities ahead.

Preparing for the Future

If we are to describe the past year, it was "enduring the birth pains". The first three years of our operations were not easy and our financial performance reflected this season of laying the groundwork. While we are yet to see the fruits of our labor, we envision to service the growing needs of our market. We are eager to usher in the next wave of our initiatives, consolidating our various brands, providing new and sophisticated logistics solutions, and opening new ports and routes to cater to more passengers nationwide.

We look to the challenges ahead with fervor and energy. Chelsea Logistics was built on strong foundations: Strategic Business Position, Local and Regional Partnerships, Honest and Hardworking People. Our first three years may have been a bumpy beginning but our eyes are fixed on the prize – a brighter future for Filipinos. We are committed to our vision and it inspires us to keep on moving forward to provide 100% customer satisfaction on our shipping and logistics services.

Sincerely,

Dennis

Dennis A. Uy

PRESIDENT & CEO'S REVIEW

120 million
Liters of tanker's fleet collective capacity

35%
Percentage increase in Total Revenue

Dear fellow shareholders,

While we recall the past year for how much it kept us on our toes, we are pleased to report that all our core businesses significantly grew in 2019. The maritime and logistics industries both saw difficulties in 2019. Not only affected by a slowdown in the global economy during 2018, the high bunkering costs and resultant surge in ship fuel costs because of the IMO 2020 sulphur cap, affected the volatile maritime industry (Review of Maritime Transport 2019, UNCTAD).

We ended 2019 with a net loss of PhP 832 Million from PhP 551 Million in 2018. This is primarily due to share in losses on equity investments and high repair and maintenance cost of older vessels.

Despite these challenges, Chelsea Logistics endured. The Company continued its sustained leadership and we are confident that the landscape before us is a more promising one, because we have laid strong foundations for our future growth.

Our approach was simple. We upgraded and we simplified.

We have strengthened our operation efficiency through vessel modernization and infrastructure investments. Marking its fifth year of vessel modernization program, Chelsea Logistics launched three roll-on roll-of passenger vessels deployed in strategic locations. Since 2015, we have acquired 12 brand-new vessels. Our investment in a young fleet fortified our ongoing transition to sustainable shipping. With a newer and younger fleet, we enhance our competitiveness and efficiency while decreasing our environment impact.

In 2019, we have maintained 120 million of our tanker's fleet collective capacity. Further, we have increased the geographical availability of our chartering services in international waters, particularly in Malaysia, Singapore, Korea and China. Our collective gross registered tonnage grew to 196, 877 metric tons in 2019 from 190,694 metric tons in 2018, a 3.24% increase, enabling us to fulfill the growing demand for shipping in the region.

By end of December 2019, Chelsea Logistics, through its wholly-owned subsidiaries, owned a 77-strong fleet, which includes 16 tankers and barges, 20 Ropax, 11 cargo, 12 fastcrafts, 16 tugboats, and 2 floating docks.

Complementing our fleet growth, Chelsea Logistics experienced a strong demand as its passenger traffic grew to 3.65 million in 2019 from 2.66 million in 2018, 37% growth mainly attributed to strategic deployment of vessels nationwide.

To support our expansion and modernization efforts, we have strategic investments in port improvement and development of telecommunication infrastructures. This will not only help cement the Company's continuous progress toward reliability but also address the country's struggle with better transport and connectivity.

Meanwhile, we have grown our on-ground logistics reach and fleet through our subsidiary, Worklink Services, Inc. The construction and development of its 2.5-hectare warehouse in Taguig City is expected to be finished by the 3rd quarter of 2020. It boasts of advanced warehousing capabilities which allow storage of temperature and time-sensitive products. This will increase the warehousing capacity of the Group to 38,200 sqm from 13,973 sqm in 2019. Correspondingly, through Trans-asia Shipping Lines, Inc.'s newest affiliate company, Big Hub Transport and Logistics Corp., we established an exclusive land transportation services for Trans-Asia customers, ensuring the availability and timeliness of trucking services. Furthermore,with the opening of a new container yard in Cebu specifically for receipt and pull-out of empty containers, our operations increased to a total of 27,111 sqm in four key cities across the country enabling us to accommodate the growing storage and shipping requirements of our cargo clients.

In this era of unprecedented change and changing customer expectations, we have also strengthened our digital front. We invested in technological transformations to improve efficiency and customer service. To streamline our communications with customers, we have improved the facilities of our online booking systems for both Starlite Ferries and Trans-Asia Shipping Lines. We have also developed a mobile real-time order tracking and online web inventory for Worklink Services, Inc. which allows efficient and transparent delivery of products by our logistics personnel. The core network backbone of the Chelsea Group was also upgraded to support the high bandwidth demand of the Group. This will serve us well as we consume and generate data as we grow.

I am aware that it has been a challenging journey which has resulted in a profit decline this year. Despite the difficulties, we are committed to deliver value. We have strategically positioned ourselves as a builder of business, and we believe that with our Group synergy and adaptability, we will weather the ups and downs of the industry.

In addition to our commitment to drive shareholder value, we are focused on the important role we play as a responsible business. We will continue to contribute positive changes to the communities where we operate while we grow toward sustainability.

Finally, I would like to genuinely thank you, my fellow shareholders, for believing in Chelsea Logistics. I urge all of you to look at the performance of your Company from a wider perspective of resilience and long-term growth. Rest assured, Chelsea Logistics is only coming out stronger. We look forward to your continued support.

Sincerely,

Chryss Alfonsus V. Damuy

OUR BUSINESSES

Chelsea Logistics and Infrastructure Holdings Corp. is the publicly-listed shipping and logistics arm of the Udenna Corporation. It is a corporation organized and registered with the Philippine Securities and Exchange Commission (SEC) on 26 August 2016 primarily to act as a holding company.

Through its wholly-owned subsidiaries, Chelsea Logistics is engaged in the shipping transport and logistics business, described in detail as follows:

Chelsea Shipping Corp., one of the top five petroleum tankers in the country, is engaged in the maritime conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting, discharging and storing, over oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways in the Philippines. Chelsea Shipping also has its own in-house ship management team employing highly-driven and experienced Filipino men and women who have been part of the maritime industry.

Starlite Ferries, Inc., is engaged in the general business of domestic shipping to own and operate any class, type or description for domestic trade, to charter in and out any such vessels. It has established itself as the main choice of shippers for being customer-focused and by providing safe, comfortable and environmentally responsible marine transport services in the Southern Luzon and Visayas regions. Chelsea Logistics acquired Starlite Ferries in November 2017.

Trans-Asia Shipping Lines, Incorporated, is engaged in transporting passengers and cargo within the Philippine territorial waters and/or in the high seas. It is one of the major shipping lines mainly operating in the Visayas and Mindanao regions with more than four decades of experience in the shipping industry. The acquisition by the Company of Trans-Asia Shipping and its subsidiaries was completed in the last quarter of 2016.

The SuperCat Fast Ferry Corporation is engaged in the movement of passengers through primed sea ferry service. It operates a fleet of high-speed catamarans, plying the routes of Batangas, Bacolod, Cebu, Iloilo, Ormoc, Calapan, and Tagbilaran. The acquisition of SuperCat was completed in October 2019.

Worklink Services Inc. is a reliable and reputable logistics company in the country which offers wide-range logistics support, from nationwide delivery of general cargo, trucking services and warehouse management, customs brokerage, manpower services, kinetic marketing services, to various logistics solutions. Chelsea Logistics completed its acquisition of Worklink Services in November 2017.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. CONGLOMERATE MAP

WORKLINK SERVICES INC.

DITO TELECOMMUNITY CORPORATION

CHELSEA SHIPPING CORP.

- Bunkers Manila, Incorporated
- Chelsea Dockyard Corp.
- Michael, Inc.
- Chelsea Ship Management and Marine Services Corp.
- PNX-Chelsea Shipping Corp.
- Chelsea Marine Manpower Resources Inc.
- Chelsea Shipping and Logistics Singapore Pte. Ltd.
- CD Ship Management and Marine Services Corp.
- Fortis Tugs Corporation - Davao Gulf Marine Services, Inc.

TASLI SERVICES INCORPORATED

STARLITE FERRIES, INC.

- Starbites Food Services Corp.
- Starlite Gallant Ferries, Inc.
- Starlite Premiere Ferries, Inc.

UDENNA INVESTMENT B.V., INC.

- KGLI-NM Holdings, Inc.
- 2GO Group, Inc.

TRANS-ASIA SHIPPING LINES, INCORPORATED

- Quality Metals & Shipworks, Inc.
- Starsy Shoppe, Inc.
- Oceanstar Shipping Corporation
- Star Maritima Port and Allied Services, Inc.
- Dynamic Cuisine, Inc.
- Big Hub Transport & Logistics Corp.

THE SUPERCAT FAST FERRY CORPORATION

2019 MILESTONES

JANUARY

26 January
Trans-Asia's newest affiliate company, Big Hub Transport Logistics Corp., starts operations to provide exclusive land and transportation services.

FEBRUARY

01 February
Starlite Ferries opens a new route, Batangas-Culasi via Sibuyan

28 February
Start of commercial operations of Trans-Asia 19 to Cebu-Tagbilaran-Cagayan route

MARCH

25 March
Trans-Asia celebrates 45th Founding Anniversary with the theme "Fortified at 45: Stand Stronger, Reach Wider, Serve Better!"

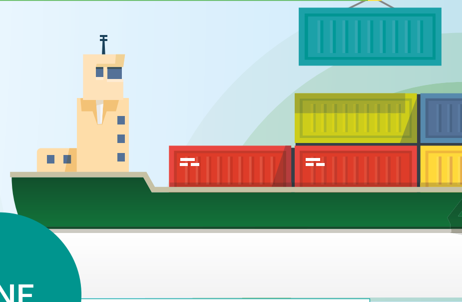
APRIL

25 April
Udenna and Chinatel Ink $5.4 B Investment to provide world-class telecommunications service

MAY

01 May
Arrival of brand-new vessel, Stella Maris, to serve Starlite Ferries' Cebu-Surigao route

26 May
Chelsea Logistics enters into a strategic agreement with Kumiai Senpaku to finance new vessel construction



JUNE

07 June
Recognized as Philippines' Best Employer for 2019 by Employer Branding Institute, World HRD Congress, and Stars of the Industry Group

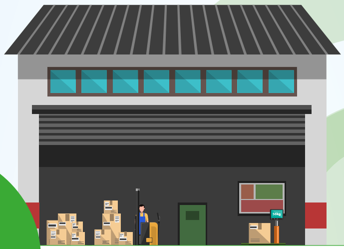
13 June
Mislatel Consortium signs SPA to obtain 'Permit To Operate' in July

20 June
Chelsea signs Shipbuilding Contract with Fukuoka Shipbuilding Co. Ltd

JULY

08 July
DITO Telecommunity receives "Permit To Operate" from the National Telecommunication Commission

27 July
Starlite Ferries opens a new route, Cebu-Surigao



AUGUST

10 Aug
Chelsea Logistics drives brand activation in Makati

19 Aug
Chelsea Logistics granted OPS for Davao Sasa Port project

26 Aug
Chelsea Logistics celebrates 3rd Anniversary

SEPTEMBER

07 Sept
Trans-Asia launches a new route, Cebu-Iligan

10 Sept
Incorporation of TASLI Services Incorporated (TSI)

16 Sept
Starlite Ferries opens new routes: Batangas-Abre de Ilog and Iloilo-Guimaras

23 Sept
Chelsea Logistics and Southern Pacific sign another Bareboat Charter Agreement

OCTOBER

04 Oct
Chelsea Logistics participates in the first and biggest Logistics Summit in Mindanao

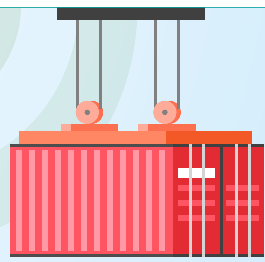
09 Oct
Chelsea Logistics takes over management of SuperCat

15 Oct
Recognized for Service Excellence at ASIA CEO Awards

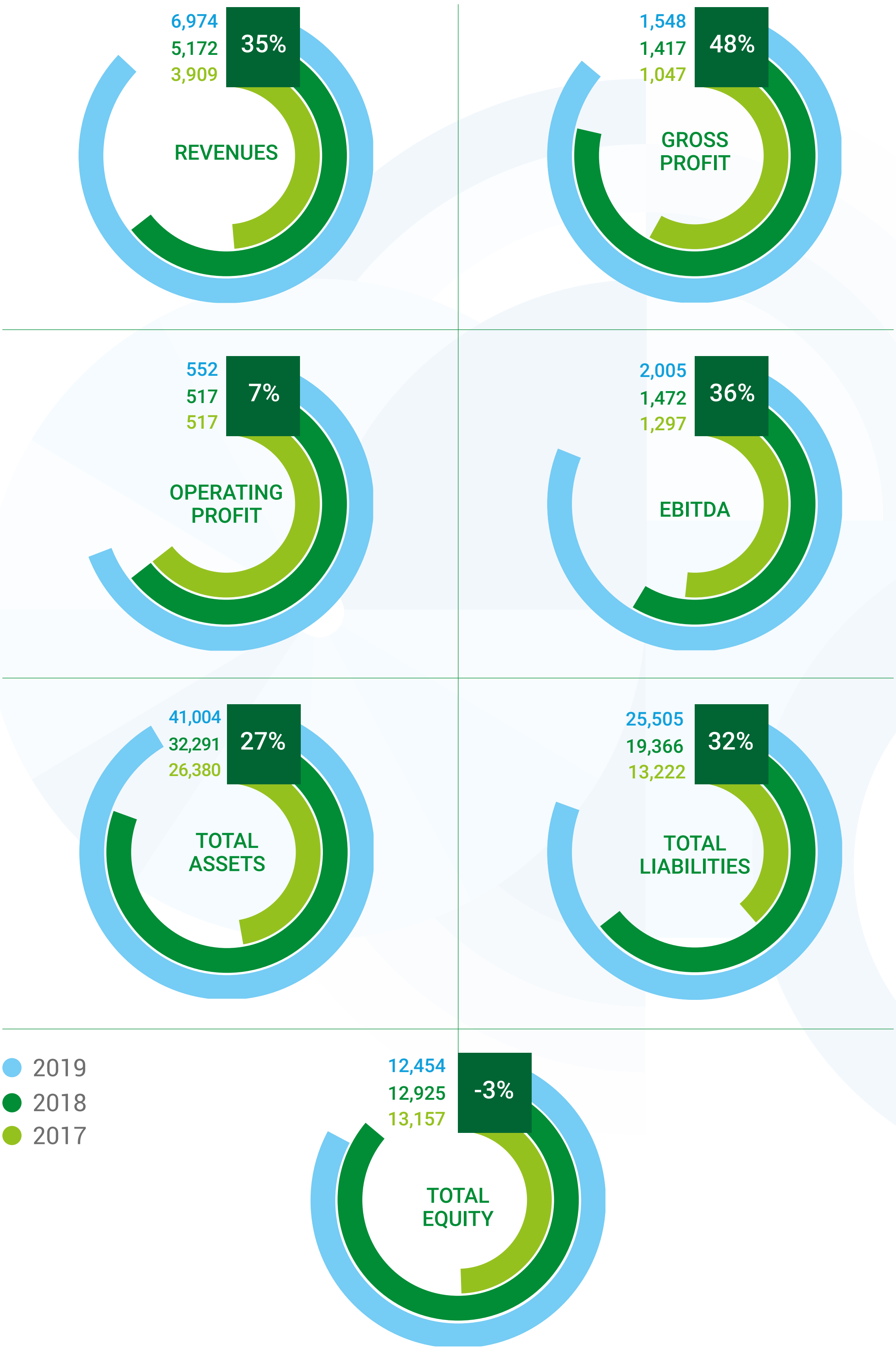
DECEMBER

15 Dec
Inauguration and Launching of MV Trans-Asia 20 in Cebu City

23 Dec
Chelsea Logistics cleared by NEDA-ICC to modernize Davao International Airport

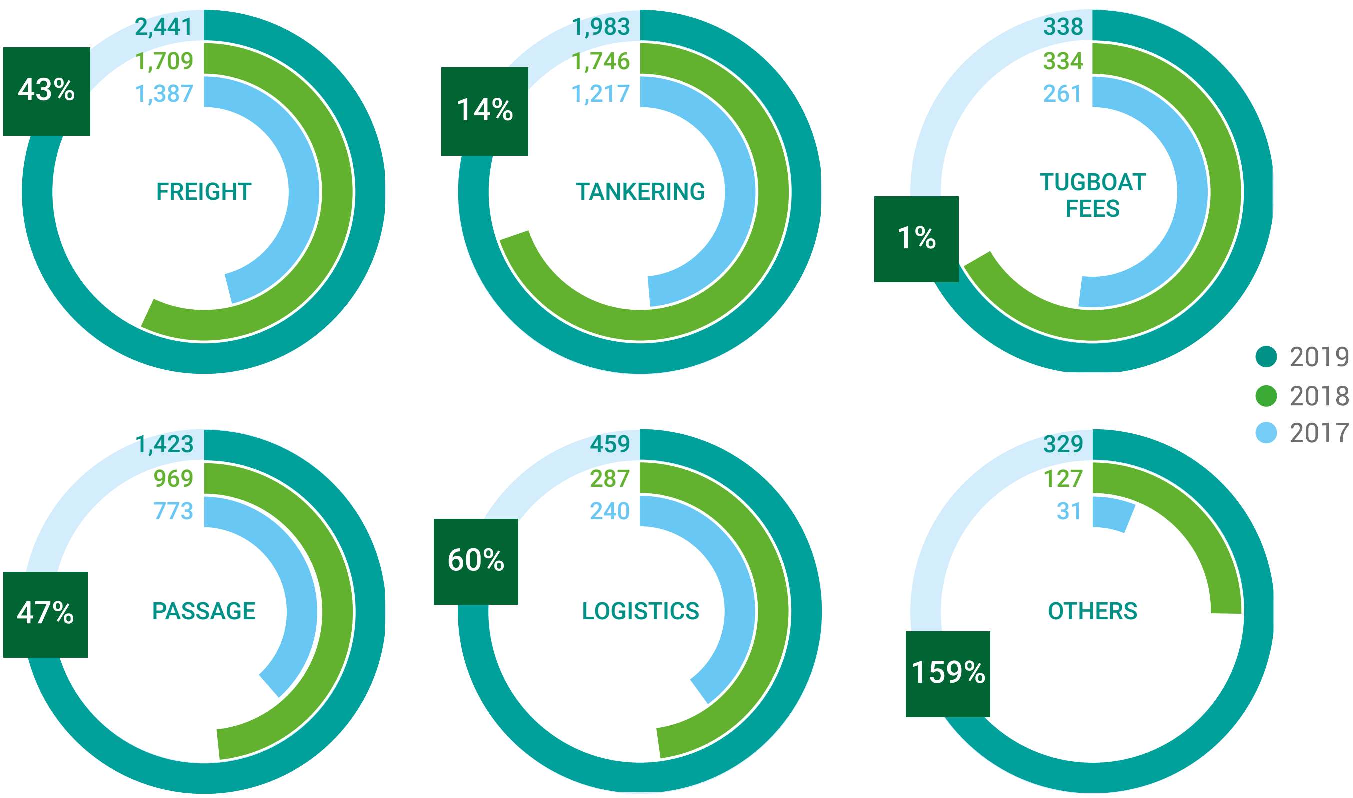


FINANCIAL HIGHLIGHTS



	2017	2018	2019	
Revenues	3,909	5,172	**6,974**	35%
Gross Profit	1,047	1,417	**1,548**	9%
Operating Profit	517	517	**552**	7%
EBITDA	1,297	1,472	**2,005**	36%
Total Assets	26,380	32,291	**41,004**	27%
Total Liabilities	13,222	19,366	**25,505**	32%
Total Equity	13,157	12,925	**12,454**	-3%

REVENUE CONTRIBUTION PER BUSINESS



We ventured into a re-branding exercise with our five major subsidiaries namely Chelsea Shipping, Trans-Asia, Starlite, Worklink, and SuperCat, to position Chelsea Logistics as a holistic and trustworthy brand, true to its vision of placing customer needs first and foremost.

3.65 Million
Total passengers carried in 2019
37%

SHIPPING & TRANSPORT

To better serve our clients and partners, we continuously challenge ourselves to do better and to perform beyond what is expected. We have strengthened our synergy with our subsidiaries and improved our operations and processes to maximize our efficiency and effectiveness.

77 Total Number of Vessels in 2019

20 RoPax

12 fastcrafts

11 cargo ships

16 tankers

16 tugboats

2 floating docks

25 Total Number of Routes

21 Ports of Calls

23%
PhP 758.2M
EBITDA

CHELSEA SHIPPING CORP.

Our tanker and tugs businesses ended 2019 with PhP 758.2 Million EBITDA, up by 23% from last years' PhP 617.5 Million.

The country's largest registered vessel, Chelsea Providence, served not only the requirements of our sister company, Phoenix Petroleum, but also of other oil companies in the region. In addition, she was also chartered by Trafigura Pte Ltd ("Trafigura"), one of the world's leading independent commodity trading and logistics companies. We expect Chelsea Providence to make more voyages in the coming year once the operation efficiency improves.

Another vessel, MT Chelsea Cherylyn, which was dormant for the past two years, has now been put into operation after undergoing major rehabilitation. She made her first voyage for 2019 and talks are ongoing for her possible deployment to the region. The two other tankers, Great Diamond and Great Princess, will continue to serve the region under the Bareboat Charter Agreement with Seagull Marine - Petroleum Corp.

Gross Registered Tonnage

69,491
Tankers

3,784
Tugboats

LITR
1.2B
Liters of Total Volume of liquid shipped

Chelsea Shipping has also satisfactorily served the hauling requirements of Cebu Pacific's aviation fuels and has recently renewed its contract for another five years. With all our vessels ready to ply their respective routes for next year and are strategically scheduled for drydocking, we are hopeful for a positive bottomline in 2020.

Chelsea Shipping ended the year with 16 tankers, 2 floating docks, and 16 tugboats. The tug assist and salvage operations of Fortis Tugs, a subsidiary of Chelsea Shipping, are present in the Calaca, Batangas and Davao seaports. In 2019, it expanded its operation in various ports of Misamis Oriental, Cagayan de Oro City, and Cebu City.

116.39M
Liquid Cargo Capacity

STARLITE FERRIES INC.

With more than half of its 16 fleet being less than 5 years old , Starlite Ferries explored the Visayan waters in 2019, expanding its services to Cebu to cater to passengers going to Surigao. To serve more passengers, it launched 2 new routes, including Batangas-Sibuyan-Culasi and Batangas-Abra de Ilog. To date, its regular navigation schedules cover eight domestic trade links, namely (1) Batangas-Calapan-Batangas, (2) Batangas-Caticlan-Batangas, (3) Batangas-Abra de Ilog-Batangas, (4) Batangas-Puerto Galera- Batangas, (5) Roxas-Odiongan-Roxas, (6) Roxas-Caticlan-Roxas, (7) Batangas-Sibuyan-Roxas City-Batangas, and (8) Cebu-Surigao-Cebu.

During the third quarter, it ventured temporarily into the Guimaras-Iloilo route to support the Department of Transportation's directive to phase out the use of wooden bancas to promote safer shipping. Moreover, the Department of Tourism implemented vessel accreditation among vessel operators engaged in tourism activities and services, and Starlite Ferries fully complied with the requirements for a standard and safer mode of water tourist transport in the region.

In an effort to help the community where it operates, Starlite Ferries supported the GMA Foundation Program by providing the latter's employees free rides whenever they had projects in Mindoro and Romblon. Starlite Ferries also supported DOE and DOTr's Project in Boracay, delivering 94 units of e-tricycles to Caticlan for accessible and affordable inter-island transportation.

To keep up with technological advancements, Starlite Ferries completed its online booking system project for all its routes. It also leveraged on ground activation and new media's broader and wider reach by participating in local celebrations such as Mrs. Philippines and Ms. Surigao. It was also featured in Brigada Siete and the hit GMA TV series, One of the Baes.

Starlite's restaurant business onboard, Starbites, contributed PhP 48Million in 2019, 40% up from last year's PhP 34Million. To provide the 'Starlite-Ferry-Fun' experience to its passengers, Starbites offered new services and facilities, including charging stations, renovated dining areas, variety of hot meals, culinary training with Starlite's executive chef onboard, and standardized Public Address (PA) Announcement.

The overall availability of Starlite vessels improved resulting in higher load factor for passengers and rolling cargo, with 31% and 76% utilization rates, respectively. Concluding the year with PhP 1.879 Billion revenue, up by 72% from last year's PhP 1.087 Billion, Starlite Ferries welcomed 2.44 million passengers onboard its vessels for full year 2019, up by 25% from last year's headcount. Likewise, the rolling cargos moved by Starlite vessels slightly grew from 256,093 units in 2018 to 257,590 units in 2019.

Starlite ended 2019 with 11 RoPax vessels, 2 RoRo cargo ships, and 1 passenger vessel completing 733 voyages for passengers, and 15, 483 combined RoPax and cargo trips.

7,846,738
Passenger
Capacity

72%
Increase in revenue from 2018

336,387
Rolling Cargo Capacity

TRANS-ASIA SHIPPING LINES, INCORPORATED

The past year was an eventful one for Trans-Asia. It celebrated its 45th Founding Anniversary themed "Fortified at 45: Stand Stronger, Reach Wider, Serve Better" and launched two brand new vessels from Kegoya Japan: MV Trans Asia 19, to ply the Cebu-Tagbilaran-Cagayan-Cebu route, and MV Trans-Asia 20 for the Cebu-Cagayan-Cebu route.

Together with the launch of its brand-new vessels, Trans-Asia introduced a new type of onboard accommodation - the Ferry Seats. It is an affordable type of accommodation for passengers who are always on the go with easy access to basic amenities such as TV and comfort rooms.

Trans-Asia also opened a new container yard in Cebu for receipt and pull-out of empty container vans and welcomed to its roster of affiliate companies, Big Hub Transport and Logistics Corp., the provider of exclusive land transportation services for Trans-Asia clients.

Focused on strengthening its online presence, Trans-Asia executed several digital marketing programs and successfully booked 9,836 tickets online, 32% up from last year. It reaped the benefits of newsletter marketing, engaging 8,390+ subscribers by the end of 2019. To increase brand awareness and hear what the customer requires, Trans-Asia intensified the use of Facebook as a communication channel. It launched two major social media campaigns, namely,"More trips this fiesta season!" for Cagayan-Tagbilaran-Cagayan routes to support Bohol's month-long fiesta celebration and "Bag-o ni Bai! Nindotna, Paspas pa" to support the deployment of MV Trans-Asia 18 for Cebu-Cagayan-Cebu route. It has also started partnering with retail brands such as Whisper and Nissin for product activations and distribution onboard.

The influx of passengers resulted in the increase of travel frequencies for selected routes such as Cebu-Iloilo, Cebu-Ozamiz, and Cebu-Iligan; with the latter paving the way for the deployment of a new ROPAX for the Iligan-Tagbilaran route.

Trans-Asia is also an active advocate of nation building, participating in various CSR activities throughout the year such as Blood Donation Campaign with the Department of Health Sun-National Blood Center for Visayas, Guadalupe River Clean-Up in support of CCENRO's River Revival, and Feeding Activity and Distribution Supplies at Barangay Tabunan Cantimpla, Cebu City.

Trans-Asia's growing alliance with different industries validates its commitment to helping boost the Philippine economy by delivering goods and products efficiently from producers to consumers. By the end of 2019, 81% of Trans-Asia's container vans are brand-new units imported from China to support the growing need for class A container vans.

With a total of 16 strong fleet serving 11 ports-of-call, Trans-Asia remains a dominant shipping company, providing a truly #AtHomeKaSaBiyahe travel experience and a #TotalCargoSolutions across the country.

Trans-Asia ended the year with 2,428 trips and a total of 636,325 passengers onboard.

1,125,054
Passenger Capacity

3,405,010
Rolling Cargo Capacity

THE SUPERCAT FAST FERRY CORP.

The Supercat Fast Ferry Corporation is the latest acquisition of Chelsea Logistics in 2019. It currently operates 10 fastcrafts, present in Batangas, Bacolod, Cebu, Iloilo, Ormoc, Calapan, and Tagbilaran routes. It concluded the year with 14,366 trips bringing a total volume of around 2.2 Million passengers. Vessels' overall load factor improved from 51% in 2018 to 54% in 2019. Supercat ended 2019 with a revenue of PhP 788 Million, up by 0.9% from last year's PhP 781 Million.

To further improve its financial position, Supercat implemented the PhP 25 fuel surcharge in Bacolod to cover the increase of fixed and variable costs, removing SuperCat's subsidy on port charges. On the 2nd quarter of 2019, it activated online travel agencies (OTAs) in collaboration with 2GO Group. This resulted to an additional revenue contribution of PhP 780,000 or 1,612 tickets sold in 2019. It also partnered with resort and leisure providers like WaterWorld Iloilo, Lakawon Island Resort and Grain Farms to entice passengers and guests to experience these places via Supercat.

In June 2019, it deployed its third vessel in Ormoc, increasing frequency of trips, from 8 to 12 trips per day. With Ormoc as its stronghold market, it then received the "Ormoc's Best Sea Transport Award" for 2018. Consequently, Supercat acquired the Department of Tourism's (DOT) accreditation as Tourist Water Transport Operator for its three vessels, namely, MV St. Emmanuel, MV St. Braquiel, and MV St. Sariel.

For its technological advancement initiatives to better serve passengers through uninterrupted ticket sales and improve shipside operations, Supercat installed PLDT fiber optic connection in its Iloilo port. It also sourced a new video content provider onboard Visayas vessels to improve passengers' travel experience and mitigate the risk exposure on video piracy. New and upgraded work tools and equipment were acquired to facilitate faster and more reliable communication onboard and while at the port.

Equipped with advanced safety and navigational equipment, SuperCat offers business class, tourist class and open-air accommodations, with mini bar to delight passengers while onboard.

4,171,097
Passenger
Capacity

3,803
Total number
of trips since
Chelsea Logistics'
acquisition

We have grown our on-ground logistics reach and fleet through our subsidiary, Worklink Services, Inc. The construction and development of a 2.5-hectare warehouse in Taguig City is expected to be finished by the 3rd quarter of 2020.

60%
contributed the highest revenue growth

LOGISTICS & DISTRIBUTION

At the logistics front, we are strengthening our ICT capabilities and building physical and digital infrastructures. Our focus on business development and enhanced communication illustrates our determination to widen our reach and improve customer experience.

72
Logistics Services Network and Presence

500,726
Total Delivery Transactions in 2019

77%
percentage increase in number of warehouses

WORKLINK SERVICES, INC.

2019 was a proud year for the Group's logistics business. It has contributed the highest revenue growth at 60%, from 2018's PhP 287 Million to PhP 459 Million, accounting for 7% of the total consolidated revenues. Similarly, its net income is above target at 9% increase, from 46 Million in end-2018 to 50 Million in 2019.

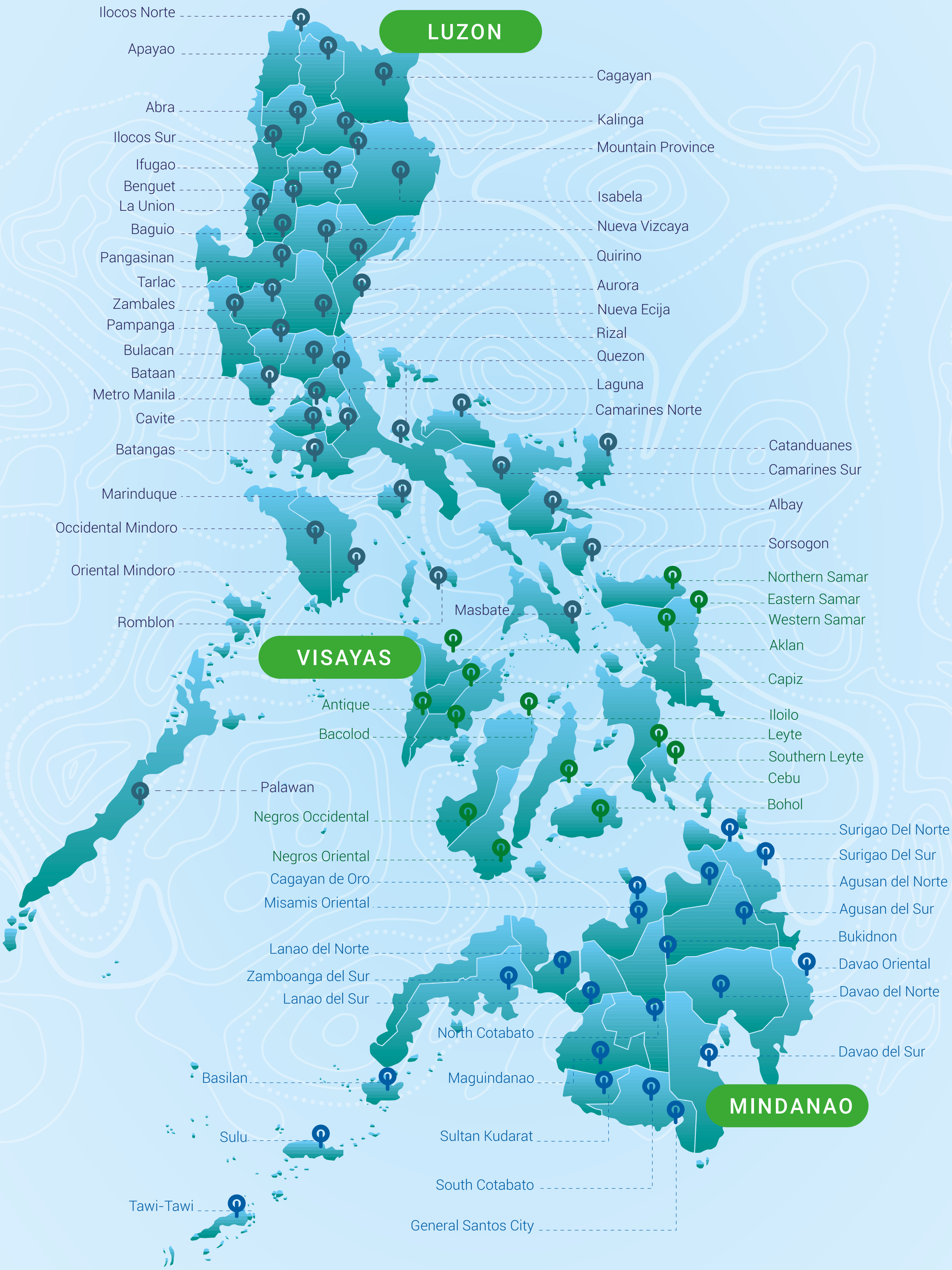
This was the result of the Group's continued expansion program anchored on the increase of its warehouse capacity and delivery fleet. Its operations department worked double time to cater to the growing demand of its corporate clients, increasing the number of trucks, from 48 in 2018 to 67 in 2019, up by 40%. The number of warehouses increased, from 9 to 16 warehouses in 2019, registering a total of 13,973 sqm, up by 132% from 2018. Worklink continuously fortified its presence in Metro Manila and expanded its operations to Pampanga, Cagayan de Oro, and Bacolod.

The year 2020 will be an exciting year for the logistics business as the construction of its 2.5-hecare warehouse complex in Taguig is proceeding as planned and will be ready for commercial operations in 2020.

Total Warehouse Size (2018 vs 2019)	Total Warehouse Capacity (2018 vs 2019)	Number of assets/items delivered (2018 vs 2019)
13,973 sqm. 2019	6,238 pallet positions in 2019	500,276 2019
6,022 sqm. 2018	5,000 pallet positions in 2018	445,024 2018

AREAS OF OPERATIONS
SHIPPING

AREAS OF OPERATIONS
LOGISTICS



CORPORATE SOCIAL RESPONSIBILITY

5,558
trees planted
since 2016

3,358
trees planted
in 2019

76
Chelsea Employee
Volunteers for
Brigada eskwela

17
Total number of
CSRs conducted
in 2019

Chelsea Logistics and Infrastructure Holdings Corp. through its subsidiaries, recognizes its important role in helping build a sustainable nation. Our motivation is simple: a better world. We believe that every positive action, no matter how small, can lead to a big improvement for the planet and its people.

Building pillars toward sustainability

At the heart of everything we do is the genuine commitment to manage our business responsibly, by adhering to the highest ethical and professional standards for the people, the country, and the environment, and to give back to the communities where we operate.

Chelsea Logistics and Infrastructure Holdings Corp. through its subsidiaries, recognizes its important role in helping build a sustainable nation. Our motivation is simple: a better world. We believe that every positive action, no matter how small, can lead to a big improvement for the planet and its people.

Our directive is to be one with the country and the global community in promoting and realizing global sustainable development goals through transformation of our people and processes.

Reducing our carbon footprint

We are committed to maintaining our position as a leader in the industry and we understand our great responsibility to the environment and our stakeholders. Thus, we have entered strategic partnerships with leading Japan-based shipbuilders, namely Kegoya Dock, Fukuoka Shipbuilding and ship owner Kumiai Senpaku for the construction of brand-new vessels. Through this, we have strengthened our extensive fleet modernization program, introducing brand new and high-efficiency vessels specially made for the Philippine waters.

In 2019, we received the following vessels:

	Type	Date received
Stella Maris	Roll-on roll-off passenger vessel	May 1, 2019
Starlite Sprint 1	Fast craft passenger Vessel	July 22, 2019
MV Trans-Asia 20	Roll-on roll-off passenger vessel	October 30, 2019

Chelsea Logistics has also taken steps to reduce the environmental footprint of its operations from services to transactions, such as reducing the volume of generated waste and increasing the percentage of recycled waste. It consciously observes more efficient operations and employs technologies which allow faster turnaround times and increased port capacity; and better designed engines and systems.

We also prioritize safety in our operations. The Philippine Maritime Industry Authority (MARINA) has issued the Document of Compliance (DOC) to Chelsea Shipping, Trans Asia Shipping and Starlite Ferries - evidence that their Safety Management System and Company Processes (Safety Operation and Pollution Prevention) are compliant with the requirements of International Safety Management Code (ISM Code).

Further, marking its sixth year of reforestation effort in partnership with City Environment and Natural Resources Office – Department of Environment and Natural Resources (CENRO-DENR) and other local government units, the Chelsea Group planted an additional 3,008 trees in various barangays in Batangas this year.

Since its incorporation in 2016, Chelsea has already planted 5,208 seedlings as part of DENR's National Greening Program (NGP).

To complement our key environmental initiatives, we also encouraged all workers to segregate office waste, to monitor their paper usage, and to think of ways of reducing their environment impact in all areas of business and personal life.

Investing in our people

What set us apart is our people. Chelsea Logistics ensures that all operational personnel are competent and skilled in safe procedures and are aware of potential hazards and how to avoid them.

Logistics is a highly technical and professional industry that requires great deal of skill and knowledge. Thus, we believe that the impact of training and education is greater than ever before. In order to enhance the individual competence and skills of our workforce, Chelsea Logistics continuously provide Company trainings, certifications and seminars even beyond the standard requirements.

In March 2019, we partnered with DOLE OSHC (Department of Labor and Employment - Occupational Safety and Health Center) and nominated 17 Safety officers who underwent 40-hour Basic Occupational Safety and Training (BOSH) Program. We also conducted in-house Occupational Safety and Health (OSH) Training for the months of October and November.

Here are some of the training areas where we invested in:(table format)

- MARPOL training
- Crowd and Crisis Management
- International Safety Management
- Control Engineering
- Occupational Safety
- Risk Assessment
- Incident Investigation
- Maritime Leadership
- Practical Approach to Crewing Operation
- Advanced Crew Management
  - Optimizing Crewing Operations
- Ship handling with high lift rudder training
- Basic and Advanced Cargo courses
- Ship Simulator Bridge and Engine team training combined with Maritime Resource Management

In addition, to teach and practice leadership training, our Human Resources department initiated Competence-based learning programs which equipped the employees in leading, planning and organizing skills that they can employ in the workplace. With Management's full support, HR also launched a comprehensive one-day onboarding introduction program for new employees.

Moving forward, as the people element will be increasingly important as the industry moves toward higher standards of safety and sustainability, we seek to continuously do our part in investing in our workforce to meet our vision and help realize the sustainable development goals.

Giving back to the society

Part of our efforts toward sustainability is giving back to the society. In a challenging world, the Chelsea Group employees share what they have with the communities in which they operate.

In February 2019, in partnership with Philippine Blood Center (PBC), Chelsea Logistics kicked off its CSR (Corporate Social Responsibility) program with a bloodletting activity where a total of 50 blood bags were collected. It was held to promote awareness of the benefits of blood donation and how one unit of blood can save one's life.

Chelsea Logistics also participated in the BrigadaEskwela at Western Bicutan National High School on May 25. BrigadaEskwela is a nationwide initiative by the Department of Education (DepEd) that promotes collective effort for public schools' maintenance.

In coordination with the teachers and school volunteers, 76 Chelsea volunteers cleaned 19 elementary grade classrooms. Chelsea Logistics also donated cleaning materials such as brooms, dust pans, dippers, mops, rags and floor wax.

Ending the year in gratitude, the Chelsea Group contributed to an outreach and gift-giving activity in the indigenous community of Ibajay, Aklan on November 12. In partnership with Neo Ticketing and SerbisyosamgaAti, the Group as able to fulfill its goal to reach out and help our indigenous brethren whose rights and basic needs are often neglected.

Looking ahead, we know that we have a long way to go to sustainability, yet we are committed to the continuous transformation of our business. In the years to come, Chelsea Logistics plans to invest in cost-effective and innovative measures to increase its operational efficiency while reducing our environmental impact. After all, we believe that we are most successful when we can take care of the people and the planet while being profitable.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AT CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP.

Chelsea Logistics and Infrastructure Holdings Corp. adopted a Manual of Corporate Governance (the "Manual") to ensure its compliance with the leading practices on good corporate governance and related Philippine Securities and Exchange Commission (SEC) rules and regulations. The Manual was approved and adopted by its Board of Directors and deemed effective as of 27 March 2017.

The Manual features the following provisions:

- Protection of investors. The Manual provides for shareholders' rights and protection, investor relations, and a disclosure system to ensure transparency and accountability.
- Board of Directors and Management. The detailed qualifications and disqualifications, duties, functions and responsibilities of the Board and executive officers are also enumerated in the Manual.
- Checks and balances. The Manual contains the vision, strategic objectives, key policies, procedures for the management of the Company, and mechanisms for monitoring and evaluating Management's performance.
- Compliance with the Manual. The appointment of a Compliance Officer to monitor compliance with and violations of the Manual is also provided.
- Creation of committees. The Manual mandates the creation of the Nomination Committee, the Audit Committee, the Corporate Governance Committee, the Board Risk Oversight Committee and the Related Party Transaction Committee, to ensure the performance of certain important functions of the Board and of Management.

The Company shall continue to improve its corporate governance and shall amend the Manual as may be necessary.

A copy of the Manual containing the foregoing provisions was submitted to the Philippine SEC.

THE BOARD OF DIRECTORS

The Board of Directors (the "Board") is primarily responsible for the governance of the Company. Corollary to setting the policies for the accomplishment of the corporate objectives, the Board shall provide an independent check on Management.

The Board of Directors has nine (9) members who shall be elected by the stockholders at a regular or special meeting in accordance with the Amended By-Laws of the Corporation. The Board shall be composed of Directors with a collective working knowledge, experience or expertise that is relevant to the Company's industry/ sector. The Amended By-laws requires the election of three (3) Independent Directors which shall constitute twenty percent (20%) of the members of the Board, or whichever is lesser, but in no case less than three (3).

In accordance with the Company's Amended By-Laws and Manual of Corporate Governance, the Board in 2019 was comprised of 9 members elected by the shareholders during the Annual Shareholders' Meeting held on 15 March 2019. The Company has six (6) Non-Executive Directors, three (3) of which are Independent Directors.

Members of the Board of Directors

Non-Executive, Non-Independent Directors	Non-Executive, Independent Directors	Executive Directors
Dennis A. Uy	Miguel Rene A. Dominguez	Chryss Alfonsus V. Damuy
Eduardo A. Bangayan	Jesus S. Guevara II	Cherylyn C. Uy
Efren E. Uy	Gener T. Mendoza	Arthur Kenneth L. Sy

Directorship in Other Listed Companies

The following members of the Board are also Directors of the publicly-listed companies identified below:

Director's Name	Name of Listed Company	Directorship for 2019
Dennis A. Uy	Phoenix Petroleum Philippines, Inc.	Director, President and CEO
	2Go Group, Inc.	Chairman
	PH Resorts Group Holdings, Inc.	Chairman
	ISM Communications, Inc.	Chairman, President & CEO
	Atok-Big Wedge Co., Inc.	Vice Chairman
	Apex Mining Co. Inc.	Independent Director
Cherylyn C. Uy	Phoenix Petroleum Philippines, Inc.	Non-Executive Director
	PH Resorts Group Holdings, Inc.	Director
	ISM Communications, Inc	Director/Treasurer
Eduardo A. Bangayan	Manila Mining Corporation	Independent Director
Gener T. Mendoza	IPM Holdings, Inc.	Director
	Pryce Corporation	Independent Director

Independent Directors

An "Independent Director" is a person who, apart from his fees and shareholdings, which shareholdings do not exceed two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders, is independent of Management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of any independent judgement in carrying out his responsibilities as a Director in the Company.

In compliance with the SEC requirement – that at least 20% of the Board should be Independent Directors with no material relationship with the Company, three (3) Independent Directors – Gener T. Mendoza, Miguel Rene A. Dominguez and Jesus S. Guevara II – were elected on 15 March 2019.

Criteria for Independence for Independent Directors

The Board of Directors through the Nomination Committee reviews and evaluates the qualifications of all persons nominated to the Board, including the Independent Director(s). The Committee assesses his or her qualifications for independence based on the following criteria:

A person who:

a) Is not or has not been a senior officer of employee of the Company unless there has been a change in the controlling ownership of the Company;

b) Is not and has not been in the three (3) years immediately preceding the election, a Director of the Company; a Director, officer, employee of the Company's subsidiaries, associates, affiliates or related companies; or a Director, officer, employee of the Company's substantial shareholders and its related companies;

c) Has not been appointed in the Company, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus", "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his or her election;

d) Is not an owner of more than two percent (2%) of the outstanding shares of the Company, its subsidiaries, associates, affiliates or related companies;

e) Is not a relative of a Director, officer, or substantial shareholder of the Company or any of its related companies or of any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;

f) Is not acting as nominee or representative of any Director of the Company or any of its related companies;

g) Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;

h) Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the Company, any of its related companies or substantial shareholder, or is otherwise independent of Management and free from any business or other relationship within the three (3) years immediately preceding the date of his election;

i) Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the Company or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment;

j) Is not affiliated with any non-profit that receives significant funding from the Company or any of its related companies or substantial shareholders; and

k) Is not employed as an executive officer of another company where any of the Company's executives serve as Directors.

Attendance of the Board

For the period 9 January 2019 to 31 December 2019, there were five (5) Board Meetings and one (1) Stockholders' Meeting held. The attendance at these meetings is as follows:

Directors' Name	Total No. of Board Meetings	No. of Board Meetings Attended	Percentage of Attendance(%)	Attended Annual Stockholders' Meeting? (Y/N)
Dennis A. Uy	5	5	100%	Y
Chryss Alfonsus V. Damuy	5	5	100%	Y
Cherylyn C. Uy	5	5	100%	Y
Arthur Kenneth L. Sy	5	5	100%	Y
Efren E. Uy	5	5	100%	Y
Eduardo A. Bangayan	5	5	100%	Y
Miguel Rene A. Dominguez	5	2	40%	N
Jesus S. Guevara II	5	5	100%	Y
Gener T. Mendoza	5	5	100%	Y

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors appointed Directors to the five (5) Board Committees set forth below. Each member of the respective Committees named below holds office as of the date of this report and will serve until his successor is elected and qualified. The five Committees are: (i) the Nomination Committee; (ii) the Audit Committee; (iii) Corporate Governance Committee; (iv) Board Risk Oversight Committee, and the (v) Related Party Transaction Committee.

Nomination Committee

The Company's Nomination Committee is responsible for reviewing and evaluating the qualifications of all persons nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of Directors. The Nomination Committee must comprise at least three (3) Directors, one of whom should be an Independent Director. The Nomination Committee reports directly to CLC's Board of Directors.

Audit Committee

The Company's Audit Committee shall be composed of at least three (3) qualified non-executive Directors, the majority of whom, including the Chairman, should be Independent. All of the members of the Committee must have relevant background, knowledge, skills and/or experience in the areas of accounting, auditing and finance. The Chairman of the Audit Committee should not be the chairman of the Board or of any other committees.

The Audit Committee has the following functions:

- Provide oversight of Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities;
- Perform oversight functions over the Company's internal and external auditors. It should ensure that the internal and external auditors act independently from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- Review the annual internal audit plan to ensure its conformity with the Company's objectives. The plan shall include the audit scope, resources and budget necessary to implement it;
- Prior to the commencement of an audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- Organize an internal audit department, and consider, when necessary and desirable the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- Monitor and evaluate the adequacy and effectiveness of our internal control system including financial reporting control and information technology security;
- Review the reports submitted by the internal and external auditors;
- Review the quarterly, half-year and annual financial statements before their submission to the Board of Directors, with particular focus on the following matters: any change(s) in accounting policies and practices; major judgment areas; significant adjustments resulting from the audit; going concern assumptions; compliance with accounting standards; and compliance with tax, legal and regulatory requirements;
- Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fee paid to the external auditor in relation to its significance to the total annual income of the external auditor and to our overall consultancy expenses. The Audit Committee shall disallow any non-audit work that will conflict with its duties as an external auditor or may pose a threat to its independence. The non-audit work, if allowed, should be disclosed in the Company's annual report; and,
- Establish and identify the reporting line of the internal auditor to enable him/her to properly fulfill his/her duties and responsibilities. The Internal Auditor shall functionally report directly to the Audit Committee.

Corporate Governance Committee

The Corporate Governance Committee shall be composed of at least three (3) members, all of whom should be Independent Directors, including the Chairman. The Corporate Governance Committee shall have the following duties and functions, among others:

- Oversee the implementation of the corporate governance framework and periodically review the said framework to ensure that it remains appropriate in light of material changes to the Company's size, complexity and business strategy, as well as its business and regulatory environments;
- Oversee the periodic performance evaluation of the Board and its Committees as well as executive management, and conduct an annual self-evaluation of its performance;
- Ensure that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
- Recommend continuing education/training programs for Directors, assignment of tasks/projects to Board Committees, succession plan for the Board members and senior officers, and remuneration packages for corporate and individual performance;
- Adopt corporate governance policies and ensure that these are reviewed and updated regularly, and consistently implemented in form and substance;
- Propose and plan relevant trainings for the members of the Board;
- Determine the nomination and election process for the Company's Directors and has the special duty of defining the general profile of Board members that the Company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and
- Establish a formal and transparent procedure to develop a policy for determining the remuneration of Directors and officers that is consistent with the Company's culture and strategy as well as the business environment in which it operates.

Board Risk Oversight Committee

The Board Risk Oversight Committee shall be composed of at least three (3) members, majority of whom should be Independent Directors, including the Chairman. The Chairman should not be the Chairman of the Board or of any other committee. At least one member of the Committee must have relevant thorough knowledge and experience on risk and risk management. The Committee has the following duties and responsibilities:

- Develop a formal enterprise risk management plan which contains the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;
- Oversee the implementation of the enterprise risk management plan through a Management Risk Oversight Committee. The Committee conducts regular discussions on the Company's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;
- Evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The Committee revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;
- Advise the Board on its risk appetite levels and risk tolerance limits;
- Review at least annually the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Company;
- Assess the probability of each identified risk becoming a reality and estimate its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Company and its stakeholders;

- Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management; and

- Report to the Board on a regular basis, or as deemed necessary, the Company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

Related Party Transaction Committee

The Related Party Transaction Committee shall be composed of at least three (3) non-executive Directors, two (2) of whom should be Independent, including the Chairman. The Committee shall have the following functions:

- Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties (RPTs) are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/ supervisors;

- Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:

    a. The related party's relationship to the Company and interest in the transaction;
    b. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
    c. The benefits to the Company of the proposed RPT;
    d. The availability of other sources of comparable products or services; and
    e. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.

- Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Company's affiliation or transactions with other related parties;

- Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

- Ensure that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and

- Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

Members of the Board Committees

Nomination Committee	Dennis A. Uy (Chairman) Miguel Rene A. Dominguez Efren E. Uy
Audit Committee	Gener T. Mendoza (Chairman) Dennis A. Uy Jesus S. Guevara II

Corporate Governance Committee	Gener T. Mendoza (Chairman) Jesus S. Guevara II Miguel Rene A. Dominguez
Board Risk Oversight Committee	Jesus S. Guevara II (Chairman) Arthur Kenneth L. Sy Miguel Rene A. Dominguez
Related Party Transactions Committee	Jesus S. Guevara II (Chairman) Eduardo A. Bangayan Efren E. Uy

ACCOUNTABILITY AND AUDIT

The Board is primarily accountable to the shareholders and Management is primarily accountable to the Board. The Board provides the shareholders with a fair, balanced and comprehensive assessment of the Company's performance position and prospects on a quarterly basis including interim and other reports that could adversely affect its business as well as reports to SEC and PSE that are required by the law. It is essential that Management provides all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management formulates, under the supervision of the Audit Committee, the rules and procedure on financial reporting and internal control in accordance with the following guidelines:

a. The extent of its responsibility in the preparation of the financial statements of the Company, with corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;

b. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company for the benefit of all stockholders and other stakeholders;

c. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of the controls that cover the Company's financial reporting, governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets and compliance with contracts, laws, rules and regulations;

d. The Company should consistently comply with the financial reporting requirements of the SEC.

e. Present a fair assessment of the Company's financial position and prospects;

f. Explain the responsibility for preparing the accounts, for which there should be statement by the auditors about their reporting responsibilities;

g. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;

h. Maintain a sound system of internal control to safeguard stakeholders' investment and the Company's assets.

SHAREHOLDERS' RIGHTS

Voting Rights

The shareholders have the right to elect, remove and replace Directors and vote on certain corporate acts in accordance with the Corporation Code, and the Company's By-Laws. Cumulative voting shall be allowed in the election of Directors. Although Directors may be removed with or without cause, the Corporation Code prohibits removal without cause if it will deny minority shareholders representation in the Board.

Pre-emptive Rights

All stockholders have pre-emptive rights to subscribe to new shares issued by the Company, except when the Company issues shares (i) to satisfy the conversion rights of convertible promissory notes, bonds, or the other securities which may be issued by the Company with express right of conversion into shares of stock, or (ii) to raise funds to redeem or pay such convertible promissory notes, bonds or other securities of the Company.

Power of Inspection

Shareholders are allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code. They shall be provided with a copy of the annual report, including financial statements, without cost or restrictions in accordance with law.

Right to Information

The Shareholders shall be provided, upon request, with reports which disclose personal and professional information about the Directors and Officers and certain other matters such as their holdings of the Company's shares, dealings with the Company, relationships among Directors and key Officers, and the aggregate compensation of Directors and Officers, as may be required by law and applicable disclosure rules.

The minority shareholders have the same right of information as other shareholders of the Company. They should be granted the right to propose the holding of a meeting, and the right to propose the items in the agenda of the meeting, provided the items are for legitimate business purposes, in accordance with law.

Rights to Dividends

Shareholders have the right to receive dividends subject to the discretion of the Board to declare such dividends. However, the SEC may direct the Company to declare dividends when its retained earnings is in excess of 100% of its paid-up capital stock, except: (i) when justified by definite corporate expansion projects or programs approved by the Board or (ii) when the Corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or (iii) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

Appraisal Right

Section 82 of the Corporation Code allows the exercise of the Shareholder's appraisal rights under the following circumstances:

a) In case any amendment to the Articles of Incorporation has the effect of changing or restricting the right of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and

c) In case of merger or consolidation.

Promotion of Shareholders' Rights

The Board shall promote shareholders' rights in accordance with law, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and solution of collective act on problems through appropriate mechanisms in accordance with law. They shall remove excessive costs and other administrative or practical impediments to shareholders' participation in meetings and/or voting in person. The Board shall allow the electronic filing and distribution of shareholder information necessary to make informed decisions as may be allowed by law.

Right to Transparent and Fair Conduct of Stockholders' Meeting

The Board is transparent and fair in the conduct of the annual and special stockholders' meeting of the Company. The stockholders are encouraged to personally attend such meetings. If a shareholder cannot attend, he or she has a right to appoint a proxy. Subject to the requirements of the By-Laws, the exercise of this right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in stockholder's favor.

SEPARATE ROLES OF THE CHAIRMAN AND PRESIDENT & CEO

The Company promotes good governance through the separation of the posts of the Chairman and President & CEO. This is to achieve an appropriate balance of power, increase accountability and improve the Board's capacity for decision-making independent of the Management.

The Chairman of the Board is primarily responsible for ensuring that the Board Meeting agenda focuses on strategic matters, including the overall risk appetite of the Company, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect the operations of the Company. The Chairman is also responsible in ensuring that the Board sufficiently challenges and inquires on reports submitted and representations made by the Management.

On the other hand, the President & CEO is in charge of the management and administration of the business operations, affairs and properties of the Company. He ensures that all resolutions of the Board are carried into effect and see that the business and affairs of the Company are managed in sound and prudent manner. He also ensures the reliability and integrity of the financial and operational information and effectiveness, as well as, the efficiency of operations.

The respective roles of Chairman and President & CEO were held by Dennis A. Uy and Chryss Alfonsus V. Damuy in 2019.

THE CORPORATE SECRETARY

The Corporate Secretary is an officer of the Company and is expected to observe the highest degree of professionalism, integrity and shall have the qualifications, duties and responsibilities specified in the By-Laws of the Company, or as may further be specified or designated by the Board of Directors. Atty. Ma. Henedina V. San Juan is the Company's Corporate Secretary. She is not a member of the Board and attended the Annual Shareholders' Meeting held on 15 March 2019.

INVESTOR RELATIONS OFFICER

The Investor Relations Office is tasked with the: (i) creation and implementation of an investor relations program that reaches out to all shareholders and informs them of corporate activities; and, (ii) formulation of a clear policy for accurately, effectively and sufficiently communicating and relating relevant information to the Company's stakeholders as well as to the broader investor community.

The Investor Relations Officer (IRO) is responsible for ensuring that the Company's shareholders have timely and uniform access to official announcements, disclosures and market-sensitive information relating to the Company. As the Company's officially designated spokesperson, the IRO will be responsible for receiving and responding to investor and shareholder queries. In addition, the IRO will oversee most aspects of the Company's shareholders meetings, press conferences, investor briefings, management of the investor relations portion of the Company's website and the preparation of its annual reports. The IRO will also be responsible for conveying information such as the policy on corporate governance and corporate social responsibility, as well as other qualitative aspects of the Company's operations and performance.

Hannah Cecille L. Chan is the Company's new Investor Relations Officer, replacing Rishamae S. Diaz who left the Company in August 2019.

For any shareholder's concerns, please contact the Investor Relations Office at:

Email: info@chelsealogistics.ph
Tel.: +632-8403-4015 local 848

COMPLIANCE OFFICER

The Company has appointed Atty. Leandro E. Abarquez as its Compliance Officer, who is tasked to ensure the Company's observance of corporate governance best practices, disclosures and continuing requirements of the Philippines SEC and the Philippine Stock Exchange.

BOARD OF DIRECTORS

We look to the challenges ahead with fervor and energy. Chelsea Logistics was built on strong foundations: Strategic Business Position, Local and Regional Partnerships, Honest and Hardworking People.

1 **DENNIS A. UY**
Chairman

2 **CHRYSS ALFONSUS V. DAMUY**
Director, President & CEO

3 **CHERYLYN C. UY**
Director, Treasurer

4 **ARTHUR KENNETH L. SY**
Director

5 **EFREN E. UY**
Director

6 **EDUARDO A. BANGAYAN**
Director

7 **GENER T. MENDOZA**
Independent Director

8 **JESUS S. GUEVARA II**
Independent Director

9 **MIGUEL RENE A. DOMINGUEZ**
Independent Director

DIRECTORS' PROFILE

Dennis A. Uy
Chairman

Dennis A. Uy, Filipino, is the founder and the Chairman of the Company. He is the Chairman and President of Udenna Corporation, the parent company, which has businesses in the shipping, logistics, distribution, real estate, and service industries. Among the subsidiairies of Udenna Corporation are Phoenix Petroleum Holdings, Inc., Udenna Management & Resources Corp.(UMRC), Chelsea Logistics and Infrastructure Holdings Corp., and Udenna Trade Corporation. Mr. Uy is also on the Board of Trustees of Phoenix Philippines Foundation and Udenna Foundation. He also serves as an independent director of Apex Mining Corp. Mr. Uy is a member of the Young Presidents Organization – Philippine chapter and the Philippine Business for Social Progress. Since November 2011, Mr. Uy has been the Honorary Consul of Kazakhstan to the Philippines. In 2016, he was appointed as the Presidential Adviser on Sports. He is a graduate of De La Salle University with a degree in Business Management.

Chryss Alfonsus V. Damuy
Director, President & CEO

Chryss Alfonsus V. Damuy, Filipino, has been a Director of the Company since its incorporation and was appointed President & CEO of the Company on March 27, 2017. He is also the President & CEO of Chelsea Shipping Corp. and its subsidiaries, PNX-Chelsea Shipping Corp., Fortis Tugs Corporation, Michael, Inc., Bunkers Manila, Incorporated, Chelsea Ship Management & Marine Services Corp., and Chelsea Marine Manpower Resources, Inc. Mr. Damuy is currently the Vice Chairman of Trans-Asia Shipping Lines, Incorporated and its subsidiaries Oceanstar Shipping Corporation, Starsy Shoppe, Inc., Dynamic Cuisine, Inc. and Quality Metals &Shipworks, Inc. Prior to joining CLC, he was the Vice President for Finance of Phoenix Petroleum Philippines, Inc. and General Manager of Calaca Industrial Seaport Corp. Before that, he was the Controller of Lapanday Foods Corporation and held various positions in its subsidiaries including the Fresh Asia Produce as Accounting Manager and the Mindanao Fresh Produce Services Corporation as Assistant Accounting Manager. He also worked as Chief Accountant of the Regional Educators Multi-Purpose Cooperative and as its Branch Officer. Mr. Damuy started his professional career as College Instructor of the Holy Cross of Davao College. He is a Certified Public Accountant and has a degree in Bachelor of Science in Accountancy.

Cherylyn C. Uy
Director, Treasurer

Cherylyn C. Uy, Filipino, has been a Director and Treasurer of the Company since February 10, 2017. She also serves as the Treasurer of Chelsea Shipping Corp. and its subsidiaries. She is likewise a Director of Phoenix Petroleum Philippines, Inc. and the Corporate Treasurer of the Udenna Group of Companies and F2 Logistics, Inc. Ms. Uy is a graduate of Ateneo de Davao University with a degree in Business Finance.

Arthur Kenneth L. Sy
Director

Arthur Kenneth L. Sy, Filipino, has been a Director of the Company since March 27, 2017. He serves as President and CEO of Trans-Asia Shipping Lines, Incorporated, and currently the President and CEO of JGSY Marine and Allied Ventures Corp., Dynamic Cuisine, Inc., Starsy Shoppe, Inc., Sybu Real Estate Corporation, Oceanstar Shipping Corporation, Allmix Trading, Inc., Quality Metal and Shipworks Inc. and Funflatables Corporation. He holds degrees in the fields of business and engineering namely, Bachelor of Science in Business Administration from the University of San Carlos; Bachelor of Science in Marine Engineering, and Bachelor of Science in Mechanical Engineering from the University of Cebu.

Efren E. Uy
Director

Efren E. Uy, Filipino, has been a Director of the Company since March 27, 2017. Mr. Uy currently serves as the President and Chief Executive Officer of F2 Logistics Philippines, Inc., F2 Global Logistics, Inc., Agri Farmers, Inc., F8 Prime Transport Services, Inc., Ultimate Yellow Transport Services, Inc., Fmoves Transport Corp. and Miren Holdings, Inc. He has a degree in Bachelor of Science in Mechanical Engineering from University of San Carlos.

Eduardo A. Bangayan
Director

Eduardo A. Bangayan, Filipino, has been a Director of the Company since March 27, 2017. He is currently the President of Summit World Group of Companies, a Director for Fuji Oil Philippines and an Independent Director for Manila Mining Corporation. He is also the Vice President of the New Leyte Edible Oil Manufacturing Corporation. From 2004 until 2008, he served as Trustee of the Local Water Utilities Association. Mr. Bangayan served as a Director of the Davao City Water District since 2002 prior to his appointment as Chairman in January 2017 with a term until 2023. Further, he serves as an Independent Director of Rural Bank of Tagum from 2015 until present. He has a degree in Bachelor of Science in Business Administration from Silliman University.

Miguel Rene A. Dominguez
Independent Director

Miguel Rene A. Dominguez, Filipino, has been an Independent Director of the Company since March 27, 2017. He is currently the Vice President of Alsons Agribusiness Unit, Director of Sarangani Agricultural Company, Inc. and Director of Philippine Business for Social Progress. He served as Chairman of the Regional Peace and Order Council for Region 12 (2011-2013), Chairman of SOCSARGEN Area Development Board (2008-2011) and Chairman of Regional Development Council of Region 12 (2007-2010). Mr. Dominguez was named an awardee for Governance and Public Service in the Ten Outstanding Young Men 2013 by the Junior Chamber International Philippines and the TOYM Foundation. He was the first awardee of the Jesse Robredo Leadership Award given the same year. He was governor of Sarangani province for three (3) consecutive 3-year terms that began in 2004. Prior to his election as governor, he was the National Sales and Marketing Manager of the Alsons Aquaculture Corporation in 2003, earning for the brand "Sarangani Bay" a stronghold in the international markets, particularly in the US, Japan and Europe. He has a degree in AB Economics from Boston College in the US.

Jesus S. Guevara II
Independent Director

Jesus S. Guevara II, Filipino, has been an Independent Director of the Company since March 27, 2017. Mr. Guevara is currently the President of Alternative Power Resource Holdings, Inc. From 2009 to the present, he sits as Director of Lipa Bank, Inc. He served as Executive Vice President of the Development Bank of the Philippines, where he worked for eighteen (18) years. He was appointed Chairman of the Board of Phividec Industrial Authority on 14 June 2017. In the last (5) five years, he has served as Director for DBP Service Corporation, DBP Management Corporation, LGU Guarantee Corporation and DBP Insurance Brokerage, Inc. He has a degree in Bachelor of Arts in Economics from University of the Philippines and Master's Degree in Industrial Relations.

Gener T. Mendoza
Independent Director

Gener T. Mendoza, Filipino, has been an Independent Director of the Company since March 27, 2017. Mr. Mendoza is currently the President of GNCA Holdings, Inc. Apart from his assignment in GNCA, he serves as court-appointed rehabilitation receiver or liquidator for the following companies: Ensogo, Inc., Universal Rightfield Property Holdings, Inc., Pacific Activated Carbon Company, Inc., and Premium Agro-Vet Products, Inc. He also assists the liquidator of National Steel Corporation and Advent Capital Corporation. Previously, he was a Principal Partner of SyCip GorresVelayo& Co., Vice President for Corporate Finance at Kuok Philippine Properties, Inc., and Executive Vice President of Crown Equities Inc. He serves as a Director of IPM Holdings Inc., Organizational Change Consultants International, Inc., ACM Landholdings, Inc., Dualtech Training Center Foundation, Inc., and Rose Pharmacy, Inc. He has a degree in Bachelor of Science in Management Engineering from Ateneo de Manila University and Master's Degree in Business Administration from Harvard Business School.

MANAGEMENT TEAM

1 **CHRYSS ALFONSUS V. DAMUY**
President & CEO

2 **CHERYLYN C. UY**
Treasurer

3 **DEXTER A. SILVA**
President
Worklink Services, Inc.

4 **ARTHUR KENNETH L. SY**
President
Trans-Asia Shipping Lines,
Incorporated

5 **IRWIN M. MONTANO**
Chief Operating Officer
Starlite Ferries, Inc.

6 **IGNACIA S. BRAGA IV**
Chief Financial Officer

7 **MA. HENEDINA V. SAN JUAN**
AVP - Legal and Corporate Affairs
Corporate Secretary

8 **RODEL V. MARQUESES**
Finance Controller

9 **LEANDRO E. ABARQUEZ**
Chief Compliance Officer

10 **MA. KATHERINE A. AGBAY**
Chief Audit Executive

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Chelsea Logistics and Infrastructure Holdings Corp. and subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2019, 2018, and 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Dennis

DENNIS A. UY
Chairman of the Board
TIN 172-020-135

CHRYSS ALFONSUS V. DAMUY
President and Chief Executive Officer
TIN 913-898-959

IGNACIA S. BRAGA IV
Chief Financial Officer
TIN 108-038-078

SUBSCRIBED AND SWORN to before me this 12th day of February 2020 at Taguig City, affiants exhibited to me their respective TIN.

Doc. No. 127
Page No. 27
Book No. LXXVI
Series of 2020

ATTY. EDILBERTO R. FAGNABAO
NOTARY PUBLIC for in Taguig City
Until December 31, 2020
IBP O.R. No. 094091 / 11-04-2019
PTR No. A-4760851 / 01-02-2020
MCLE Compliance No. V - 0024438
IBP Roll No. 29548
LC / Bldg. Gen. Luna St., Tuktukan Taguig

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Chelsea Logistics and Infrastructure Holdings Corp. and Subsidiaries
(Formerly Chelsea Logistics Holdings Corp.)
(A Subsidiary of Udenna Corporation)
Stella Hizon Reyes Road
Bo. Pampanga, Davao City

Opinion

We have audited the consolidated financial statements of Chelsea Logistics and Infrastructure Holdings Corp. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and the notes to consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Revenue Recognition

Description of the Matter

We identified revenue recognition as a key audit matter because the amount is significant and it involves voluminous transactions at any given period of time, requires proper observation of cut-off procedures and testing of validity of transactions, and is one of the Group's key performance indicators. Revenues, which is comprised significantly of freight revenues, charter fees, passage fees, rendering of services and tugboat fees, amounted to P7.0 billion for the year ended December 31, 2019.

The Group's disclosures on its revenue recognition policy and disaggregation of revenues are fully disclosed in Notes 2 and 24, respectively, to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others, the following:

- Understanding the policies and procedures applied to revenue recognition, as well as compliance therewith, and assessing the design effectiveness of internal controls related to revenue recognition processes employed by the Group;

- Evaluating the appropriateness of the Group's revenue recognition in relation to its compliance with the requirements of PFRS 15, Revenue from Contracts with Customers, through testing charter agreements, billing invoices, vessel fixture notes, bills of lading and other related supporting documents, on a sample basis, to determine whether revenue transactions throughout the current period are properly recognized at the time (i.e., either at a point in time or over time);

- Confirming trade receivables, on a sample basis, as of the end of the reporting period from rendering of services; and, performing alternative procedures such as, but not limited to, examining cash receipts, or billing invoices and vessel fixture notes;

- Testing billing invoices and vessel fixture notes immediately prior and subsequent to the current reporting period to determine whether the related revenue transactions are recognized in the proper reporting period; and,

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- Performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of revenues per vessel, per customer, and per service line, verifying validity of the underlying data used in the analyses, and following up variances from our expectations.

(b) Impairment of Goodwill

Description of the Matter

Under Philippine Accounting Standard (PAS) 36, Impairment of Assets, the Group is required to annually test the amount of its goodwill for impairment. As of December 31, 2019, the Group's goodwill amounted to P5.7 billion. We considered the impairment of goodwill as a key audit matter because the amount of goodwill is material to the consolidated financial statements. In addition, management's assessment process involves judgements, and significant assumptions about the future results of the business, and the discount rate and cash flow projections used in determining the cash-generating units over which the goodwill was allocated. The assumptions used by management are generally affected by expected future market and economic conditions.

The Group's policy on impairment assessment of goodwill is more fully described in Note 2 to the consolidated financial statements, while their corresponding carrying amounts are disclosed in Note 23 to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to goodwill included, among others, the following:

- Involving our own valuation specialist to assist in evaluating the reasonableness of the assumptions and methodology used by management and their external valuation expert in determining the cash-generating units attributable to the goodwill, which include the discount rate and the cash flow projections, by comparing them to external and historical data, and, performing independent sensitivity analysis of the projections and discount rate to determine whether a reasonably possible change in assumptions could cause the carrying amount of cash-generating units to exceed the recoverable amount;

- Assessing the professional competence, reputation, experience and objectivity of the Group's external valuation expert as evidenced by certification, license or recognition by the appropriate professional organizations; and,

- Comparing the net present value of excess earnings attributable to the cash-generating units over which the goodwill was allocated.

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(c) *Adoption of PFRS 16, Leases*

Description of the Matter

Effective January 1, 2019, the Group adopted PFRS 16, Leases, which replaced PAS 17, Leases, and the related interpretations to PAS 17. The adoption of this new standard, which primarily affected the Group's accounting for leases as a lessee by recognizing "right-of-use" assets and lease liabilities "on-balance sheet", is considered significant due to the complexities of the accounting requirements and the significant judgements involved in determining the assumptions to be used in applying the new standard.

Further, the recognition of right-of-use assets and lease liabilities, which are particularly covered by the provisions of PFRS 16, both amounted to P1.2 billion as at December 31, 2019 and is considered significant in amount relative to the Group's consolidated total assets and consolidated total liabilities.

The impact of the adoption of PFRS 16, and the related changes in accounting policies and bases of judgments and estimates, are disclosed in Notes 2 and 3 to the consolidated financial statements, while the carrying amounts of right-of-use assets, included as part of Property and Equipment, and lease liabilities, included as part of Interest-bearing Loans and Borrowings, as at December 31, 2019 are disclosed in Notes 9 and 12 to the consolidated financial statements, respectively. The new disclosure requirements of PFRS 16 are also discussed in Note 12 to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adoption of PFRS 16 included, among others, the following:

- Understanding the policies and procedures applied by the Group in identifying leases that qualify under PFRS 16, and leases that qualify under the recognition exemptions on short-term leases and low-value leases, as well as compliance therewith;

- Assessing the completeness of the lease contracts and verifying the accuracy of the lease information provided, considering the reconciliation of the Group's operating lease commitments;

- Evaluating the appropriateness of adjustments as a result of the adoption of PFRS 16 on the recognition and measurement of right-of-use assets and lease liabilities and determining the adequacy of related financial statement disclosures, including changes in accounting policies and bases of judgments and estimates; and,

- Evaluating the reasonableness of the inputs and assumptions used by the management in determining the lease term and incremental borrowing rate used, such as but not limited to, renewal and termination options, contractual terms of the lease, nature and quality of security, if any, and the economic environment in which the transaction occurs.

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(d) *Fair Value of Vessels and Vessel Equipment under Property and Equipment*

Description of the Matter

The carrying amount of the Group's vessels and vessel equipment under the Property and Equipment account amounted to P18.7 billion. As allowed under PAS 16, Property, Plant and Equipment, the Group measures its vessels and vessel equipment based on a revalued amount, which represent fair market values at the date of the revaluation. Management determined the fair value based on the valuation made by independent appraisers every after drydocking of vessels, which is performed once every two years.

The fair valuation of the Group's vessels was significant in our audit as the amount is material to the consolidated financial statements and the determination of fair values includes significant assumptions and estimates.

The methods and assumptions used in determining the fair value of vessels is more fully described in Notes 3 and 27 to the consolidated financial statements while the revalued amount of vessels and vessel equipment as at December 31, 2019 is disclosed in Note 9.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to valuation of vessels and vessel equipment included:

- Determining whether the independent appraisers engaged by the Group has the necessary professional competency, reputation, experience and objectivity;

- Involving an independent expert to assist us in evaluating the results of the work performed by the Group's independent appraisers by understanding the methodology, process and data used in determining the fair value of vessels and vessel equipment; and,

- Assessing the appropriateness and reasonableness of bases used in the valuation such as the vessel's certificates, operating condition of the vessel equipment, main engine, and other auxiliary machineries and equipment.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission Form 17-A, which we obtained prior to the date of the auditors' report, and the Group's SEC Form 20-IS (Definitive Information Statement) and Annual Report, which are expected to be made available to us after that date, for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

If, based on the work performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty

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exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audits resulting in this independent auditors' report is Ramilito L. Nañola.

PUNONGBAYAN & ARAULLO

By: **Ramilito L. Nañola**
Partner
CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 8116551, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-4 (until Sept. 16, 2022)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-19-2018 (until Jan. 25, 2021)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 12, 2020

(A Subsidiary of Udenna Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	4	**₱375,228,505**	₱443,495,969
Trade and other receivables - net	5	**2,225,735,811**	1,430,045,495
Financial assets at fair value through profit or loss	6	**3,947,736**	3,947,736
Inventories	7	**546,803,953**	525,904,778
Advances to related parties	19	**814,252,135**	3,127,555,209
Other current assets	8	**1,088,657,865**	963,520,687
Total Current Assets		**5,054,626,005**	6,494,469,874
NON-CURRENT ASSETS			
Property and equipment - net	9	**22,915,005,555**	17,303,897,157
Investments in associates and a joint venture	10	**6,416,269,582**	1,821,168,833
Goodwill	23	**5,713,122,608**	5,641,434,544
Post-employment benefit asset	16	**7,673,898**	12,300,710
Deferred tax assets - net	18	**375,161,580**	283,345,565
Other non-current assets - net	11	**522,338,281**	734,638,640
Total Non-current Assets		**35,949,571,504**	25,796,785,449
TOTAL ASSETS		**₱41,004,197,509**	₱32,291,255,323

	Notes	2019	2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	13	**₱10,759,925,409**	₱3,496,662,037
Interest-bearing loans and borrowings	12	**6,124,500,567**	6,555,553,721
Advances from related parties	19	**1,114,816,666**	36,098,668
Advances from customers	2	**55,788,185**	14,484,333
Income tax payable		**22,256,833**	22,769,050
Total Current Liabilities		**18,077,287,660**	10,125,567,809
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	12	**10,182,620,625**	9,064,308,132
Post-employment benefit obligation	16	**56,528,581**	35,162,375
Deferred tax liabilities - net	18	**163,931,353**	82,471,428
Other non-current liabilities		**70,283,902**	58,792,374
Total Non-current Liabilities		**10,473,364,461**	9,240,734,309
Total Liabilities		**28,550,652,121**	19,366,302,118
EQUITY			
Equity attributable to shareholders of the Company			
Capital stock	20	**1,821,977,615**	1,821,977,615
Additional paid-in capital	20	**9,998,370,157**	9,998,370,157
Revaluation reserves	20	**1,777,036,051**	1,497,869,655
Other reserves	20	**(1,058,033,280)**	(1,058,033,280)
Retained earnings (Deficit)		**(265,805,155)**	484,769,058
		12,273,545,388	12,744,953,205
Non-controlling interest	20	**180,000,000**	180,000,000
Total Equity		**12,453,545,388**	12,924,953,205
TOTAL LIABILITIES AND EQUITY		**₱41,004,197,509**	₱32,291,255,323

See Notes to Consolidated Financial Statements.

(A Subsidiary of Udenna Corporation)

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
REVENUES				
Freight	24	**₱2,440,858,768**	₱1,708,880,761	₱1,387,445,706
Charter fees	19	**1,889,509,748**	1,721,642,369	1,194,216,186
Passage		**1,423,269,213**	969,290,258	773,491,556
Rendering of services		**660,478,934**	377,620,815	243,826,107
Tugboat fees		**338,321,437**	333,938,349	261,321,170
Sale of goods		**127,599,231**	36,643,669	25,815,744
Standby charges	19	**93,507,012**	24,015,822	23,050,935
		6,973,544,343	5,172,032,043	3,909,167,404
COST OF SALES AND SERVICES	14	**5,422,776,475**	3,754,741,525	2,862,147,364
GROSS PROFIT		**1,550,767,868**	1,417,290,518	1,047,020,040
OTHER OPERATING EXPENSES	15	**996,171,610**	900,510,203	529,672,911
OPERATING PROFIT		**554,596,258**	516,780,315	517,347,129
OTHER INCOME (CHARGES) - Net				
Finance costs	17	**(1,226,043,366)**	(835,388,144)	(516,979,233)
Share in net loss of associates	10	**(478,155,985)**	(453,048,188)	(1,962,214)
Finance income	17	**24,756,404**	6,553,683	10,401,760
Gain on bargain purchase	23	**-**	4,370,340	-
Other income	17	**157,346,786**	138,602,416	143,921,531
		(1,527,096,160)	(1,138,909,893)	(364,618,156)
PROFIT (LOSS) BEFORE PRE-ACQUISITION INCOME AND TAX		**(972,499,402)**	(622,129,578)	152,728,973
PRE-ACQUISITION INCOME		**-**	-	(105,375,776)
PROFIT (LOSS) BEFORE TAX		**(972,499,402)**	(622,129,578)	47,353,197
TAX INCOME	18	**(140,738,902)**	(71,596,622)	(113,866,526)
NET PROFIT (LOSS)		**(₱831,761,000)**	(₱550,532,956)	₱161,219,723
Earnings (Loss) Per Share (Basic and Diluted)	21	**(₱0.457)**	(₱0.302)	₱0.123

(A Subsidiary of Udenna Corporation)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
NET PROFIT (LOSS)		**(₱831,761,000)**	(₱550,532,956)	₱161,219,723
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Revaluation of vessels	9	**632,951,901**	167,829,312	67,317,920
Tax expense	18	**(159,150,294)**	(58,556,375)	(3,154,527)
Share in the remeasurement losses on post-employment benefit obligation of an associate	10	**(26,478,210)**	-	-
Remeasurement of post-employment benefit obligation	16	**(9,799,526)**	27,358,603	(1,317,864)
Share in the revaluation of vessels of an associate		**-**	-	108,049,607
		437,523,871	136,631,540	170,895,136
Items that will be reclassified subsequently to profit or loss:				
Currency exchange differences on translating financial statements of foreign operations	2	**(715,045)**	1,466,209	(223,517)
Fair value gain on disposed available-for-sale financial assets reclassified to profit or loss		**-**	-	(49,607)
Tax income		**-**	-	14,882
		(715,045)	1,466,209	(258,242)
Other Comprehensive Income - net of tax		**436,808,826**	138,097,749	170,636,894
TOTAL COMPREHENSIVE INCOME (LOSS) BEFORE PRE-ACQUSITION OTHER COMPREHENSIVE INCOME		**(394,952,174)**	(412,435,207)	331,856,617
PRE-ACQUISITION OTHER COMPREHENSIVE INCOME		**-**	-	55,484,964
TOTAL COMPREHENSIVE INCOME (LOSS)		**(₱394,572,174)**	(₱412,435,207)	₱276,371,653

See Notes to Consolidated Financial Statements.

(A Subsidiary of Udenna Corporation)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	Capital Stock	Additional paid-in Capital
Balance at January 1, 2019 As previously stated		**₱1,821,977,615**	**₱9,998,370,157**
Restatement	**2**	**-**	**-**
As restated		**1,821,977,615**	**9,998,370,157**
Total comprehensive income (loss) for the year		**-**	**-**
Share in stock issuance costs of an associate	**10**	**-**	**-**
Transfer of revaluation reserves through depreciation, net of tax	**20**	**-**	**-**
Balance at December 31, 2019	**20**	**₱1,821,977,615**	**₱9,998,370,157**
Balance at January 1, 2018		₱1,821,977,615	₱9,998,370,157
Additions during the year	20	-	-
Total comprehensive income (loss) for the year			
Transfer of revaluation reserves through depreciation, net of tax	20	-	-
Balance at December 31, 2018	20	₱1,821,977,615	₱9,998,370,157
Balance at January 1, 2017		₱500,000,000	-
Issuance of shares during the year	20	1,321,977,615	9,998,370,157
Total comprehensive income for the year		-	-
Transfer of revaluation reserves through depreciation, net of tax		-	-
Balance at December 31, 2017		₱1,821,977,615	9,998,370,157

See Notes to Consolidated Financial Statements.

Attributable to Owners of the Parent Company					
Revaluation Reserves	Other Reserves	Retained Earnings	Total	Non-controlling Interest	Total Equity
₱1,497,869,655	**(₱1,058,033,280)**	**₱484,769,058**	**₱12,744,953,205**	**₱180,000,000**	**₱12,924,953,205**
-	**-**	**(16,189,848)**	**(16,189,848)**	**-**	**(16,189,848)**
1,497,869,655	**(1,058,033,280)**	**468,579,210**	**12,728,763,357**	**180,000,000**	**12,908,763,357**
436,808,826	**-**	**(831,761,000)**	**(394,952,174)**	**-**	**(394,952,174)**
-	**-**	**(60,265,795)**	**(60,265,795)**	**-**	**(60,265,795)**
(157,642,430)	**-**	**157,642,430**	**-**	**-**	**-**
₱1,777,036,051	**(₱1,058,033,280)**	**(₱265,805,155)**	**₱12,273,545,388**	**₱180,000,000**	**₱12,453,545,388**
₱1,429,917,004	(₱1,058,033,280)	₱965,156,916	₱13,157,388,412	-	₱13,157,388,412
-	-	-	-	180,000,000	180,000,000
138,097,749	-	(550,532,956)	(412,435,207)	-	(412,435,207)
(70,145,098)	-	70,145,098	-	-	-
₱1,497,869,655	(₱1,058,033,280)	₱484,769,058	₱12,744,953,205	₱180,000,000	₱12,924,953,205
1,370,998,267	(₱1,058,033,280)	747,704,000	₱1,560,668,987	-	₱1,560,668,987
-	-	-	11,320,347,772	-	11,320,347,772
115,151,930	-	161,219,723	276,371,653	-	276,371,653
(56,233,193)	-	56,233,193	-	-	-
₱1,429,917,004	(₱1,058,033,280)	₱965,156,916	₱13,157,388,412	-	₱13,157,388,412

(A Subsidiary of Udenna Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax		**(₱972,499,902)**	(₱ 622,129,578)	₱47,353,197
Adjustments for:				
Depreciation and amortization	9, 11	**1,272,582,798**	868,058,074	818,757,177
Interest expense	17	**1,223,993,922**	776,933,861	507,987,399
Share in net loss of an associate	10	**483,155,985**	453,048,188	1,962,214
Gain on sale of property and equipment	9	**(30,909,664)**	(1,326,971)	-
Unrealized foreign currency exchange losses (gains) - net	17	**(9,240,000)**	(23,242,597)	(5,526,564)
Impairment losses on property and equipment	9	**7,394,742**	-	-
Interest income	17	**(3,209,084)**	(3,626,087)	(4,875,196)
Reversal of impairment losses on property and equipment	9	**(2,214,620)**	-	-
Gain on bargain purchase	23	**-**	(4,370,340)	-
Gain on sale of available-for-sale (AFS) financial assets		**-**	-	(743,911)
Gain on sale of financial assets at fair value through profit or loss (FVTPL)		**-**	-	(87,784)
Fair value gain on disposed AFS reclassified to profit or loss		**-**	-	(49,607)
Operating profit before working capital changes		**1,969,054,177**	1,443,344,550	1,364,776,926
Decrease (Increase) in trade and other receivables		**(789,456,419)**	(526,784,036)	976,280,103
Increase in inventories		**(10,503,833)**	(337,889,509)	(105,989,357)
Decrease (Increase) in advances to related parties		**2,313,303,074**	(639,120,416)	(2,293,988,715)
Decrease (Increase) in other current assets		**(104,009,655)**	(605,136,157)	73,902,652
Decrease (Increase) in post-employment benefit asset		**4,626,812**	(4,110,656)	(1,998,671)
Decrease (Increase) in other non-current assets		**(22,918,855)**	752,790,446	(1,558,687,549)
Increase (decrease) in trade and other payables		**6,401,485,289**	1,950,778,836	(538,558,532)
Increase in post-employment benefit obligation		**11,566,680**	25,932,098	5,216,732
Increase (decrease) in other non-current liabilities		**11,491,528**	(7,454,424)	1,853,715
Cash generated from (used in) operations		**9,825,942,650**	2,052,350,732	(2,077,192,696)
Interest received		**3,209,084**	3,626,087	4,875,196
Cash paid for income taxes		**(23,364,384)**	(63,428,617)	(76,686,630)
Net Cash From (Used in) Operating Activities		**9,805,787,350**	1,992,548,202	(2,149,004,131)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	9	**(3,812,414,640)**	(5,789,604,581)	(1,677,390,638)
Acquisitions of subsidiaries and additional investments in associates and a joint venture	10, 23	**(5,165,000,739)**	(110,089,751)	(2,290,863,390)
Proceeds from disposal of property and equipment	9	**64,887,231**	201,169,131	7,175,264
Proceeds from disposal of financial assets at FVTPL		**-**	-	7,419,684
Proceeds from disposal of AFS financial assets		**-**	-	3,809,000
Net Cash Used in Investing Activities		**(8,912,528,148)**	(5,698,525,201)	(3,949,850,080)
Balance carried forward		**₱893,259,202**	(₱3,705,976,999)	(₱6,098,854,211)

	Notes	**2019**	2018	2017
Balance brought forward		**₱893,259,202**	(₱3,705,976,999)	(₱6,098,854,211)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of interest-bearing loans and borrowings	12	**(3,307,245,190)**	(1,281,746,979)	(2,151,099,154)
Proceeds from interest-bearing loans and borrowings	12	**2,393,163,353**	5,698,373,875	2,588,916,550
Interest paid	17	**(1,166,580,151)**	(719,520,091)	(320,911,526)
Proceeds from advances from related parties	19	**1,113,921,827**	35,203,829	1,438,012,897
Repayments of advances from related parties	19	**(35,203,829)**	(1,039,877,313)	(533,000,000)
Proceeds from issuance of shares of stock		**-**	-	5,272,347,772
Collection of subscription receivable	20	**-**	-	350,000,000
Additional deposits for future stock subscriptions		**-**	-	180,000,000
Net Cash From (Used in) Financing Activities		**(1,001,943,990)**	2,692,433,321	6,824,266,539
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		**-**	-	27,270,309
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(108,684,788)**	(1,013,543,678)	752,682,638
CASH AND CASH EQUIVALENTS FROM ACQUIRED SUBSIDIARIES	23	**40,417,324**	15,335,457	180,081,121
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**443,495,969**	1,441,704,190	508,940,431
CASH AND CASH EQUIVALENTS AT END OF YEAR		**₱375,228,505**	₱443,495,969	₱1,441,704,190

Supplemental Information for Non-cash Investing and Financing Activities:

In 2019 and 2018, the Group acquired certain transportation equipment through obtaining mortgage loans from a local bank totaling ₱21.6 million and ₱40.2 million, respectively (see Notes 9 and 12).

In 2019, the Group recognized Right-of-use assets and Lease liabilities amounting to ₱1,190.6 million and ₱1,234.5 million, respectively, and are presented as part of of Property and Equipment and Interest-bearing Loans and Borrowings in the 2019 consolidated statement of financial position, respectively (see Notes 9 and 12).

In 2019, the Company acquired all of the outstanding shares of Supercat Fast Ferry Corporation from a 2GO Group, Inc. amounting to ₱650.0 million. The outstanding balance is presented as part of Trade and Other Payables account in the 2019 consolidated statement of financial position (see Notes 13 and 19).

In 2019, the Group reclassified Advances to suppliers under Other Non-Current Assets amounting to ₱293.0 million to Construction in progress under Property and Equipment account (see Notes 9 and 11).

In 2018, the Group acquired certain machinery and equipment amounting to ₱76.8 million through a sale and leaseback agreement with a local bank (see Note 12).

In 2017, the Company acquired Udenna Investments B. V. (UIBV) from Udenna Corporation (Udenna) through share-for-share swap, where the Company issued 775,384,615 common shares in favor of Udenna, in exchange for shares of UIBV (see Note 10).

See Notes to Consolidated Financial Statements.

(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Information and Operations

Chelsea Logistics and Infrastructure Holdings Corp. (CLC or the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) as Chelsea Shipping Group Corp. on August 26, 2016 primarily to subscribe for, invest and re-invest in, purchase, or otherwise acquire, own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, deal in and hold investment or otherwise, any and all properties of every kind and description and wherever situated, including but not limited to shares of stocks, bonds, debentures, notes, evidences of indebtedness, promissory notes, or other securities or obligations, created, negotiated or issued by any corporation, association, or other entity, including, but not limited to, securities in corporations engaged in shipping and logistics.

On November 28, 2016 and May 12, 2017, the Company's Board of Directors (BOD) and stockholders approved the change in the corporate name of the Company from Chelsea Shipping Group Corp. to Chelsea Logistics Corp. and from Chelsea Logistics Corp. to Chelsea Logistics Holdings Corp., respectively, and for this purpose, amended the Company's Articles of Incorporation and By-laws, which were approved by the SEC on December 21, 2016 and June 27, 2017, respectively.

On August 8, 2017, the shares of stock of the Company were listed at the Philippine Stock Exchange (PSE).

On November 12, 2018, the Company's BOD approved the change in the corporate name of the Company from Chelsea Logistics Holdings Corp. to Chelsea Logistics and Infrastructure Holdings Corp. This was subsequently ratified by the Company's stockholders on March 15, 2019 and approved by the SEC on May 7, 2019.

The Company is 70% owned by Udenna Corporation (Udenna), a company primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing.

The registered office of the Company and Udenna, which is also their principal place of business, is located at Stella Hizon Reyes Road, Bo. Pampanga, Davao City.

1.2 Subsidiaries, Associates and their Operations

As of December 31, 2019 and 2018, the Company holds ownership interests in the following subsidiaries and associates:

Company Name	Explanatory Notes	Percentage of Ownership 2019	Percentage of Ownership 2018
Subsidiaries through direct interest:			
Chelsea Shipping Corporation (CSC)	(a)	**100%**	100%
Trans-Asia Shipping Lines, Incorporated (Trans-Asia)	(b)	**100%**	100%
Udenna Investments B.V. (UIBV)	(c)	**100%**	100%
Starlite Ferries, Inc. (Starlite)	(d)	**100%**	100%
Worklink Services, Inc. (WSI)	(e)	**100%**	100%
Tasli Services, Incorporated (TSI)	(f)	**100%**	-
The Supercat Fast Ferry Corporation (SFFC)	(g)	**100%**	-
Subsidiaries through indirect interest:			
Bunkers Manila, Inc. (BMI)[1]	(h)	**100%**	100%
Michael, Inc. (MI)[1]	(i)	**100%**	100%
PNX-Chelsea Shipping Corp. (PNX-Chelsea)[1]	(j)	**100%**	100%
Chelsea Ship Management & Marine Services Corp. (CSMMSC)[1]	(k)	**100%**	100%
Fortis Tugs Corporation (FTC)[1]	(l)	**100%**	100%
Davao Gulf Marine Services, Inc. (DGMSI)[2]	(l)	**100%**	100%
Chelsea Marine Manpower Resources, Inc. (CMMRI)[1]	(m)	**100%**	100%
Chelsea Dockyard Corporation (CDC)[1]	(n)	**100%**	100%
CD Ship Management & Marine Services Corp. (CDSMMSC)[1]	(o)	**100%**	100%

Company Name	Explanatory Notes	Percentage of Ownership 2019	2018
Chelsea Shipping and Logistics Singapore Pte. Ltd. (CSLSP)[1]	(p)	**100%**	100%
Quality Metals & Shipworks, Inc. (QMSI)[3]	(q)	**100%**	100%
Oceanstar Shipping, Inc. (Oceanstar)[3]	(r)	**100%**	100%
Dynamic Cuisine, Inc. (DCI)[3]	(s)	**100%**	100%
Starsy Shoppe, Inc. (SSI)[3]	(t)	**100%**	100%
Star Maritima Port and Allied Services (Star Maritima)[3]	(u)	**100%**	100%
Starbites Food Services Corp. (Starbites)[4]	(v)	**100%**	100%
Starlite Gallant Ferries, Inc. (SGFI)[4]	(d)	**100%**	100%
Starlite Premiere Ferries, Inc. (SPFI)[4]	(d)	**100%**	100%
Big Hub Transport and Logistics Corp.(Big Hub)[3]	(w)	**100%**	100%
Associates:			
KGLI-NM Holdings, Inc. (KGLI-NM) Preferred C shares	(x)	**80%**	80%
Dito Telecommunity Corporation (Dito)	(y)	**25%**	-
Dito Holdings Corp (DHC)	(z)	**41.67%**	-

[1]*Wholly owned subsidiary of CSC*
[2]*Wholly owned subsidiary of FTC*
[3]*Wholly owned subsidiary of Trans-Asia*
[4]*Wholly owned subsidiary of Starlite*

Except for UIBV and CSLSP, which were organized and incorporated in the Netherlands and Singapore, respectively, all the subsidiaries and associates were organized and incorporated in the Philippines.

(a) Incorporated on July 17, 2006 and is engaged in the business of maritime trade in the conveyance or carriage of petroleum products, goods, wares and merchandise of every kind, over domestic and international oceans, seas, lakes, rivers, canals, harbours, and other waterways in the Philippines. CSC was acquired by the Company from P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI) on November 24, 2016.

(b) Incorporated on March 25, 1974 and is engaged in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas. Trans-Asia was acquired on December 12, 2016.

(c) Incorporated on August 25, 1994 under the laws of the Netherlands, having its corporate seat in Amsterdam, and is incorporated to participate in, to administer, to finance, to conduct the management of and to render advice and services to other companies and enterprises. UIBV is formerly known as KGL Investment B.V, a private company with limited liability.

UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, which holds 35.22% economic interest in 2GO Group, Inc. (2GO). Hence, the Company has a 28.18% indirect economic interest in 2GO.

(d) Incorporated on August 25, 1994 and is primarily engaged in general business of domestic shipping, to own and operate vessels of any class, type of description for domestic trade, to charter in and out any such vessel.

On August 10 and October 22, 2018, Starlite acquired all of the outstanding shares of stock of SGFI and SPFI, respectively. Both companies are primarily engaged in the general business of domestic shipping; to own and operate vessel of any class, type or description for domestic trade; and, to charter in and out any vessel.

(e) Incorporated on June 2, 1994 and is engaged in logistics services such as but not limited to cargo freight forwarding (air, land and sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crafting, etc.

(f) Incorporated on September 2, 2019 and is primarily engaged in shipping agency business and maritime operation and services.

(g) Incorporated on June 20, 2001 and is primarily engaged to own and operate mixed passenger/cargo vessels for domestic (local) trade, to charter out any such vessels and to provide complete marine services, as principal or agent, to ship owners, ship operators and managers, and to any person, association, firm or corporation engaged in domestic (local) marine and maritime business, such as, but not limited to, acting as managers of ships or their crew, acting as ship chandler, shipbroker and trading in maritime supplies and equipment; and to own, control, supervise, construct, maintain, operate passenger terminals and provide such facilities or services as shall be necessary to upgrade and provide safe, efficient and reliable terminals, rent out terminal spaces to food concessionaires and other allied services related to the operation and management of passenger terminals.

On October 9, 2019, the Company acquired all of the outstanding shares of SFFC from 2GO.

(h) Incorporated on March 7, 2000 and is established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.

(i) Incorporated on December 26, 1957 and is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.

(j) Incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.

(k) Incorporated on March 30, 2012 and is engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

(l) Incorporated on April 8, 2013 and is engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbours, and other waterways between the various ports of the Philippines.

On December 15, 2016, FTC acquired 100% of the outstanding capital stock of DGMSI, a Davao-based tug service provider. DGMSI is engaged in, operates, conducts, and provides tug and marine services to all vessels, foreign or coastwise that dock and undock in the District Port of Davao and all other ports in the Philippines.

(m) Incorporated on June 9, 2016 and is primarily engaged in the business of providing full and partial crewing for domestic and foreign vessels, to act as the authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

(n) Incorporated on January 8, 2018 and is engaged in the general business of building and repair of ships, boats and other kinds of vessels as well as in ship breaking activities. As of December 31, 2019, CDC has not yet started commercial operations.

(o) Incorporated on March 14, 2018 and is engaged to carry on the business of ship management and to act as agent, broker, ship chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals and for such purpose, to act as principal in and hire the services of a local manning agent for the overseas employment for seamen, and to equip any and all kinds of ships, barges and vessels of every class and description owned by any shipping corporation.

(p) Incorporated and domiciled in the Republic of Singapore and is primarily engaged in the business and management consultancy services. CSLSP has not yet started commercial operations as of December 31, 2019.

(q) Incorporated on November 28, 2007 and is engaged in machining and mechanical works on ship machineries and industrial plants.

(r) Incorporated on July 6, 2006 primarily to engage in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas and is presently engaged in the charter or lease of maritime vessels.

(s) Incorporated on June 21, 2000 primarily to establish and maintain restaurant, coffee shops, refreshment parlors, cocktail lounges and cater goods, drinks, refreshments and other food commonly served in such establishments.

(t) Incorporated on December 31, 2005 and is engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

(u) Incorporated on October 11, 2018 and is primarily engaged in arrastre services. As of December 31, 2019, Star Maritima has not yet started commercial operations.

(v) Incorporated on June 27, 2018 and is engaged to purchase all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation, for purposes of selling the same on retail or wholesale locally.

(w) Incorporated on November 14, 2018 and is primarily engaged to act as cargo consolidator, to engage in the business of transporting by land natural persons and/or their baggages, cargo, goods merchandise or effects, and to own, lease or charter, offer for lease or charter or operate land vehicles such as, but not limited to buses, cars, jeeps or vans.

(x) Organized under Philippines laws and registered with SEC on August 8, 2008 as an investment holding company.

(y) Incorporated on September 25, 1997 and is primarily engaged to establish, maintain and operate commercial telephone and telecommunications systems and to engage and/or operate in the telecommunications business, and own, construct, maintain, operate, manage, install and establish commercial telecommunications multi-point domestic inter-island and international communications including coastal stations for ships-at-sea, aeronautical stations for aircraft in flight within and outside the territorial jurisdiction of Philippines, telephone, telephone exchange, video telephone system, facsimile, teleprinting, teletype, telephoto, voice/data telex, message service and other telecommunications services, experimental or amateur stations and/or terminals and associated equipment and facilities, tropospheric scatter systems, satellite service communications, microwave extensions, cable TV installation and operations, and other means now known to science, or which in the future may be developed for the reception and transmission of telecommunications services, and to conduct researches and inventions in connections therewith.

On June 27, 2019, CLC subscribed to 25% of the outstanding capital stock of Dito. Dito has not yet started commercial operations as of December 31, 2019.

(z) Incorporated on November 4, 2019 and is primarily engaged to acquire, hold, sell, exchange, deal and invest in real or personal property of all kinds, including stocks, bonds, or securities of any public or private corporation, including any government or any subdivision thereof, in the same manner and to the extent as a natural person might, could, or would do, to exercise all the rights, powers, and privileges of ownership, including the right to vote therein, or consent in respect thereof, for any and all purposes, without however managing securities, portfolio, or funds of the managed entity or firm, nor shall the corporation act as a stock dealer in securities or broker, nor engage in investment solicitation nor take investments from the public sector. The Company subscribed to 41.67% ownership interest in DHC.

DHC has not yet started commercial operations as of December 31, 2019.

CLC together with CSC, Trans-Asia, UIBV, Starlite, WSI, TSI, SFFC and their respective subsidiaries are collectively referred herein as the Group.

1.3 Approval of Consolidated Financial Statements

The consolidated financial statements of the Group as of and for the year ended December 31, 2019 (including the comparative consolidated financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Company's BOD on February 12, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. The Group presents consolidated statement of comprehensive income separate from the consolidated statement of profit or loss.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the functional and presentation currency of the Company, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using the Company's functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2019 that are Relevant to the Group

The Group adopted for the first time the following PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PFRS 16	:	Leases
PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PAS 28 (Amendments)	:	Investments in Associates – Long-term Interests in Associates and Joint Ventures
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty Over Income Tax Treatments
Annual Improvements – (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 and PFRS 11 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation

Discussed below are the relevant information about these pronouncements.

(i) PFRS 16, Leases. The new standard replaced PAS 17, Leases, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Group has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Retained Earnings for the current period. Accordingly, comparative information were not restated.

The new accounting policies of the Group as a lessee are disclosed in Note 2.17(a), while the accounting policies of the Group as a lessor, as described in Note 2.17(b), were not significantly affected.

Discussed below and in the succeeding page are the relevant information arising from the Group's adoption of PFRS 16 and how the related accounts are measured and presented on the Group's consolidated financial statements as at January 1, 2019.

a. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

b. The Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of January 1, 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.88%.

c. The Group has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Group also elected to measure the right-of-use assets at their carrying amounts as if the new standard had been applied since commencement date, but discounted using the Group's incremental borrowing rates at the date of initial application.

d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

e. For those leases previously classified as finance leases, the Group recognized the related right-of-use asset and lease liability at the date of initial application at the same amounts as the carrying amount of the capitalized asset and finance lease obligation under PAS 17 immediately before transition.

f. The Group has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:

   i. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, the Group has no onerous contracts; and,

   ii. use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the consolidated statement of financial position as at January 1, 2019.

	Notes	Carrying Amount (PAS 17) December 31, 2018	Reclassification	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
Assets:					
Other current assets	c	₱963,520,687	(₱787,500)	-	₱962,733,187
Property and equipment-net	c, e	17,303,897,157	787,500	191,795,340	17,496,479,997
Liabilities:					
Trade and other payables		3,496,662,037	(5,645,270)	-	3,491,016,767
Interest-bearing loans and borrowings	b, e	15,619,861,853	5,645,270	207,985,188	15,833,492,311
Impact on net assets			-	(₱16,189,848)	

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	Notes	
Operating lease commitments, December 31, 2018 (PAS 17)	22.3	₱338,792,650
Recognition exemptions:		
Leases with remaining term of less than 12 months		(62,624,157)
Reasonably certain extension options		16,842,704
Operating lease liabilities before discounting		293,011,197
Discount using incremental borrowing rate		(79,380,739)
Operating lease liabilities		213,630,458
Obligations from finance leases	12.4, 22.4	59,881,242
Lease liabilities, January 1, 2019 (PFRS 16)		**₱273,511,700**

(ii) *PAS 19 (Amendments), Employee Benefits – Plan Amendment, Curtailment or Settlement.* The amendments clarify that the past service cost (or the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). The standard is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured with the discount rate used in the remeasurement [also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)].

The application of the amendments did not have a material impact in the Group's consolidated financial statements.

(iii) PAS 28 (Amendments), *Investment in Associates – Long-term Interests in Associates and Joint Ventures.* The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The adoption of the amendments did not result in a material impact in the Group's consolidated financial statements as the Group's investments in associates and joint venture is accounted for using the equity method; hence, are excluded in the scope of PFRS 9.

(iv) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that for the purpose of assessing whether a prepayment feature meets the solely payments of principal and interest (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. Management has assessed that the application of the amendments did not have a material impact on the Group's consolidated financial statements.

(v) Philippine Interpretations, IFRIC 23 – *Uncertainty Over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management has assessed that the application of the interpretation did not have a material impact on the Group's consolidated financial statements.

(vi) Annual Improvements to PFRS. Annual Improvements to PFRS (2015-2017 Cycle) made minor amendments to a number of PFRS, which are effective for the annual periods beginning on or after January 1, 2019. Among those improvements, the following amendments are relevant to the Group but did not have material impact on the Group's consolidated financial statements:

(a) PAS 12 (Amendments), *Income Taxes – Tax Consequence of Dividends*. The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

(b) PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

(c) PFRS 3 (Amendments), Business Combinations and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments to clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

(b) Effective Subsequent to 2019 but not Adopted Early

There are new amendments and annual improvements that are effective for annual periods beginning after January 1, 2019. The Group will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements and PAS 8 (Amendments), Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective January 1, 2020). The amendments refine the definition of 'material' in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

(ii) PFRS 3 (Amendments), *Business Combinations – Definition of a Business* (effective January 1, 2020). The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

(iii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. The Group assessed that their current accounting policies are still appropriate under the revised framework.

(iv) PFRS 10 (Amendments), *Consolidated Financial Statements,* and PAS 28 (Amendments), *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1.2, after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting principles.

The Company accounts for its investments in subsidiaries, associates and joint venture as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when (i) it has power over the investee; (ii) it is exposed, or has rights to, variable returns from its involvement with the entity; and, (iii) has the ability to affect those returns through its power over the entity. Except for acquisitions involving entities under common ownership that are accounted for under the pooling-of-interest method, the acquisition method is applied to account for acquired subsidiaries (see Note 2.12). Subsidiaries are consolidated from the date the Company obtains control.

The Company reassesses whether or not it controls an entity if facts and circumstances indicates that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

(b) Investments in Associates

Associates are entities over which the Group is able to exert significant influence but not control and which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in an associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the Group's share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within the Other Income (Charges) account in the consolidated statement of profit or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Impairment loss is provided when there is objective evidence that the investments in associates will not be recovered (see Note 2.18).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Group, as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

(c) Investment in a Joint Venture

A joint venture pertains to a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture entity pertains to an entity whose economic activities are controlled jointly by the Group and by other venturers independent of the Group (joint venturers). Investment in joint venture is accounted for under the equity method of accounting. Under this method, the investment in joint venture is recognized at cost on initial recognition, and the carrying amount is increased or decreased to recognize the investor's share in the profit or loss of the investee after the date of the acquisition. The investor's share of the investee's profit or loss is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for a change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

The investment in a joint venture is subject to impairment testing (see Note 2.18).

(d) Transactions with Non-Controlling Interests (NCI)

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee, its chief operating decision-maker. The Executive Committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 24, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All intersegment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

(i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to officers and employees), Advances to Related Parties and Security deposits and Restricted cash presented as part of Other Current Assets and Other Non-Current Assets accounts, in the consolidated statement of financial position.

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at financial assets at FVTPL (FVTPL) if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. The Group has not made such designation.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statement of profit or loss as part of Finance Income.

(ii) Financial Assets at FVTPL

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at financial assets at FVOCI (FVOCI) at initial recognition. The Group's financial assets at FVTPL include equity securities which are designated as at FVTPL.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in as part of Finance Income in the consolidated statement of profit or loss.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) Impairment of Financial Assets

At the end of the reporting period, the Group assesses and recognized allowance for ECL on a forward-looking basis associated with its financial assets carried at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at a reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of future cash flows of the financial instruments evaluated based on a range of possible outcome.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables and other financial assets at amortized cost. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Group uses its historical experience, external indicators, forward-looking information, and other qualitative factors (including possible offsetting) to calculate the ECL using a provision matrix. The Group also assesses impairment of trade and other receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due.

For advances to related parties which all are repayable on demand, the ECLs are recognized in two stages. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures and provides for credit losses that are expected to result from default events that are possible within the next 12 months (12-month ECL). When there has been a significant increase in credit risk on a financial asset, a loss allowance is required for credit losses expected over the remaining life of exposure, irrespective of the timing of the default (lifetime ECL). Accordingly, ECLs are based on the assumption that repayment of the advances or loans is demanded at the reporting date taking into consideration the historical defaults of the related parties. Management considers if the related party has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date. For cash and cash equivalents, the Group applies low credit risk simplification and measures the ECL on the financial assets based on a 12-month ECL basis unless there has been a significant increase in credit risk since origination, in which case, the loss allowance will be based on lifetime ECL.

(c) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 *Inventories*

Inventories are carried at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisitions, such as purchase price and other taxes that are not subsequently recoverable from taxing authority is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The net realizable value of fuel and spare parts inventories is the current replacement cost.

2.7 *Property and Equipment*

Vessels are measured at fair value less accumulated depreciation, amortization and accumulated impairment losses, if any. Land is measured at cost less any accumulated impairment losses. All other items of property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred, except for periodic drydocking costs performed at least every two years on the vessel, which are capitalized (see Note 2.8).

Following initial recognition at cost, vessels are carried at revalued amounts, which are the fair values at the date of revaluations less subsequent accumulated depreciation and any accumulated impairment losses.

Revalued amounts represent fair values determined based on valuation performed by external professional appraiser every after drydocking, which is done once every two years. In addition, appraisal of vessels is conducted more frequently if market factors indicate a material change in fair value (see Note 27.4).

Any revaluation surplus is recognized in other comprehensive income and credited to the Revaluation Reserves account in the consolidated statement of financial position. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Annually, an amount from the Revaluation Reserves is transferred to Retained Earnings for the related depreciation relating to the revaluation increment. Upon disposal of the revalued assets, amount included in Revaluation Reserves is transferred to Retained Earnings.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Vessels and vessel equipment [see Note 3.2(d)]	2 to 35 years
Building	20 years
Office furniture, fixtures and equipment	2 to 10 years
Transportation equipment	2 to 5 years

Leasehold improvements are amortized over the estimated useful lives of the assets of five to ten years or the lease term, whichever is shorter.

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of these assets.

Construction-in-progress (CIP) represents vessels and properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted, if appropriate, at the end of each reporting period [see Note 3.2(d)].

An item of property and equipment, including the related accumulated depreciation and amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.8 Drydocking Costs

Drydocking costs, presented as part of Vessels and vessel equipment under the Property and Equipment account, are considered major repairs that preserve the life of the vessels. As an industry practice, costs associated with drydocking are capitalized as part of the vessel and amortized on a straight-line basis over two years or until the next drydocking occurs, whichever comes earlier (see Note 2.7). When significant drydocking expenditures occur prior to their expiry of this period, any remaining unamortized balance of the original drydocking costs is expensed in the month of subsequent drydocking.

Amortization of drydocking costs starts only when the process has been completed and the related vessel is ready for use.

The carrying amount of drydocking costs is derecognized upon derecognition of the related vessels. The computed gain or loss arising on derecognition of the vessel takes into consideration the carrying amount of drydocking costs and is included in profit or loss in the year the related vessel is derecognized (see Note 2.7).

2.9 Other Assets

Other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

2.10 Financial Liabilities

Financial liabilities, which include interest-bearing loans and borrowings, trade and other payables [except output value-added tax (VAT) and other tax-related liabilities] and advances from related parties are recognized when the Group becomes a party to the contractual terms of the instrument.

Interest-bearing loans and borrowings include loans that are raised for support of the investing activities and working capital requirements of the Group and lease liabilities. Finance charges, including direct issue costs, are charged to profit or loss, except for capitalized borrowing costs, on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.20). All other interest-related charges incurred on a financial liability are recognized as an expense in the consolidated statement of profit or loss.

Trade and other payables and advances from related parties are initially recognized at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.11 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the consolidated financial instruments.

2.12 Business Combinations

Business combination involving entities under common control are accounted for under the pooling of interest method. Under this method, the assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize new assets and liabilities.

All other business combinations are accounted for using the acquisition method. The acquisition method requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interest issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expenses as incurred and subsequent changes in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree, either at fair value or at the NCI's proportionate share of the recognized amounts of the acquiree's identifiable assets.

In cases wherein the accounting for the acquisition is not yet complete as of the end of the year, the fair value of the identifiable assets and liabilities are presented as provisionary amounts and will be adjusted upon finalization of the valuation, which is expected to be completed within 12 months from the date of acquisition.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

Negative goodwill or gain on bargain purchase, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition costs, is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.13 Advances from Customers

Advances from customers are measured at the amount of cash received from the customers under bareboat (BB) agreements and are derecognized once the related revenue transactions are consummated.

2.14 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.15 Revenue and Expense Recognition

Revenue comprises revenue from sale of goods and rendering of services measured by reference to the fair value of consideration received or receivable by the Group for services rendered, excluding VAT and discounts.

To determine whether to recognize revenue, the Group follows a five-step process:

1. identifying the contract with a customer;
2. identifying the performance obligation;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and,
5. recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

1. the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
2. each party's rights regarding the goods or services to be transferred or performed can be identified;
3. the payment terms for the goods or services to be transferred or performed can be identified;
4. the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
5. collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- the Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

The following specific recognition criteria must be met before revenue is recognized:

(a) *Freight* – Revenue from freight services pertains to the transport of cargoes (rolling, bulk or containerized) from one port to another, is recognized over time, and is generally based on a rate per cubic meter or weight of the cargo, whichever is higher, while rates for containerized cargo are based on a fixed rate per container.

(b) *Charter fees* – Revenue, which consists mainly of charter income arising from the charter hire of its vessels, is recognized based on the type of charter arrangement entered into, either under a continuing voyager charter (CVC), time charter (TC) or BB arrangement [see Note 3.1(b)].

Revenues from BB arise from the hiring of vessels for a specified period of time, with no administration or technical maintenance included as part of the agreement. This arrangements qualify as lease; hence, revenue is recognized on a straight-line basis over the term of the contract [see Note 2.16(a)(ii)].

On the other hand, revenues from TC and CVC arise from the delivery of liquid cargoes to the customers' premises such as the customers' vessels, oil depots or terminals or fuel tanks, and is recognized over time, with the distinction that in a TC, bunkering and port charges are shouldered by the customer.

(c) *Passage* – Revenue, which pertains to the transport of passengers from one port to another within the Philippines, is recognized over time and is based on the published tariff rates per passenger and route of the vessel. The duration of routes generally ranges from one to ten hours.

The Group incurs incremental commission fees paid to travel agencies for each passenger booked through such intermediary. These amounts are expensed as incurred.

(d) *Tugboat fees* – Revenue, which consist of fees arising from assisting domestic and international vessels in docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services, is recognized over time. The duration of such services normally ranges between one to four hours. Fees are based on agreed hourly rates for the use of tugboats.

The Group incurs incremental commission fees paid to intermediaries in connection with the provision of tugboat services. These amounts are expensed as incurred.

(e) *Rendering of services* – Revenue from rendering of services generally include performance of ship management and crewing services, warehousing and distribution services. Ship management and crewing services are recognized over time based on the terms of the contract which assumes that the customer receives the benefits as the Group performs the service. Warehousing revenues is generally based on a fixed rate per pallet position for ambient or fixed rate per hour for cold storage. On the other hand, distribution services are generally recognized over time when the performance of the contractually agreed-upon services have been rendered i.e., when cargoes are received by either the shipper or consignee for delivery transactions.

(f) *Standby charges* – Revenue is recognized at a point in time i.e., upon failure of the charterer to utilize/dispatch the tanker vessels within the allotted lay-time initially agreed upon with the Group.

(g) *Sale of goods* – Revenue, which primarily include sale of food and beverage items to the vessels' passengers, is recognized at a point in time i.e., when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

Revenues from TC, CVC, passage, freight, tugboat fees, and rendering of services are recognized over time when the Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

Prior to 2018, the Group recognized revenues based on the provisions of PAS 18 which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Group.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs, which are included as part of the cost of the related qualifying asset (see Note 2.20).

2.16 Leases

The Group accounts for its leases as follows:

(a) *Accounting for Leases in Accordance with PFRS 16 (2019)*

As described in Note 2.1, the Group has applied PFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under PAS 17 and IFRIC 4.

For any new contracts entered into on or after January 1, 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

(i) Group as Lessee

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.18).

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. On the consolidated statement of financial position, right-of-use assets have been included under Property and Equipment account and lease liabilities have been included under Interest-bearing Loans and Borrowings account.

(ii) Group as Lessor

The Group's accounting policy under PFRS 16 has not changed from the comparative period. As a lessor, the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

(b) Accounting for Leases in Accordance with PAS 17 (2018 and 2017)

(i) Group as Lessee

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Finance lease obligations, net of finance charges, are presented as Obligations under finance lease under Interest-Bearing Loans and Borrowings account in the 2018 consolidated statement of financial position.

Leases, which do not transfer to the Group substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(ii) Group as Lessor

Leases wherein the Group substantially transfers to the lease all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating lease is recognized at the agreed rates over the lease term.

The Group determines whether an arrangement is, or contains a lease, based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.17 Functional Currency and Foreign Currency Transactions

(a) Transactions and Balances

The accounting records of the Group, except UIBV and CSLSP, are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. The accounting records of UIBV and CSLSP are maintained in United States (U.S.) dollar.

Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss as part of Finance Income or Finance Costs.

(b) Translation of Financial Statements of Foreign Subsidiary

The operating results and financial position of UIBV and CSLSP are translated to Philippine pesos, the Company's functional and presentation currency, as presented below.

(i) Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each profit or loss account are translated at average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income under currency exchange differences on translating financial statements of foreign operations, which is included under items that will be reclassified subsequently to profit or loss.

When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the consolidated statements of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The translation of the financial statements into Philippine peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.18 Impairment of Non-financial Assets

Goodwill is tested for impairment at least annually. All other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Except for impairment losses on goodwill, an impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.19 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, periods of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability or asset recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated regularly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds as published by using the reference rates published by Bloomberg through its valuation technology, Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL rates provide evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs or Finance Income account in the consolidated statement of profit and loss.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) *Share-based Employee Compensation*

The Group grants share options to key executive officers eligible under a stock option plan. The services received in exchange for the grant, and the corresponding share options, are valued by reference to the fair value of the equity instruments granted at grant date. This fair value excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), if any. The share-based remuneration is recognized as an expense in profit or loss with a corresponding credit to Retained Earnings (Deficit).

The expense is recognized during the vesting period based on the best available estimate of the number of share options expected to vest. The estimate is subsequently revised, if necessary, such that it equals the number of options that ultimately vest on vesting date. No subsequent adjustment is made to expense after vesting date, even if share options are ultimately not exercised.

Upon exercise of the share option, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to capital stock with any excess being recorded as additional paid-in capital.

(d) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(e) *Profit-sharing and Bonus Plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(f) *Short-term Benefits*

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Trade and Other Payables account in the consolidated statement of financial position.

(g) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.20 Borrowing Costs

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.21 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.22 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Transactions amounting to more than P1.0 billion that were entered into with a related party, either individually or in aggregate value over a 12-month period with the same related party, are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transactions (RPT) may be ratified by the vote of the stockholders representing at least two-thirds of the capital stock. For aggregate RPT transactions within a 12-month period that breaches the materiality threshold of P1.0 billion, the same BOD approval would be required for the transactions that meet and exceed the materiality threshold covering the same related party.

2.23 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Revaluation reserves comprise gains and losses arising from the revaluation of the Group's vessels, remeasurements of post-employment defined benefit plan and cumulative translation adjustments on financial statements of foreign subsidiaries.

Other reserves pertain to the difference between the Company's cost of investment and the net identifiable assets of the acquired entities in a business combination accounted for under the pooling-of-interest method.

Retained earnings (deficit) represent all current and prior period results of operations as reported in the consolidated statement of profit or loss.

2.24 Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net profit (loss) attributable to the Company's stockholders by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted earnings (loss) per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Company does not have potentially dilutive shares outstanding; hence, the diluted earnings (loss) per share is equal to the basic earnings (loss) per share.

2.25 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Determination of Lease Term of Contracts with Renewal and Termination Options (2019)

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of warehouses and offices, the factors that are normally the most relevant are (a) if significant penalties should the Group pre-terminate the contract, and (b) if any leasehold improvements are expected to have significant remaining value, the Group is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Group assessed that the renewal period of certain leases of warehouses and offices should not be included in the lease term, as there is no reasonable certainty that such renewal option will be exercised. In addition, renewal options of some leases are deemed unenforceable as they depend on the mutual agreement of both lessor and lessee. Moreover, the Group also assessed that the termination option for a certain office lease is reasonably certain not to be exercised.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

(b) *Determination of Timing of Satisfaction of Performance Obligations*

In determining the appropriate method to use in recognizing the Group's revenues from TC, CVC, passage, freight, tugboat fees and rendering of services, management determines that revenue is recognized over time when the Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

On the other hand, revenues from sale of goods and stand-by charges shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer acknowledged delivery of goods.

(c) *Business Model Assessment*

The Group's classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

(d) *Assessment of Control or Significant Influence over an Investee Company*

Judgment is exercised in determining whether the Group already has significant influence or control over an entity. In assessing each interest over an entity, the Group considers the power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's return.

Management assessed that the Company only has a significant influence over KGLI-NM even though it holds an 80% economic interest in KGLI-NM as its voting rights equate only to 39.97% (see Notes 1.2 and 10). It has also considered the ability of the Group to influence the operating and financial policies of the investee, representation on the board of directors of the investee and routine participation in management decisions in making its judgment and have assessed that it could only exercise significant influence and not control over KGLI-NM.

(e) *Distinction Between Operating and Finance Leases*

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management in 2018 and prior years to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

Management has assessed that the sale and leaseback arrangement with a non-bank financing institution in 2018 is accounted for as a finance lease. All other leases are accounted for as operating lease.

In 2019, upon adoption of PFRS 16, distinction between operating and finance leases are applicable only to lease agreements as a lessor. All leases entered into as a lessee, except for those qualified under the optional exemptions as provided by the standard, are required to be recognized on-balance sheet.

(f) *Capitalization of Borrowing Costs*

The Group determines whether the amount of borrowing costs qualify for capitalization as part of the cost of the qualifying asset, or should be expensed outright. The accounting treatment for the finance costs is determined by assessing whether the asset is a qualifying asset taking into consideration the period of time to bring the asset ready for its intended use. Failure to make the right judgment will result in misstatement of assets and net profit.

(g) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.14 and relevant disclosures are presented in Note 22.

3.2 Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are presented as in the succeeding page.

(a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using reasonable rates deemed by management equal to the Group's incremental borrowing rates. In determining a reasonable discount rate, management considers the term of the lease, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) Impairment of Trade and Other Receivables, Security Deposits and Advances to Related Parties

The Group measures impairment of trade and other receivables and security deposits at an amount equal to lifetime ECL. The expected credit losses on trade and other receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors (including possible offsetting of outstanding liability with the debtor), general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

In relation to advances to related parties, PFRS 9 notes that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of these advances to related parties, which are repayable on demand, the contractual period refers only to the short period needed to transfer the cash once demanded. Management determines possible impairment based on the sufficiency of the related party's highly liquid assets in order to repay the loan if demanded at the reporting date taking into consideration the historical defaults of the related party.

(c) Determining Net Realizable Value of Inventories

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. Future realization of the carrying amounts of inventories as presented in Note 7 is affected by price changes and action from the competitors. These are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial reporting period.

(d) Estimating Useful Lives and Residual Values of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the asset. The Group also reviews the residual value of its property and equipment to ensure that the amount reflects the future economic benefits embodied in these vessels at the point of disposal.

The carrying amounts of property and equipment are analyzed in Note 9. In 2019, management revised the residual value of its vessels. This change in accounting estimate was applied prospectively, beginning January 1, 2019, and resulted in the decrease in depreciation totaling ₱103.4 million during the year and in the succeeding periods. Also, in 2018, management changed the estimated useful lives of brand new vessels from 30 to 35 years and container yards from five years to ten years. This change in accounting estimate was also applied prospectively, beginning January 1, 2018, and resulted in the decrease in depreciation of certain vessels and container yards totaling ₱58.4 million during the year and in the succeeding periods.

(e) Fair Value Measurement of Vessels and Vessel Equipment

The Group's vessels and vessel equipment, included as part of Property and Equipment, are carried at revalued amounts at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraiser applying the relevant methodologies as discussed in Note 27.4.

For the Group's vessels and vessel equipment with valuation conducted prior to the end of the reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those assets.

A significant change in the elements discussed in Note 27.4 may affect prices and the value of the assets. The amounts of revaluation recognized on the Group's vessels are disclosed in Note 9.

(f) *Determining Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2019 and 2018 will be fully utilized in the coming periods. The carrying value of deferred tax assets as of December 31, 2019 and 2018 is disclosed in Note 18.2.

(g) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that a certain vessel is impaired as of December 31, 2019. The Group has recognized impairment losses amounting to ₱7.4 million and is presented as Impairment losses on property and equipment under Cost of Sales and Services in the 2019 consolidated statement of profit or loss (see Notes 9 and 14). No impairment losses are required to be recognized on the Group's non-financial assets in 2018 and 2017.

(h) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 16.2.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2019	2018
Cash on hand and in banks	**₱362,873,262**	₱429,068,769
Short-term placements	**12,355,243**	14,427,200
	₱375,228,505	₱443,495,969

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods from 30 to 90 days and earn effective interest ranging from 1.00% to 3.50% both in 2019 and 2018.

The balances of cash on hand and in banks as of December 31, 2019 and 2018 did not include an amount of ₱20.7 million and ₱1.6 million, respectively, which is shown as Restricted cash under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 11). Such amount is not available for the general use of the Group as this is reserved for principal and interest payments for certain loans (see Note 12.1).

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2019	2018
Trade receivables	19.1, 19.3	**₱2,012,718,072**	₱1,288,836,808
Due from agencies		**172,264,135**	65,397,867
Advances to officers and employees		**20,909,146**	60,134,374
Claims receivables		**16,658,828**	16,332,854
Others		**22,689,807**	16,945,367
		2,245,239,988	1,447,647,270
Allowance for expected credit losses		**(19,504,177)**	(17,601,775)
		₱2,225,735,811	₱1,430,045,495

All of the Group's trade and other receivables have been assessed for impairment using ECL methodology. Based on the assessment made using the provisional matrix as determined by the management, adequate amounts of allowance for ECL has been provided (see Note 25.2).

A reconciliation of the allowance for ECL at the beginning and end of 2019 and 2018 is shown below.

	2019	2018
Balance at beginning of year	**₱17,601,775**	₱17,601,775
Balance from acquired subsidiary	**1,902,402**	-
Balance at end of year	**₱19,504,177**	₱17,601,775

Trade and other receivables are unsecured and do not bear any interest. All receivables, except for advances to officers and employees, are subject to credit risk exposure (see Note 25.2).

Due from agencies represent claims from authorized agencies for tickets issued to customers.

Claims receivables include charges made by the customers to the Group for claims on damages due to handling of goods and/or cargoes. These are reimbursable from the transacting agency.

Advances to officers and employees represent unsecured, noninterest-bearing cash advances for business-related expenditures and are subject to liquidation.

Certain trade receivables amounting to ₱333.2 million and ₱479.7 million as of December 31, 2019 and 2018, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans (see Note 12.1).

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account represents investments in equity securities that are listed in the PSE that have been designated by management as financial assets at FVTPL upon initial recognition. The fair values of equity securities have been determined directly by reference to quoted bid prices in active markets (see Note 27.2).

There were no changes in the fair values of financial assets at FVTPL for the years ended December 31, 2019 and 2018.

7. INVENTORIES

This account includes the following:

	Notes	2019	2018
Spare parts		**₱335,357,723**	₱164,896,119
Fuel and lubricants	19.2	**165,527,972**	216,726,685
Shipping supplies		**42,169,599**	122,627,585
Food, beverage and other supplies		**3,748,659**	20,745,196
Electrical parts		**-**	909,193
		₱546,803,953	₱525,904,778

As of December 31, 2019 and 2018, based on management's assessment, the net realizable value of all of the Group's inventories is higher than its cost.

Spare parts include inventory items such as bearings, cylinders, fuel injectors and other items used for the repair or replacement of vessel that does not meet the definition of property and equipment in accordance with PAS 16.

Costs incurred relating to these inventories, such as Bunkering, Repairs and maintenance and Supplies, are presented under the Cost of Sales and Services account in the consolidated statements of profit or loss (see Notes 14 and 15).

As of December 31, 2019 and 2018, there are no inventories pledged as security for any of the Group's liabilities as of the end of each reporting period.

8. OTHER CURRENT ASSETS

The breakdown of this account as of December 31, 2019 and 2018 follows:

	Notes	2019	2018
Input VAT		**₱328,432,137**	₱470,121,365
Deferred input VAT		**268,563,972**	155,837,184
Creditable withholding taxes		**247,937,317**	175,798,416
Prepayments		**145,954,235**	88,413,417
Deferred charges		**69,603,867**	52,091,850
Advances to suppliers		**21,918,067**	9,625,658
Restricted cash	4	**6,248,270**	-
Security deposits	19.3, 22.3	**-**	11,462,687
Others		**-**	170,110
		₱1,088,657,865	₱963,520,687

Prepayments primarily include prepaid taxes and licenses, rentals, and insurance.

Deferred input VAT pertains to the input VAT on services rendered to the Group that remains to be unpaid.

Deferred charges pertain to downpayment made to suppliers for various future projects that are under pre-development.

Restricted cash represents bank accounts that are reserved for debt service requirements in relation to certain loans of the Group (see Note 12.1)

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment loss of property and equipment at the beginning and end of 2019 and 2018 are shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture, and Equipment	Right-of-Use Assets	CIP	Total
December 31, 2019								
Cost or revalued amounts	₱1,413,263,540	₱25,044,105,607	₱182,402,234	₱228,140,385	₱162,911,778	₱1,234,591,265	₱1,280,335,958	₱29,545,750,767
Accumulated depreciation and amortization	-	(6,341,314,360)	(85,960,943)	(44,761,043)	(107,326,845)	(43,987,279)	-	(6,623,350,470)
Accumulated impairment loss	-	(7,394,742)	-	-	-	-	-	(7,394,742)
Net carrying amount	**₱1,413,263,540**	**₱18,695,396,505**	**₱96,441,291**	**₱183,379,342**	**₱55,584,933**	**₱1,190,603,986**	**₱1,280,335,958**	**₱22,915,005,555**
December 31, 2018								
Cost or revalued amounts	₱1,383,120,059	₱17,474,604,261	₱159,722,803	₱101,709,707	₱168,388,806	₱-	₱1,332,056,903	₱20,619,602,539
Accumulated depreciation and amortization	-	(3,119,163,120)	(56,951,215)	(36,449,898)	(100,926,529)	-	-	(3,313,490,762)
Accumulated impairment loss	-	(2,214,620)	-	-	-	-	-	-2,214,620
Net carrying amount	**₱1,383,120,059**	**₱14,353,226,521**	**₱102,771,588**	**₱65,259,809**	**₱67,462,277**	**₱-**	**₱1,332,056,903**	**₱17,303,897,157**
January 1, 2018								
Cost or revalued amounts	₱211,673,989	₱13,379,162,304	₱114,549,466	₱51,089,515	₱128,551,325	₱-	₱588,837,757	₱14,473,864,356
Accumulated depreciation and amortization	-	(3,004,776,365)	(46,095,605)	(30,714,077)	(86,958,008)	-	-	(3,168,544,055)
Accumulated impairment loss	-	(2,214,620)	-	-	-	-	-	(2,214,620)
Net carrying amount	**₱211,673,989**	**₱10,372,171,319**	**₱68,453,861**	**₱20,375,438**	**₱41,593,317**	**₱-**	**₱588,837,757**	**₱11,303,105,681**

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2019 and 2018 is shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Leasehold Improvements	Fixture, and Equipment	Right-of-Use Assets	CIP	Total
Balance at January 1, 2019, net of accumulated depreciation and amortization and impairment losses								
As previously stated	₱1,383,120,059	₱14,353,226,521	₱102,771,588	₱65,259,809	₱67,462,277	₱-	₱1,332,056,903	₱17,303,897,157
Effects of adoption of PFRS 16	-	-	-	-	-	192,582,840	-	192,582,840
As restated	1,383,120,059	14,353,226,521	102,771,588	65,259,809	67,462,277	192,582,840	1,332,056,903	17,496,479,997
Balance from acquired subsidiary at September 30, 2019, net of accumulated depreciation and amortization	-	944,468,427	45,030	460,523	685,519	-	33,949,699	979,609,198
Additions	30,143,481	2,805,421,415	23,769,469	125,553,740	17,744,218	1,042,008,425	1,071,988,115	5,116,628,863
Reclassification	-	1,157,658,759	-	-	-	-	(1,157,658,759)	-
Revaluation increment	-	632,951,901	-	-	-	-	-	632,951,901
Disposals - net	-	(27,825,807)	(1,392,391)	-	(4,759,369)	-	-	(33,977,567)
Impairment loss	-	(7,394,742)	-	-	-	-	-	(7,394,742)
Reversal of impairment loss	-	2,214,620	-	-	-	-	-	2,214,620
Depreciation and amortization charges for the year	-	(1,165,324,589)	(28,752,405)	(7,894,730)	(25,547,712)	(43,987,279)	-	(1,271,506,715)
Balance at December 31, 2019 net of accumulated depreciation and amortization and impairment losses	**₱1,413,263,540**	**₱18,695,396,505**	**₱96,441,291**	**₱183,379,342**	**₱55,584,933**	**₱1,190,603,986**	**₱1,280,335,958**	**₱22,915,005,555**
Balance at January 1, 2018, net of accumulated depreciation and amortization and impairment losses	₱211,673,989	₱10,372,171,319	₱68,453,861	₱20,375,438	₱41,593,317	₱-	₱588,837,757	₱11,303,105,681
Balance from acquired subsidiaries at October 30, 2019, net of accumulated depreciation and amortization	-	450,283,483	1,016,992	-	642,426	-	542,325,953	994,268,854
Additions	1,171,446,070	3,324,476,313	55,611,885	42,531,110	46,791,835	-	1,265,736,331	5,906,593,544
Revaluation increment	-	167,829,312	-	-	-	-	-	167,829,312
Reclassification	-	1,056,486,156	-	8,356,982	-	-	-1,064,843,138	-
Disposals - net	-	(194,240,296)	(2,247,690)	-	(3,354,174)	-	-	(199,842,160)
Write off drydocking costs	-	-	-	-	-	-	-	-
Depreciation and amortization charges for the year	-	(823,779,766)	(20,063,460)	(6,003,721)	(18,211,127)	-	-	(868,058,074)
Balance at December 31, 2018, net of accumulated depreciation and amortization and impairment losses	**₱1,383,120,059**	**₱14,353,226,521**	**₱102,771,588**	**₱65,259,809**	**₱67,462,277**	**₱-**	**₱1,332,056,903**	**₱17,303,897,157**

The fair values of the Group's vessels were based on the latest appraisal reports as shown below.

Name of Vessel	Date of Report	Net Appraised Values
MT Chelsea Dominance	January 22, 2020	591,114,000
MV San Nicolas of Myra	January 22, 2020	304,133,000
MT Chelsea Cherylyn	January 15, 2020	843,000,000
M/Tug Fortis IX	December 23, 2019	78,000,000
M/Tug Fortis XV	December 23, 2019	60,000,000
M/Tug Fortis III	December 16, 2019	35,000,000
M/Tug Fortis V	December 16, 2019	80,000,000
MV Starlite Pacific	November 28, 2019	33,691,000
MT Chelsea Charlize	November 20, 2019	384,970,000
MV Starlite Jupiter	November 19, 2019	27,369,000
MV Starlite Stella Del Mar	November 19, 2019	578,865,000
MV Starlite Tamaraw	November 15, 2019	21,573,000
MV Asia Philippines	November 11, 2019	73,000,000
MT BMI Patricia	July 26, 2019	55,500,000
MT Jasaan	July 27, 2019	42,500,000
MV Trans-Asia 12	July 13, 2019	95,000,000
MV Trans-Asia 5	July 11, 2019	105,000,000
MV Trans-Asia 8	July 08, 2019	100,000,000
M/Tug Fortis VI	June 27, 2019	70,000,000
M/Tug Fortis VII	June 27, 2019	58,000,000
M/Tug Fortis VIII	June 27, 2019	74,000,000
M/Tug Fortis X	June 27, 2019	85,000,000
MT Chelsea Endurance	May 30, 2019	330,000,000
MV Starlite Saturn	May 23, 2019	441,830,000
MV Starlite Annapolis	May 20, 2019	75,691,000
MV Starlite Archer	May 20, 2019	460,746,000
MV Starlite Reliance	May 20, 2019	441,975,000
MT Chelsea Denise II	March 26, 2019	442,000,000
MV Starlite Eagle	March 25, 2019	449,808,000
MV Trans-Asia 2	February 28, 2019	90,000,000
MV Trans-Asia 3	February 28, 2019	200,000,000
M/Tug Pindasan	February 1, 2019	35,787,000
M/Tug Samal	February 1, 2019	29,757,000
M/Tug Sigaboy	February 1, 2019	20,676,000
MT Chelsea Enterprise	January 31, 2019	135,000,000
M/Tug Fortis I	December 14, 2018	82,000,000
M/Tug Fortis II	December 14, 2018	80,000,000
MV Trans-Asia 3	October 23, 2018	192,785,000
MV Trans-Asia 8	October 23, 2018	174,655,000
MV Trans-Asia 10	October 23, 2018	157,378,000
MT Chelsea Intrepid	September 20, 2018	120,000,000
MV Starlite Pioneer	July 25, 2018	431,161,000
MT Ernesto Uno	May 29, 2018	152,000,000
MT Chelsea Resolute	January 10, 2018	255,000,000
MT Denise	November 11, 2017	195,000,000
MT Great Princess	May 31, 2016	1,450,000,000
MV Asia Pacific	April 27, 2016	71,000,000
MT Great Diamond	August 5, 2015	1,021,886,700

Management believes that there is no significant change in the fair values of the Group's vessels since the dates of their last appraisals.

In 2019, the Group acquired new vessels, which have not been subjected to appraisals as management believes that the acquisition costs approximate their fair values.

If the Group's vessels and vessel equipment were measured under the cost model, the cost, accumulated depreciation, accumulated impairment losses and net carrying amount as of December 31, 2019 and 2018 are as follows:

	2019	2018
Cost	**₱20,438,660,970**	₱12,836,950,468
Accumulated depreciation	**(4,391,704,916)**	(1,834,487,417)
Accumulated Impairment losses	**(7,394,742)**	(2,214,620)
Net carrying amount	**₱16,039,561,312**	₱11,000,248,431

Depreciation and amortization is classified in the consolidated statements of profit and loss as follows:

	Notes	**2019**	2018	2017
Cost of Sales and services	14	**₱1,213,397,083**	₱835,719,005	₱796,422,076
Other operating expenses		**58,109,632**	32,339,069	22,335,101
	15	**₱1,271,506,715**	₱868,058,074	₱818,757,117

Certain vessels of the Group with a total net carrying amount of ₱11,259.3 million and ₱12,059.6 million as of December 31, 2019 and 2018, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 12).

Capitalized borrowing costs amounted to ₱65.6 million and ₱71.7 million as of December 31, 2019 and 2018 and is recognized using a capitalization rate of 7.74% (see Note 12.1).

In 2019, the Group recognized impairment loss on certain property and equipment amounting to ₱7.4 million and is presented under Cost of Sales and Services account in the 2019 consolidated statement of profit or loss (see Note 14). No impairment loss on property and equipment was recognized in 2018 and 2017.

In 2019, the Group also recognized a reversal of impairment loss of certain property and equipment amounting to ₱2.2 million and is presented as Gain on reversal of impairment losses on property and equipment under the Other Income account in the 2019 consolidated statement of profit or loss. There was no similar transaction in 2018 and 2017.

As of December 31, 2018, the carrying amounts of idle property and equipment due to breakdown of the main engine gearbox of certain vessels amounted to ₱1,305.8 million. In 2019, these assets resumed its normal operations. Meanwhile, management has assessed that the cost of fully depreciated property and equipment that are still in use in operations is insignificant to the consolidated financial statements.

10. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

The carrying value of the Group's investments in associates and a joint venture as of the end of the reporting periods follows:

	2019	2018
Associates		
KGLI-NM		
Cost	**₱2,104,212,296**	₱2,104,212,296
Accumulated equity share in the total comprehensive income from previous year	**(346,960,795)**	106,087,393
Equity share in net loss	**(250,901,194)**	(453,048,188)
Equity share in OCI	**(26,478,210)**	-
	1,479,872,097	1,757,251,501
DHC - Cost	**1,041,666,665**	-
Dito		
Cost	**4,106,249,866**	-
Equity share in net loss	**(232,254,791)**	-
Equity share in stock issuance costs	**(60,265,795)**	-
	3,813,729,380	-
	6,335,268,142	1,757,251,501
Jointly controlled entity – Meridian Maritime Training Center (Meridian)	**81,001,440**	63,917,332
	₱6,416,269,582	₱1,821,168,833

On March 27, 2017, the Company acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to the Company 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna. UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, which holds 35.22% economic interest in 2GO. Hence, the Company has a 28.18% indirect economic interest in 2GO (see Note 20.1).

On May 10, 2019, the Company subscribed to 40,833,333 common shares and 22,916,666 preferred voting shares or equivalent to 25% interest of Dito's authorized capital stock for a total amount of ₱4.1 billion. Out of the subscribed shares, ₱3.6 billion worth of shares remains unpaid as of December 31, 2019 and is presented as part of Subscription payable under Trade and Other Payables in the 2019 consolidated statement of financial position (see Note 13).

On October 4, 2019, the Company subscribed to 1,041,666,665 common shares or equivalent to 41.67% interest of DHC's authorized capital stock for a total amount of ₱1.0 billion. Out of the subscribed shares, ₱781.2 million worth of shares remains unpaid as of December 31, 2019 and is presented as part of Subscription payable under Trade and Other Payables in the 2019 consolidated statement of financial position (see Note 13).

The carrying amount of the identifiable assets and liabilities of Dito and DHC upon acquisition approximate their respective fair values.

Presented below are the financial information of the Group's associates as of December 31, 2019 and 2018 (in thousands).

December 31, 2019

	KGLI-NM	DITO	DHC	TOTAL
Total current assets	₱7,846,952	₱1,323,845	₱625,000	₱9,795,797
Total non-current assets	8,555,600	12,625,137	₱-	21,480,737
Total assets	₱16,402,552	₱13,948,982	₱625,000	₱30,976,534
Total current liabilities	₱8,883,408	₱398,389	₱-	₱9,281,797
Total non-current liabilities	3,962,993	765,839	₱-	4,728,831
Total liabilities	₱12,846,401	₱1,164,228	₱-	₱14,010,628
Total revenues	₱21,409,914	₱-	₱-	₱21,409,914
Net loss	(₱890,352)	(₱929,019)	₱-	(₱1,819,371)

December 31, 2018

	KGLI-NM	DITO	DHC	TOTAL
Total current assets	₱8,469,250	₱-	₱-	₱8,469,250
Total non-current assets	8,812,080	₱-	₱-	8,812,080
Total assets	₱17,281,330	₱-	₱-	₱17,281,330
Total current liabilities	₱9,699,008	₱-	₱-	₱9,699,008
Total non-current liabilities	9,336,878	₱-	₱-	9,336,878
Total liabilities	₱19,035,886	₱-	₱-	₱19,035,886
Total revenues	₱21,060,201	₱-	₱-	₱21,060,201
Net loss	(₱1,421,373)	₱-	₱-	(₱1,421,373)

No dividends were received from the Group's associates during the years 2019, 2018 and 2017.

The Group's associates are all private companies; therefore, no quoted market prices are available for these shares.

In 2016, CSC entered into a Memorandum of Agreement with Meridian whereby both parties agreed to establish and operate a training facility on a parcel of land at the Calaca Seaport in Calaca, Batangas. The training facility shall be called the Meridian Maritime Training Center. The establishment of the facility shall have a total project cost of ₱50.0 million, which will be financed by CSC and any profits will be distributed 70% to CSC and 30% to Meridian until such time that CSC achieves 100% return on investment, after which, profit sharing will be 50% both to CSC and Meridian.

In 2019 and 2018, CSC made additional investments in the Meridian amounting to ₱17.1 million and ₱5.3 million, respectively.

No share in profit or loss was recognized from the investment in joint venture as the facility is still under construction and expenses recognized are not significant as of December 31, 2019 and December 31, 2018.

The Group does not have any restriction on the ability to access or use assets, and settle liabilities of the associates and joint venture.

As of December 31, 2019 and 2018, management believes that the investments in associates and a joint venture are not impaired.

11. OTHER NON-CURRENT ASSETS

This account is composed of the following as of:

	Notes	2019	2018
Advances to suppliers	22.9	**₱279,567,940**	₱694,861,356
Security deposits	19.3, 22.3	**136,616,637**	29,066,341
Deferred input VAT		**54,657,288**	-
Software, net of amortization		**27,753,354**	-
Restricted cash	4	**14,500,000**	1,637,081
Others		**9,243,062**	9,073,862
		₱522,338,281	₱734,638,640

Advances to suppliers include down payments made to suppliers for the acquisition of long-term assets which include vessels and parcels of land.

Security deposits include rental deposits and guarantee deposits for the Group's ongoing projects.

Software refers to computer software licenses and software development costs. Amortization amounting to ₱1.1 million was recognized in 2019 and is presented as part of Depreciation and amortization under Other Operating Expenses account in the 2019 consolidated statement of profit or loss (see Note 15).

Restricted cash represents bank accounts that are reserved for debt service requirements in relation to certain loans of the Group (see Note 12.1)

12. INTEREST-BEARING LOANS AND BORROWINGS

The short-term and long-term interest-bearing loans are broken down as follows:

	Notes	2019	2018
Current:			
Bank loans	12.2	**₱4,043,147,077**	₱4,894,210,434
Term loans	12.1	**1,924,295,582**	1,595,629,564
Lease liabilities	12.4	**111,246,482**	24,207,330
Mortgage loans	12.3	**45,811,426**	41,506,393
		6,124,500,567	6,555,553,721
Non-current:			
Term loans	12.1	**8,874,595,628**	8,889,862,811
Lease liabilities	12.4	**1,123,285,149**	35,673,912
Mortgage loans	12.3	**184,739,848**	138,771,409
		10,182,620,625	9,064,308,132
		₱16,307,121,192	₱15,619,861,853

A reconciliation of the carrying amounts of interest-bearing loans and borrowings at the beginning and end of December 31, 2019 and 2018 is shown below.

	Term Loans (see Note 12.1)	Bank Loans (see Note 12.2)	Martgage Loans (see Note 12-3)	Lease Liabilities (see Note 12.4)	Total
Balance as of January 1, 2019	₱10,485,492,375	₱4,894,210,434	₱180,277,802	₱59,881,242	₱15,619,861,853
Cash flows from financing activities:					
Additions	913,094,452	1,480,068,901	-	-	2,393,163,353
Repayments	(926,196,358)	(2,302,192,849)	(50,230,413)	(28,626,571)	(3,307,245,190)
	(13,101,906)	(822,123,948)	(50,230,413)	(28,626,571)	(914,081,837)
Non-cash financing activities:					
Balance from acquired subsidiary	335,740,741	50,000,000	-	-	385,740,741
Effect of adoption of PFRS 16	-	-	-	213,630,458	213,630,458
Additions	-	-	21,564,476	989,645,502	1,011,209,978
Reclassification	-	(78,939,409)	78,939,409	-	-
Restatement of foreign currency denominated loans	(9,240,000)	-	-	-	(9,240,000)
	326,500,741	(28,939,409)	100,503,885	1,203,275,960	1,601,341,177
Balance at December 31, 2019	**₱10,798,891,210**	**₱4,043,147,077**	**₱230,551,274**	**₱1,234,530,631**	**₱16,307,121,193**
Balance as of January 1, 2018	₱7,714,366,413	₱2,455,814,577	₱161,979,645	-	₱10,332,160,635
Cash flows from financing activities					
Additions	2,975,255,891	2,723,117,984	-	-	5,698,373,875
Repayments	(958,215,288)	(284,722,127)	(21,885,205)	(16,924,358)	(1,281,746,978)
	2,017,040,603	2,438,395,857	(21,885,205)	(16,924,358)	4,416,626,897
Non-cash financing activities					
Balance from acquired subsidiaries	777,327,956	-	-	-	777,327,956
Additions	-	-	40,183,362	76,805,600	116,988,962
Restatement of foreign currency denominated loans	(23,242,597)	-	-	-	(23,242,597)
	754,085,359	-	40,183,362	76,805,600	871,074,321
Balance at December 31, 2018	₱10,485,492,375	₱4,894,210,434	₱180,277,802	₱59,881,242	₱15,619,861,853

12.1 Term Loans

The details of the Group's term loans as of December 31, 2019 and 2018 are as follows:

	Security	Terms	Interest Rates	Outstanding Balance 2019	Outstanding Balance 2018
China Banking Corporation (CBC)	CSC shares of stocks/Continuing Suretyship	6 years	4.50%	₱1,665,000,000	₱1,800,000,000
Development Bank of the Philippines (DBP)	MT Chelsea Providence	15 years	6.50%	1,473,214,285	1,500,000,000
Philippine Business Bank (PBB)	MV Eagle, FD Exuberance MV Archer, MV Saturn	10 years	7.50%	843,799,503	976,884,263
CBC	Real Estate Mortgage	15 years	7.25%	800,000,000	-
PBB	Unsecurred	15 years	7.00%	749,689,849	800,000,000
DBP	TransAsia 16,17, and 18	15 years	6.50%	595,928,571	618,000,000
DBP	MV San Pedro Calungsod MV San Lorenzo Ruis Uno MV St. Nicholas of Myra	15 years	6.50%	532,875,621	557,526,997
DBP	MV Pioneer, MV Reliance	15 years	6.95%	529,400,000	581,880,000
PBB	MV Salve Regina	15 years	7.00%	457,097,220	460,000,000
BDO Unibank, Inc. (BDO)	TransAsia 8, TransAsia 9 TransAsia 10	10 years	4.25%	364,179,579	494,370,980
DBP	MV St. Camael and MV St. Ariel	15 years	6.50%	328,888,889	-
PBB	MV Stella Del Mar	15 years	7.00%	302,914,899	346,699,500
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	258,750,000	281,250,000
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	258,750,000	281,250,000
CTBC Bank (Phils) Inc. (CTBC)	Continuing Suretyship	5 years	6.10%	258,750,000	281,250,000
CBC	TransAsia 15	10 years	7.00%	242,129,630	200,000,000
PBB	MT Chelsea Dominance	7 years	6.06%	243,266,625	308,137,725
CBC	MT Chelsea Charlize	7 years	3.25%	236,805,333	316,344,000
PBB	MT Chelsea Endurance	7 years	6.06%	206,334,375	261,356,875
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	172,500,000	187,500,000
Rizal Commercial Banking Corp. (RCBC)	Starlite Sprint I	8 years	9.50%	113,094,452	-
BDO	MT Chelsea Denise II	5 years	6.46%	103,820,000	149,980,000
Asia United Bank (AUB)	MTug Fortis VI, Mtug Forits VII and Mtug Forits VIII	7 years	5.56%	62,539,867	70,357,350
AUB	MTug Fortis III and MTug Mtug Sigaboy	7 years	5.56%	46,464,133	56,789,496
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	MTug Pindasan, MTug Samal MTug Sigaboy	5 years	6.00% to 6.50%	-	2,321,621
				10,846,192,831	10,531,898,807
Discount on loans payable				(47,301,621)	(46,406,432)
				₱10,798,891,210	**₱10,485,492,375**

(a) *Omnibus Loan and Security Agreement (OLSA) with BDO – MT Chelsea Denise II*

In 2014, PNX-Chelsea entered into a Memorandum of Agreement (MOA) with China Shipbuilding & Exports Corporation for the importation of one unit of oil tank vessel (MT Chelsea Denise II) from China for a total cost of US$7,300,000. In connection with the MOA, PNX-Chelsea entered into another OLSA with the same local bank for ₱300.0 million to finance the acquisition of MT Chelsea Denise II in 2014. The loan is subject to effective interest rate of 6.46% per annum and is payable for a quarterly basis for five periods commencing at the end of the fourth quarter of 2015.

The outstanding loan is secured by a chattel mortgage on MT Chelsea Denise II with net carrying amount of ₱506.3 million and ₱462.5 million as of December 31, 2019 and 2018, respectively (see Note 9). In addition, the OLSA provides that PNX-Chelsea should maintain a debt-to-equity ratio of not more than 2.00:1.00 and a debt service coverage ratio (DSCR) of at least 1.00. As of December 31, 2019, the Company has not met the minimum DSCR; however, management plans to fully pay the loan in 2020, hence, it is presented as part of Current Liabilities in the 2019 consolidated statement of financial position.

(b) *Term Loan Agreement (TLA) with CBC – MT Chelsea Charlize*

On May 23, 2016, PNX-Chelsea entered into a loan agreement with CBC amounting to US$8.0 million to finance the acquisition of MT Chelsea Charlize. The loan is subject to annual interest rate of 3.25% and is payable in 24 equal quarterly installments commencing on August 23, 2017. The loan does not include any financial covenant.

Debt issuance costs amounted to ₱13.5 million, of which ₱0.3 million and ₱0.4 million was amortized in 2019 and 2018, respectively, using the effective interest rates of 5.50%. Amortized debt issuance costs was recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account in the consolidated statements of profit or loss (see Note 17.1). Unamortized debt issuance costs are deducted against the current and non-current portion of the related interest-bearing loans.

The loan is secured by a chattel mortgage on MT Chelsea Charlize with net carrying amount of ₱383.3 million and ₱429.3 million as of December 31, 2019 and 2018, respectively (see Note 9).

(c) *TLA with PBB – MT Chelsea Endurance and MT Chelsea Dominance*

On July 25, 2016 and August 18, 2016, PNX-Chelsea entered into term loan agreements with PBB amounting to US$6.5 million and US$7.6 million to finance the acquisition of MT Chelsea Endurance and MT Chelsea Dominance, respectively. On the anniversary year, these loans were converted into peso loans. The loans are subject to annual effective interest rate of 6.06% and are payable in 24 equal quarterly installments with one-year grace period from date of each release.

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totaling ₱909.0 million and ₱707.8 million, as of December 31, 2019 and 2018, respectively (see Note 9).

(d) *TLA with AUB – MTug Fortis III, MTug Fortis V, MTug Fortis VI, MTug Fortis VII and MTug Fortis VIII*

On April 12, 2017, FTC obtained interest-bearing loans amounting to ₱69.7 million to partially refinance the acquisition of MTug Fortis III and MTug Fortis V. The loan bears fixed interest rate of 5.56% and the principal is payable in 28 quarterly installments.

On October 5, 2018, FTC obtained additional interest-bearing loans amounting to ₱70.4 million from the same bank to partially refinance the acquisition of MTug Fortis VI, MTug Fortis VII, and MTug Fortis VIII. The loan bears fixed interest rate of 5.56% and the principal is payable in 28 quarterly installments.

Certain trade receivables amounting to ₱89.7 million and ₱43.4 million as of December 31, 2019 and 2018, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 5). Moreover, certain tugboats of FTC with net carrying amounts of ₱232.5 million and ₱270.0 million as of December 31, 2019 and 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9). The loans do not include any covenant.

(e) *TLA with BDO – Trans-Asia 8, 9 and 10*

In 2014, Trans-Asia availed loans from BDO for the acquisition of MV Trans-Asia 10 totaling to ₱120.0 million at an interest rate of 4.5% per annum. Also, a loan amounting to ₱79.7 million was obtained from BDO to provide financing to Oceanstar for the purchase of MV Trans-Asia 8 and 9. Principal and interest payments on these loans are made monthly. Further, Trans-Asia made additional loans from BDO totaling to ₱263.5 million in 2016 at an interest rate of 4.25% per annum. Principal payments are made monthly with a grace period of one year and interest on these loans is payable monthly in arrears.

Certain vessels with a net carrying amount of ₱156.6 million and ₱182.0 million as of December 31, 2019 and 2018, respectively, was used as collateral to secure the payment of these loans (see Note 9). These loans do not contain any covenant.

(f) *TLA with CBC – Trans-Asia 15*

On October 2, 2018, Trans-Asia obtained a long-term loan from CBC amounting to ₱200.0 million to fund its acquisition of vessels. The loan is subject to annual interest rate of 7.00% and is payable monthly in arrears up to 10 years from the initial drawdown, inclusive of one-year grace period from the date of drawdown. Principal shall be repayable in equal monthly amortizations to commence at the end of the 13th month of the drawdown.

On August 30, 2019, Trans-Asia obtained additional loan from the same bank amounting to ₱50.0 million to fund its acquisition of vessels. The loan is subject to annual interest rate of 7.00% and is payable monthly in arrears up to four years from the date of drawdown. Principal shall be repayable in equal monthly amortizations to commence at the end of the 13th month of the drawdown.

Certain vessel with a net carrying amount of ₱156.6 million and ₱182.0 million as of December 31, 2019 and 2018, respectively, was used as collateral to secure the payment of these loans (see Note 9). These loans do not contain any covenant.

(g) *TLA with UCPB and PBComm – DGMSI*

In 2014, DGMSI obtained loans from UCPB and PBComm to fund its acquisition of secondhand tugboats imported from Japan and Korea for use in the expansion of its business activity. The same loans are collateralized with three of its tugboats acquired and a time deposit placement amounting to ₱5.0 million. These loans have interest rates of ranging from 6.00% to 6.50% per annum, and are subject to annual resetting. These loans were fully settled as of December 31, 2019.

Certain vessels of DGMSI with net carrying amounts of ₱90.1 million and ₱89.8 million as of December 31, 2019 and 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9). These loans have no existing covenants.

(h) *TLA with CBC - CSC*

In 2016, the Company obtained a ₱1.8 billion loan from CBC to finance the acquisition of the outstanding shares of CSC. The loan is subject to annual interest rate of 4.50% and is payable on a lump sum basis in 181 days. The loan is secured by means of mortgage, pledge, assignment or any other form of encumbrance upon any and all properties or assets of the Company's Chairman of the BOD [see Note 19.8(a)].

In 2017, the Company converted its ₱1.8 billion bank loan to a six-year term loan with a grace period of four quarters commencing from the date of conversion. The principal is payable in quarterly installments with balloon payment at maturity and shall commence on the quarter after the grace period with the interest paid in arrears. The loan is secured by the same properties as mentioned in the initial bank loan.

The agreement requires CSC to maintain debt-to-equity ratio of not more than 3.50:1.00. As of December 31, 2019 and 2018, CSC has complied with this covenant.

(i) TLA with CTBC, MICBC, RBC and FCB – Trans-Asia

In 2017, Trans-Asia entered into a five-year loan facility agreement amounting to ₱300.0 million each with CTBC, MICBC and RBC and ₱200.0 million with FCB to bridge the facility obtained by CSC to fund the acquisition of Trans-Asia and for general working capital purposes. In the same year, Trans-Asia made a drawdown of ₱1,100.0 million loan to bridge the loan obtained by CSC in 2016. The loan is subject to annual interest rate of 6.10% and is payable on quarterly basis. Principal repayments shall be 5% of the loan in the first and second year, 15% in the third and fourth year and 60% in the fifth year of the drawdown. The agreement requires Trans-Asia to maintain debt-to-equity ratio of not more than 3:50:1:00 and a DSCR of at least 1.25.

The loan is secured by Trans-Asia shares with a carrying value of ₱525.0 million, a corporate guarantee by Udenna and individual surety of the Company's Chairman of the BOD [see Note 19.8(a)].

(j) TLA with PBB – Starlite

In 2015, Starlite entered into a 10-year term loan agreement amounting to ₱1,037.4 million with PBB to finance the acquisition of MV Eagle, MV Archer and MV Saturn. The loans are subject to a fixed interest rate of 7.5% and the principal is payable in arrears.

In 2017, Starlite obtained a 15-year term loan agreement amounting to ₱800.0 million with PBB. The loan is subject to annual interest rate of 7.0% and principal repayments including the interest shall commence on the first quarter after a grace period of one year from the date of availment. The loan does not include any covenant.

Certain vessels of Starlite with net carrying amounts of ₱1,248.2 million and ₱1,203.7 million as of December 31, 2019 and 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9).

(k) TLA with DBP - Starlite

In 2016 and 2015, Starlite entered into 15-year term loan agreements amounting to ₱306.0 million and ₱300.0 million, respectively, with DBP to finance the acquisition of MV Pioneer and MV Reliance. The loan is subject to annual interest rate of 6.95% and is payable on a quarterly basis. Principal repayments shall commence after the grace period of three periods.

Certain vessels of Starlite with net carrying amounts of ₱684.5 million and ₱753.6 million as of December 31, 2019 and 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9). The agreement also requires Starlite to maintain debt-to-equity ratio of not more than 8.00:1.00, current ratio of at least 0.50:1.00 and DSCR of at least 1.00. As of December 31, 2019 and 2018, Starlite has complied with these covenants.

(l) TLA with DBP – PNX-Chelsea

On January 25, 2018, PNX-Chelsea entered into a loan agreement with DBP amounting to ₱575.0 million to refinance the acquisition of MV San Pedro Calungsod, MV San Lorenzo Ruiz Uno and MV St. Nicholas of Myra. The loan is subject to annual interest rate of 6.50% and is payable in 60 equal quarterly installments commencing on the first quarter from the initial drawdown.

Certain trade receivables amounting to ₱18.5 million and ₱38.3 million as of December 31, 2019 and 2018, respectively, were assigned to secure payment of this interest-bearing loan (see Note 5). Moreover, certain vessels of PNX-Chelsea with net carrying amounts of ₱834.0 million and ₱565.7 million as of December 31, 2019 and 2018, respectively, were used as collateral to secure the payment of these loans (see Note 9).

The agreement requires PNX-Chelsea to maintain debt-to-equity ratio of not more than 2.34:1.00. As of December 31, 2019 and 2018, PNX-Chelsea has complied with this covenant.

(m) TLA with DBP – Trans-Asia

On May 2, 2018, Trans-Asia entered into a loan agreement with DBP amounting to ₱618.0 million to finance the acquisition of MV Trans-Asia 16, MV Trans-Asia 17 and MV Trans-Asia 18. The loan is subject to annual interest rate of 6.50% and is payable quarterly in arrears up to 15 years from the initial drawdown, inclusive of one-year grace period from the date of signing. The agreement requires Trans-Asia to maintain a DE ratio of not more than 3.50:1:00, current ratio of 1:00:1:00 and DSCR of at least 1.0.

Certain vessels of Trans-Asia with net carrying amounts of ₱1,005.7 million and ₱840.5 million as of December 31, 2019 and 2018 were used as collateral to secure the payment of these loans (see Note 9).

(n) *TLA with DBP – CSC*

On September 28, 2018, CSC entered into a loan agreement with DBP amounting to ₱1.5 billion to refinance the acquisition of one second-hand oil/chemical tanker and one second-hand floating dock. The loan is subject to annual interest rate of 6.50% and is payable quarterly in arrears up to 15 years from the initial drawdown, inclusive of one-year grace period from the date of signing. The agreement requires CSC to maintain debt-to-equity ratio of not more than 3.00:1.00 and DSCR of at least 1.00.

A certain vessel of CSC with net carrying amount of ₱1,587.7 million and ₱1,620.1 million as of December 31, 2019 and 2018, respectively, was used as collateral to secure the payment of these loans (see Note 9).

(o) *TLA with PBB – SPFI*

In 2017, SPFI entered into a loan agreement with PBB amounting to ₱368.1 million to finance the acquisition of MV Stella Del Mar. The loan is subject to annual interest rate of 7.50% and is payable quarterly in arrears up to 10 years from the initial drawdown. Principal repayments shall commence after the grace period of six quarters. The loan does not include any covenant.

The vessel of SPFI with net carrying amounts of ₱412.2 million and ₱449.7 million as of December 31, 2019 and 2018, respectively, was used as a collateral to secure the payment of this loan (see Note 9).

(p) *TLA with PBB – SGFI*

In 2018, SGFI entered into a loan agreement with PBB amounting to ₱460.0 million to finance the acquisition of MV Salve Regina. The loan is subject to annual interest rate of 6.50% and is payable quarterly in arrears up to 10 years from the initial drawdown, inclusive of one-year grace period from the date of signing. The loan does not include any covenant.

The vessel of SGFI with net carrying amounts of ₱778.8 million and ₱814.6 million as of December 31, 2019 and 2018 was used as a collateral to secure the payment of this loan (see Note 9).

(q) *TLA with RCBC – Starlite*

In 2018, Starlite entered into a loan agreement with RCBC to finance the acquisition of Starlite Sprint I. The first drawdown of ₱105.0 million is payable in equal quarterly installments up to eight years from the date of initial drawdown, i.e., July 19, 2019, inclusive of one year grace period. The loan is subject to annual interest rate based on 7-year fixed BVAL plus minimum spread of 1.50% and is payable on a quarterly basis.

The vessel of Starlite with net carrying amounts of ₱118.1 million as of December 31, 2019 was used as a collateral to secure the payment of this loan (see Note 9).

(r) *OLSA with CBC – CLC and WSI*

On August 27, 2019, CLC and WSI entered into a loan agreement with CBC to finance the acquisition of a real estate property and for the construction of a warehouse facility on the said property amounting to ₱800.0 million and ₱450.0 million, respectively. The loan is subject to a fixed interest rate of 7.25% for the first ten years and subject to repricing for the remaining five years. On the interest rate resetting date, the interest rate shall be repriced and determined based on the higher of the benchmark rate and interest spread of 250 bps, divided by the interest premium of factor of 95% or a floor rate of 7.25%. The loan is payable on a quarterly basis up to 15 years from the initial drawdown, inclusive of two-years grace period from the date of signing. As of December 31, 2019, CLC has total drawdown amounting to ₱800.0 million from the term loan facility.

Debt issuance costs amounted to ₱9.4 million were recognized as of December 31, 2019 and deducted against the current and non-current portion of the related interest-bearing loans.

The property of the Company with net carrying amount of ₱1,199.5 million as of December 31, 2019 was used as a collateral to secure payment of this loan (see Note 9). The loan agreement also requires the Company to maintain a reserve accounts specifically for payment of principal and interest; such amounts are presented as part of Restricted cash under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 11).

(s) *TLA with DBP – SFFC*

On May 20, 2016, SFFC obtained a long-term loan facility from DBP amounting to ₱370.0 million with a term of 15 years, inclusive of 1.5 years grace period, in 53 equal quarterly installments to commence at the end of the seventh quarter from the date of the initial drawdown, which can be availed through promissory note with an interest at the prevailing market rate of 6.5% to finance the construction of MV St. Ariel and MV St. Camael.

Certain vessels of SFFC with net carrying amount of ₱440.6 million as of December 31, 2019, was used as collateral to obtain this loan. In addition, SFFC is required to maintain debt-to-equity ratio not exceeding 2.30:1.00 and maintain debt service coverage ratio of at least 2.00 at each testing date. SFFC has complied with these covenants.

With regards to the loans under Note 12.1(i), (m) and (n), Trans-Asia and CSC have complied with the financial, affirmative and negative covenants for the past years except that, in 2019, Trans-Asia exceeded the agreed DE ratio and had lower than the indicated current ratio. Trans-Asia and CSC also had lower than the stated DSCR. Prior to December 31, 2019, the companies requested for the waiver of these financial covenants and management is confident that such will be approved based on the preliminary discussions with the lender banks. The companies have been up to date in its servicing of the loans and have not received any written notice, as of the date of the issuance of the consolidated financial statements, that the loans are due and demandable, which is provided for in the loan covenants as a basis to reclassify the loan to current.

Interest incurred on these loans totaling ₱569.2 million, ₱524.9 million and ₱364.0 million in 2019, 2018 and 2017, respectively, is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 17.1). Certain interest costs incurred in 2019, 2018 and 2017 were capitalized as part of Property and Equipment (see Note 9). The related unpaid interest as of December 31, 2019 and 2018 amounting to ₱57.6 million and ₱44.3 million, respectively, is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

12.2 *Bank Loans*

The details of the Group's bank loans are as follows:

	Security	Terms	Interest Rates	Outstanding Balance 2019	Outstanding Balance 2018
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 7.50%	**₱1,265,823,896**	₱2,013,768,437
UCPB	MT Chelsea Interepid				
	MT BMI Patricia	90 days	5.00% to 5.75%	**896,400,000**	920,200,000
CBC	Unsecured	60 days	6.00%	**522,163,934**	480,000,000
Landbank of the Philippines	Unsecured	90 days	9.00%	**500,000,000**	300,000,000
DBP	MT Chelsea Cherylyn	180 days	4.00% to 4.25%	**300,000,000**	300,000,000
Pentacapital	Unsecured	360 days	6.00%	**200,000,000**	400,000,000
Union Bank of the Philippines	Unsecured	360 days	4.50%	**200,000,000**	200,000,000
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	**60,300,000**	79,400,000
AUB	Unsecured	30 days	8.00%	**50,000,000**	-
BDO Unibank Inc.	Trans-Asia 1	180 days	6.50%	**48,459,247**	33,500,000
PVB	Unsecured	180 days	11.04%	**-**	167,341,997
				₱4,043,147,077	₱4,894,210,434

The bank loans were obtained to finance the drydocking of certain vessels and to support the Group's working capital requirements. These loans are secured by certain vessels owned by the Group with total net carrying amount of ₱1,842.7 million and ₱1,759.6 million as of December 31, 2019 and 2018, respectively (see Note 9). These loans do not include any covenant.

Interest incurred on these loans is presented as part of Finance costs under the Other Income (Charges) account in the consolidated statements of profit or loss (see Note 17.1). The related unpaid interest as of December 31, 2019 and 2018 is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

12.3 *Mortgage Loans*

	Security	Terms	Interest Rates	Outstanding Balance 2019	Outstanding Balance 2018
BDO	Real Estate Mortgage	10 years	6.75%	**₱173,432,009**	₱109,997,080
Chinabank Savings	Chattel Mortgage on Transporation Equipment	3 years	11.00% to 17.00%	**30,416,821**	38,503,117
AUB	Chattel Mortgage on Transporation Equipment	3 to 5 years	7.00% to 8.50%	**21,034,055**	19,991,031
RCBC	Chattel Mortgage on Transporation Equipment	3 years	7.00%	**2,261,162**	2,410,776
PNB	Chattel Mortgage on Transporation Equipment	1 year	7.30%	**1,631,211**	2,648,275
BDO	Chattel Mortgage on Transporation Equipment	3 years	8.51%	**1,069,594**	3,045,821
BPI	Chattel Mortgage on Transporation Equipment	3 years	10.28%	**706,422**	1,390,922
CBC	Chattel Mortgage on Transporation Equipment	3 years	7.00%	**-**	1,986,724
BDO	Chattel Mortgage on Transporation Equipment	3 years	6.90% to 7.53%	**-**	304,056
				₱230,551,274	₱180,277,802

Mortgage loans pertain to loans obtained by the Group to finance the acquisition of certain properties and transportation equipment. These loans bear average effective interest rates ranging from 6.50% to 17.00% both in 2019 and 2018. Interest incurred on these loans are included as part of Finance costs under the Other Income (Charges) section of the consolidated statements of profit or loss (see Note 17.1). These loans do not contain any covenant.

These loans are secured by certain properties and transportation equipment with total carrying amount of ₱351.6 million and ₱311.1 million as of December 31, 2019 and 2018, respectively (see Note 9).

12.4 *Lease Liabilities*

Lease liabilities are presented in the consolidated statement of financial position as follows:

	Notes	**2019**	2018
Lease liabilities	12.4 (b)	**₱1,234,531,631**	-
Obligations under finance lease	12.4 (a)	**-**	₱59,881,242
		₱1,234,531,631	₱59,881,242

(a) *Obligations under Finance Lease*

In 2018, the Group entered into a finance lease agreement through sale and leaseback arrangement with a local bank to seek additional funding and accommodate expenses for the acquisition of certain machinery and equipment. These finance lease agreements have effective interest rates ranging from 6.49% to 6.76% per annum, payable in 48 equal monthly payments and are secured by a chattel mortgage on the Group's machinery and equipment. The carrying value of certain machinery and equipment under finance lease amounted to ₱112.5 million as of December 31, 2018. Total interest expense incurred for the year ended December 31, 2018 is shown as part of Finance Costs under Other Income (Charges) section in the 2018 consolidated statement of profit or loss (see Note 17.1). There was no similar transaction in 2017.

As of January 1, 2019, the obligations under finance lease were presented as part of Lease liabilities due to the adoption of PFRS 16 [see Note 2.2(a)(i)(e)].

(b) *Lease Liabilities*

The Group has leases for certain offices, warehouses and related facilities, lots and vessel and vessel equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its Property and Equipment (see Note 9).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over offices and warehouse and related facilities, the Group must keep these properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognized in the 2019 consolidated statement of financial position:

	Number of right-of-use assets leased	**Range of remaining term**	**Average remaining lease term**	**Number of leases with extension options**	**Number of leases with termination options**
Warehouses and related facilities	7	1-2 years	2 years	3	-
Lot	7	2-10 years	5 years	-	-
Offices	7	2-6 years	4 years	3	1
Vessel and vessel equipment	2	2-5 years	4 years	-	-

Additional information on the lease liabilities and amounts in respect of possible future lease extension or termination options not recognized as liability are as follows:

	Warehouses and related facilities	**Lot**	**Offices**	**Vessel and vessel equipment**	**Total**
Lease liabilities	₱11,807,770	₱127,979,122	₱202,441,615	₱892,303,124	₱1,234,531,631
Number of leases with an extension option that is not considered reasonably certain of exercise	3	-	3	-	6
Additional lease liabilities that would be incurred were it to become reasonably certain that extension option would be exercised	₱9,039,292	-	₱187,363,688	-	₱196,402,980

The Group historically does not exercise its termination options. The lease termination option not recognized as part of liability, based on the lease contract, is expected to be equivalent to a certain percentage of the unrealized income of the lessor due to the termination.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of December 31, 2019 is as follows:

	Within 1 year	Less than 5 years	More than 5 years	Total
Lease payments	₱172,852,618	₱1,329,932,977	₱44,940,134	₱1,547,725,729
Finance charges	(61,606,136)	(247,985,943)	(3,602,019)	(313,194,099)
Net present value	**₱111,246,482**	**₱1,081,947,034**	**₱41,338,114**	**₱1,234,531,631**

As of December 31, 2019, the Group had not committed to any leases which had not commenced.

The Group also has elected not to recognize lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. The expenses relating to short-term leases amounted to ₱80.9 million and is presented as Rentals under Cost of Sales and Services and Other Operating Expenses in the 2019 consolidated statement of profit or loss (see Notes 14 and 15). As of December 31, 2019, the Company is committed to these short-term leases, and the total commitment amounts to ₱31.9 million.

13. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2019	2018
Trade payables	19.2	**₱4,500,451,349**	₱2,145,692,295
Subcription payable	10	**4,355,208,332**	-
Non-trade payables	19.6	**1,140,956,087**	500,000,000
Accrued expenses	12, 19.2	**342,341,676**	404,482,927
Deferred output VAT		**239,818,083**	124,808,576
Government-related obligations		**48,085,363**	196,937,914
Output VAT		**24,434,333**	28,895,294
Deferred income		**13,658,758**	-
Provisions		**707,213**	458,450
Deposits payable		**-**	1,409,371
Others		**94,264,216**	93,977,210
		₱10,759,925,409	₱3,496,662,037

Subscription payable pertains to amount of subscribed shares on the Group's investments in associates that remains unpaid as of December 31, 2019 (see Note 10).

Accrued expenses comprise amounts to be paid in relation to repairs and maintenance, fuel and lubricants, interest expense arising from loans, and professional fees rendered to the Group.

Deferred output VAT pertains to taxes payable based on VATable revenues from services rendered, which remained uncollected as of the end of the reporting periods.

14. COST OF SALES AND SERVICES

The details of this account for each of the years ended December 31 are shown below.

	Notes	2019	2018	2017
Bunkering	19.2	**₱1,983,576,307**	₱1,243,088,820	₱866,546,176
Depreciation and amortization	9	**1,213,397,083**	835,719,005	796,422,076
Salaries and employee benefits	16.1	**746,460,089**	589,964,580	363,097,068
Outside services		**290,300,325**	138,607,504	126,905,768
Repairs and maintenance		**265,835,162**	120,867,972	134,730,583
Insurance		**249,237,841**	145,620,167	129,593,972
Port expenses		**205,556,151**	148,475,361	150,630,581
Charter hire fees		**86,839,201**	240,372,627	98,368,503
Supplies		**79,411,947**	97,260,280	44,880,251
Cost of inventories sold		**69,140,884**	11,217,099	37,614,552
Taxes and licenses		**31,588,321**	30,009,605	19,945,187
Rentals	12.4, 22.3	**30,914,197**	41,043,389	12,070,650
Utilities and communication		**25,628,079**	22,801,863	9,075,640
Commission		**22,370,802**	40,772,086	30,922,895
Transportation and travel		**12,463,231**	19,191,855	13,977,232
Impairment losses on property and equipment	9	**7,394,742**	-	-
Representation and entertainment		**1,004,406**	242,596	445,624
Professional fees		**326,169**	1,829,283	1,678,765
Miscellaneous		**101,331,538**	27,657,433	25,241,841
		₱5,422,776,475	₱3,754,741,525	₱2,862,147,364

15. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the years ended December 31, 2019, 2018 and 2017 are presented below.

	Notes	2019	2018	2017
Bunkering	7, 19.2	**₱1,983,576,307**	₱1,243,088,820	₱867,597,634
Depreciation and amortization	9, 11	**1,272,582,798**	868,058,074	818,757,177
Salaries and employee benefits	16.1	**1,206,410,646**	915,416,994	556,278,918
Outside services		**351,586,902**	258,445,819	156,310,632
Repairs and maintenance	7	**279,617,365**	135,305,059	143,485,999
Insurance		**255,458,720**	149,914,746	131,132,352
Port expenses		**205,556,151**	148,475,361	150,630,581
Taxes and licenses		**169,398,443**	135,759,607	83,877,950
Supplies	7	**97,192,987**	118,923,474	58,233,572
Charter hire fees		**86,839,201**	240,372,627	98,368,503
Rentals	12.4,19.3, 22.3	**80,869,617**	78,560,530	42,592,958
Cost of inventories sold		**69,140,884**	11,217,099	37,614,552
Utilities and communication		**55,774,724**	39,975,613	29,305,379
Transportation and travel		**42,950,365**	50,245,939	35,995,891
Professional fees		**32,109,535**	33,573,889	53,393,537
Commission		**26,384,282**	53,176,152	37,080,468
Impairment losses on property and equipment	9	**7,394,742**	-	-
Representation and entertainment		**7,277,254**	22,085,995	15,438,646
Advertising and promotions		**5,623,352**	6,205,400	8,151,043
Miscellaneous	19.8(b)	**183,203,810**	146,450,530	67,574,483
		₱6,418,948,085	₱4,655,251,728	₱3,391,820,275

These expenses are classified in the consolidated statements of profit or loss as follows:

	Notes	**2019**	2018	2017
Cost of Sales and services	14	**₱5,422,776,475**	₱3,754,741,525	₱2,862,147,364
Other operating expense		**996,171,610**	900,510,203	529,672,911
		₱6,418,948,085	₱4,655,251,728	₱3,391,820,275

16. SALARIES AND EMPLOYEE BENEFITS

16.1 Salaries and Employee Benefits

The details of salaries and employee benefits for the years ended December 31, 2019, 2018 and 2017 are presented below.

	Notes	**2019**	2018	2017
Short-term employee benefits		**₱1,091,173,191**	₱781,712,606	₱456,034,336
Other employee benefits		**79,382,427**	86,363,247	46,867,344
Bonus and incentives		**22,599,370**	22,562,320	37,365,878
Post-employment benefits	16.2(b)	**13,255,658**	24,778,821	16,011,360
	15	**₱1,206,410,646**	₱915,416,994	₱556,278,918

Other benefits include profit sharing, compensated absences, and other allowances.

These expenses are classified in the consolidated statements of profit or loss as follows:

	Notes	**2019**	2018	2017
Cost of sales and services	14	**₱746,460,089**	₱589,964,580	₱363,097,068
Other operating expense		**459,950,557**	325,452,414	193,181,850
	15	**₱1,206,410,646**	₱915,416,994	₱556,278,918

16.2 Post-employment Defined Benefit

(a) Characteristics of Post-employment Defined Benefit Plan

The Group maintains a funded, non-contributory post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five periods of credited service. Normal retirement benefit is an amount equivalent to 22.5 days' pay for every year of credited service.

The post-employment defined benefit plan of Trans-Asia also provides for an early retirement for employees who have served or worked continuously for a period equivalent to the last salary for every year of service as shown below.

(i) For regular employees who were hired before December 1, 2006
- more than two periods to five periods – 7.5 days per year of service
- five periods and nine months to 10 periods – 15 days per year of service
- ten periods and nine months to 15 periods – 22.5 days per year of service
- 15 periods and nine months and above – 30 days per year of service

(ii) For regular employees who were hired starting December 1, 2006
- Five periods and nine months to nine periods – 7.5 days per year of service
- Nine periods and nine months to 15 periods – 15 days per year of service
- 15 periods and five months to 20 periods – 22.5 days per year of service
- 20 periods and nine months and above – 30 days per year of service

Further, Trans-Asia has provided its employees an opportunity to avail an advance on their retirement benefit. These can be availed by employees who were hired before December 31, 2006 and has rendered more than two periods of service to Trans-Asia and by employees who has been hired starting December 31, 2006 and has rendered at least five periods and nine months of service to Trans-Asia. The total number of periods of service of employees who availed of advance payment of a portion of his/her retirement shall be deducted with the number of periods he/she availed as advance retirement.

(b) *Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made regularly to update the post-employment benefit expense and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent professional actuaries covering the years ended December 31, 2019 and 2018.

(i) *Post-employment Benefit Asset*

The amounts of post-employment defined benefit asset of CSC and MI as of December 31, 2019 and 2018, which is recognized in the consolidated statements of financial position are determined as follows:

	2019	2018
Fair value of plan assets	**₱11,689,387**	₱48,867,276
Present value of the obligation	**(4,015,489)**	(36,566,566)
	₱7,673,898	₱12,300,710

The movements in the present value of post-employment defined benefit obligation recognized as of December 31, 2019 and 2018 are as follows:

	2019	2018
Balance at beginning of year	**₱36,566,566**	₱32,885,129
Reclassifications	**(32,551,077)**	8,472,010
Current service cost	**340,578**	6,956,458
Interest cost	**133,991**	2,357,357
Actuarial loss (gains) due to changes in:		
Financial assumptions	**438,755**	(8,660,432)
Experience assumptions	**1,291,470**	(3,524,533)
Demographic assumptions	**-**	(702,855)
Benefits paid	**-**	(1,216,568)
Balance at end of year	**₱4,015,489**	₱36,566,566

The details of the fair value of plan assets in 2019 and 2018 are presented below.

	2019	2018
Balance at beginning of year	**₱48,867,276**	₱41,456,400
Reclassifications	**(37,177,889)**	4,179,665
Contributions	**-**	3,834,532
Interest income	**752,124**	2,515,640
Return on plan assets (excluding amounts included in net interest)	**(728,606)**	(1,902,393)
Benefits paid	**-**	(1,216,568)
Balance at end of year	**₱11,689,387**	₱48,867,276

The composition of the fair value of plan assets as at December 31, 2019 and 2018 by category and risk characteristics is shown below.

	2019	2018
Cash and cash equivalents	**₱6,582**	₱5,319,102
Debt and equity securities:		
FVTPL	**4,969,471**	32,603,108
FVOCI	**6,685,919**	10,237,375
Others	**27,415**	707,691
	₱11,689,387	₱48,867,276

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of ₱0.02 million and ₱0.6 million in 2019 and 2018, respectively.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

(ii) Post-employment Benefit Obligation

The amounts of post-employment defined benefit obligation recognized in the consolidated statements of financial position are determined are determined as follows:

	2019	2018
Present value of the obligation	**₱113,011,020**	₱35,162,375
Fair value of plan assets	**(56,482,439)**	-
	₱56,528,581	₱35,162,375

The amounts of post-employment defined benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	2019	2018
Balance at beginning of year	**₱35,162,375**	₱42,261,263
Actuarial loss (gains) due to changes in:		
Financial assumptions	**23,257,102**	(2,787,177)
Experience assumptions	**(10,991,338)**	(3,212,270)
Demographic assumptions	**(3,874,107)**	(10,373,729)
Reclassifications	**32,751,497**	(9,922,505)
Balance from acquired subsidiary	**19,727,562**	-
Current service cost	**12,915,080**	17,822,363
Interest cost	**6,612,816**	1,374,430
Benefits paid from plan assets	**(2,549,967)**	-
Balance at end of year	**₱113,011,020**	₱35,162,375

The details of the fair value of plan assets in 2019 are presented below.

Balance from acquired subsidiary	₱15,896,016
Reclassification	37,201,407
Interest income	3,973,144
Contributions	222,664
Benefits paid	(1,861,753)
Remeasurements	1,050,961
Balance at end of year	₱56,482,439

The composition of the fair value of plan assets as at December 31, 2019 by category and risk characteristics is shown below.

Cash and cash equivalents	₱94,116
Debt and equity securities:	
FVTPL	51,523,907
FVOCI	4,326,052
Others	538,364
	₱56,482,439

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of ₱5.0 million in 2019. Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

(iii) *Post-employment Benefit Expense*

The amounts of post-employment benefit expense recognized in the consolidated statement of profit or loss and consolidated statements of comprehensive income in respect of the defined benefit post-employment plan are as follows:

	Notes	2019	2018	2017
Recognized in profit or loss:				
Current service cost	16.1	**₱13,255,658**	₱24,778,821	₱16,011,360
Net interest expense	17.1	**3,256,659**	1,216,147	695,650
		₱16,512,317	₱25,994,968	₱16,707,010
Recognized in other comprehensive loss:				
Net actuarial loss (gain)		**₱10,121,881**	(₱29,260,996)	(P33,236)
Return on plan assets (excluding amounts included in net interest expense)		**(322,355)**	1,902,393	1,351,100
	20.2	**₱9,799,526**	(₱27,358,603)	₱1,317,864

Current service cost is allocated and presented in the consolidated statements of profit or loss under the following accounts:

	Notes	2019	2018	2017
Cost of sales and services	14	**₱9,531,215**	₱11,116,253	₱6,094,866
Other operating expense		**3,724,443**	13,662,568	9,916,494
	16.1	**₱13,255,658**	₱24,778,821	₱16,011,360

The net interest expense incurred related to the post-employment defined benefit obligation is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 17.1).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation as at December 31, 2019 and 2018, the following actuarial assumptions were used:

	2019	2018
Discount rates	**5.10% - 7.40%**	5.70%
Expected rate of salary increase	**4.60% - 5.20%**	7.40%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 21 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in cash and cash equivalents, debt and equity securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) *Sensitivity Analysis*

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2019 and 2018.

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2019			
Discount rate	+/- 1.0%	(₱10,682,360)	₱13,180,776
Salary growth rate	+/- 1.0%	12,234,856	(10,090,930)
December 31, 2018			
Discount rate	+/- 1.0%	(₱5,607,191)	₱6,275,243
Salary growth rate	+/- 1.0%	6,477,769	(5,569,717)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the consolidated statements of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the plan assets as of December 31, 2019 and 2018 consists of equity and debt securities. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are in a diversified portfolio of local blue chip entities.

There has been no change in the Group's strategies to manage its risks from the previous period.

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2019 and 2018, the plan is underfunded by ₱48.8 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 21 periods' time when a significant number of employees is expected to retire.

The Group expects to make contribution of ₱2.4 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within the next ten years from December 31, 2019 and 2018 follows:

	2019	2018
One to five years	**₱54,175,096**	₱42,489,272
More than five years but not more than ten years	**74,055,162**	74,866,629
	₱128,230,258	₱117,355,901

17. OTHER INCOME (CHARGES)

17.1 Finance Costs

The details of this account for the years ended December 31, 2019, 2018 and 2017 are shown below.

	Notes	**2019**	2018	2017
Interest expense on :				
Interest-bearing loans	12	**₱1,150,536,861**	₱761,501,452	₱507,291,749
Lease liabilities		**63,248,608**	-	-
Deficiency income taxes		**6,951,794**	14,216,262	-
Post-employment benefits	16.2(b)	**3,256,659**	1,216,147	695,650
		1,223,993,922	776,933,861	507,987,399
Bank charges		**1,985,420**	2,255,468	5,956,372
Foreign currency exchange losses – net		**-**	56,198,815	-
Impairment loss		**-**	-	3,035,462
Others		**64,024**	-	-
		₱1,226,043,366	₱835,388,144	₱516,979,233

17.2 *Finance Income*

The breakdown of this account for the years ended December 31, 2019, 2018 and 2017 are shown below.

	2019	2018	2017
Foreign currency exchange gains	**₱21,547,320**	-	₱5,526,564
Interest income	**3,209,084**	3,626,087	4,875,196
Gain on sale and leaseback	**-**	2,927,596	-
	₱24,756,404	₱6,553,683	₱10,401,760

17.3 *Other Income*

Presented below are the details of other income for the years ended December 31, 2019, 2018 and 2017.

	Notes	**2019**	2018	2017
Handling and trucking		**₱80,228,836**	₱71,878,889	₱ 34,729,429
Gain on sale of property and equipment		**30,909,664**	1,326,971	-
Rental income	19.3, 22.2	**5,102,526**	16,524,911	7,422,943
Gain on reversal of impairment losses on property and equipment	9	**2,214,620**	-	-
Rebates		**-**	11,000,086	14,828,417
Insurance claims		**-**	-	62,784,384
Miscellaneous		**38,891,141**	37,871,559	24,156,358
		₱157,346,787	₱138,602,416	₱143,921,531

Handling and trucking pertains to excess customer charges over amounts payable to various truckers.

Rebates pertain to the share of Trans-Asia on all cargo handling charges based on the Cebu Port Authority Tariff rates.

Miscellaneous includes gain on sale of scrap materials, excess customer charges over baggage, beddings and other services.

18. TAXES

18.1 *Registration with the Board of Investments (BOI)*

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Great Diamond and MT Chelsea Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, the Group is entitled to tax and non-tax incentives, which include a six-year income tax holiday (ITH). Meanwhile, the tax incentive for MT Great Diamond started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered activities.

In 2018 and 2017, PNX-Chelsea's BOI registration of MT Chelsea Dominance and MT Chelsea Charlize, which commenced in November 2016 and September 2015, respectively, for a period of four years, was transferred to the Group following its acquisition. The tax and non-tax incentives of MT Chelsea Dominance and MT Chelsea Charlize are similar to that of MT Great Princess and MT Chelsea Denise II.

Starlite had registered MV Archer, MV Saturn, MV Eagle, MV Reliance and MV Pioneer which commenced in March 2017, August 2016, May 2016, April 2016 and December 2015, respectively, for a period of four years. In 2019, Starlite had registered MV Starlite Sprint 1, which commenced on September 2019 for a period of four years.

SPFI had also registered MV Stella Del Mar on April 2017 for a period of four years. SGFI had also registered MV Salve Regina, MV Stella Maris, MV Trans-Asia 20 in November 2018, June 2019 and December 2019, respectively, for a period of four years.

In 2019, Trans-Asia had also registered MV Trans-Asia 19, which commenced in January 2019 with a period of four years.

SFFC had also registered MV St. Camael and MV St. Sariel, which commenced on July 2017 for a period of four years.

As a registered entity, Starlite, SPFI, SGFI, Trans-Asia and SFFC are entitled to tax and non-tax incentives, which includes a four-year ITH. ITH incentives shall be limited only to the revenues generated by the registered activities.

18.2 Current and Deferred Taxes

The components of tax income as reported in the consolidated statements of profit and loss and other comprehensive income are shown below.

	2019	2018	2017
Recognized in profit or loss:			
Regular corporate income tax	**₱26,069,160**	₱142,356,824	₱154,047,913
Minimum corporate income tax (MCIT)	**2,102,988**	136,292	806,885
Final tax at 20% and 7.5%	**595,334**	362,177	763,600
	28,767,482	142,855,293	155,618,398
Deferred tax income relating to origination and reversal of temporary differences	**(169,506,384)**	(214,451,915)	(269,484,924)
	(₱140,738,902)	(₱71,596,622)	(₱113,866,526)
Recognized in other comprehensive income — Deferred tax expense relating to origination and reversal of temporary differences	**₱159,150,294**	₱58,556,375	₱3,139,645

The reconciliation of tax on pretax profit (loss) computed at the applicable statutory rate to tax income reported in the consolidated statements of profit or loss is as follows:

	2019	2018	2017
Tax on pretax profit (loss) at 30%	**(₱291,749,971)**	(₱186,638,873)	₱14,205,959
Adjustments for income subjected to lower tax rates	**(52,725)**	(121,908)	(549,211)
Tax effects of:			
Nondeductible expenses	**181,694,015**	173,996,511	30,684,374
Nontaxable income	**(19,512,974)**	-	-
Net profit on BOI-registered activities	**(11,117,247)**	(57,360,493)	(36,538,741)
Benefit from previously unrecognized deferred tax assets (DTA)	**-**	(3,518,372)	-
Derecognition of unutilized DTA	**-**	3,357,615	9,918,118
Gain on bargain purchase	**-**	(1,311,102)	-
Pre-acquisition income	**-**	-	31,612,733
Deductible expenses charged to APIC	**-**	-	(169,579,640)
Unrecognized DTA on Net Operating Loss Carry Over (NOLCO)	**-**	-	3,782,582
Excess of optional standard deduction	**-**	-	2,597,300
	(₱140,738,902)	(₱71,596,622)	(₱113,866,526)

The net deferred tax assets of the Company and certain subsidiaries pertain to the following:

	2019	2018
NOLCO	**₱493,264,822**	₱393,628,519
Revaluation reserves on property and equipment	**(128,995,682)**	(123,064,147)
Post-employment benefit obligation	**11,678,604**	5,451,771
Capitalized borrowing costs	**(6,972,952)**	(7,069,055)
MCIT	**3,818,851**	5,883,572
Impairment losses on trade and other receivables	**1,162,230**	2,507,974
Accrued expenses	**890,150**	72,000
Unamortized past service cost	**315,557**	-
Unrealized foreign currency exchange losses – net	**-**	4,948,745
Impairment losses on property and equipment	**-**	611,054
Others	**-**	375,132
	₱375,161,580	₱283,345,565

The net deferred tax liabilities of certain subsidiaries as of December 31, 2019 and 2018 are as follows:

	2019	2018
Revaluation reserves on property and equipment	**(₱168,049,371)**	(₱100,009,056)
Revaluation surplus on disposed vessel	**(3,036,983)**	(3,036,983)
Impairment losses on long-term financial assets	**2,721,268**	2,721,268
Post-employment benefit obligation	**2,448,967**	1,857,339
Accrued expenses	**2,057,831**	2,057,831
NOLCO	**410,883**	14,197,287
Provisions	**137,535**	137,535
Impairment losses on trade and other receivables	**51,291**	51,291
Unrealized foreign currency exchange gains – net	**4,490**	4,490
MCIT	**-**	224,834
Others	**(677,264)**	(677,264)
	(₱163,931,353)	(₱82,471,428)

The net deferred tax income (expense) reported in the consolidated statements of profit or loss and consolidated statements of comprehensive income is shown below.

	2019		**2018**		**2017**	
	Profit or Loss	**Other Comprehensive Income**	**Profit or Loss**	**Other Comprehensive Income**	**Profit or Loss**	**Other Comprehensive Income**
Deferred tax income (expense):						
Revaluation reserves of vessels	₱89,662,657	(₱163,634,508)	₱77,836,409	(₱50,348,794)	₱8,528,446	(₱3,549,886)
NOLCO	85,849,899	-	129,206,015	-	262,600,813	-
Unrealized foreign currency loss - net	(4,948,745)	-	5,536,625	-	(6,636,437)	-
Post-employment benefit obligation	2,334,247	4,484,214	5,715,571	(8,207,581)	4,940,882	395,359
MCIT	(2,289,555)	-	(2,414,707)	-	189,554	-
Impairment loss on receivables	(1,345,744)	-	-	-	910,639	-
Others	243,625	-	(1,247,998)	-	(995,641)	14,882
	₱169,506,384	**(₱159,150,294)**	₱214,631,915	(₱58,556,375)	₱269,538,256	(₱3,139,645)

The details of the Group's NOLCO and MCIT are shown below.

Year	Original Amount	Applied in Previous Periods	Applied in Current Peiod	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2019	₱426,330,880	-	-	-	₱426,330,880	2022
2018	461,300,595	-	79,006	-	461,221,589	2021
2017	895,541,094	21,134,127	116,373,754	-	758,033,213	2020
2016	18,417,131	18,417,131	-	-	-	2019
	₱1,801,589,701	**39,551,258**	**₱116,452,760**	**-**	**₱1,645,585,683**	
MCIT:						
2019	₱2,102,988	-	-	-	₱2,102,988	2022
2018	942,908	-	-	-	942,908	2021
2017	772,955	-	-	-	772,955	2020
2016	4,392,543	-	1,744,011	2,648,532	-	2019
	₱8,211,394	**-**	**₱1,744,011**	**₱2,648,532**	**₱3,818,851**	

The Group is subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher.

In 2019 and 2018, the Group opted to claim itemized deductions in computing for its income tax due. In 2017, Trans-Asia, FTC and DGMSI opted to claim OSD; all other entities in the Group claimed itemized deductions.

19. RELATED PARTY TRANSACTIONS

The Group's related parties include Udenna, related parties under common ownership, associates, the Group's key management personnel and stockholders.

A summary of the Group's transactions with its related parties for the years ended December 31, 2019, 2018 and 2017 and the related outstanding balances as of December 31, 2019 and 2018 is presented below.

Related Party Category	Notes	Amounts of Transactions			Outstanding Balances	
		2019	2018	2017	**2019**	2018
Parent –						
Cash advances granted	19.4	**(₱2,283,754,735)**	₱518,714,995	₱2,428,234,009	**₱663,194,269**	₱2,946,949,004
Associate –						
Chartering of services rendered	19.1	**237,132,921**	376,645,369	69,405,000	**18,525,327**	38,277,400
Related parties under common ownership:						
Chartering of services rendered	19.1	**987,960,089**	680,403,799	531,535,742	**305,378,198**	185,639,320
Fuel purchases	19.2	**1,769,113,489**	1,504,293,849	363,571,237	**(1,050,164,518)**	(67,824,287)
Acquisition of SFFC's shares	19.6	**650,000,000**	-	-	**(640,956,087)**	-
Acquisition of CSC's shares	19.6	**-**	-	-	**(500,000,000)**	(500,000,000)
Rental income	19.3	**3,003,290**	5,072,938	5,044,967	**-**	571,219
Rental expense	19.3	**644,065**	2,825,746	2,295,681	**(57,748)**	(408,341)
Donation	19.8(b)	**360,000**	360,000	360,000	**(30,000)**	(210,000)
Cash advances granted	19.4	**(29,548,339)**	120,405,421	(194,446,078)	**151,057,866**	180,606,205
Cash advances obtained	19.4	**1,078,717,998**	(1,004,673,484)	955,012,897	**(1,114,816,666)**	(36,098,668)

The Group's outstanding receivables with related parties were subjected to impairment testing using PFRS 9's ECL model (see Note 25.2).

Unless otherwise stated, the outstanding receivables and payables from and to related parties are unsecured, noninterest-bearing and are generally settled in cash upon demand or through offsetting arrangement with the related parties.

19.1 Charter Fees and Standby Charges

The Group entered into chartering agreements with PPPI, a related party under common ownership, and 2GO, an associate, which are made on the same terms as those transactions with third parties. The amounts of revenue recognized are presented as part of Charter fees and Standby charges under the Revenues section of the consolidated statements of profit or loss. The related outstanding receivable as of December 31, 2019 and 2018 is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest as the credit terms range from 30 to 45 days. Further, no impairment loss was recognized on the outstanding receivables from related parties as of December 31, 2019 and 2018 based on management's assessment.

19.2 Fuel Purchases

The Group purchases fuel and lubes from PPPI, a related party under common ownership. Fuel consumed is included as part of Bunkering under the Cost of Sales and Services account in the consolidated statements of profit and loss (see Note 14) while the remaining fuel and lubricants inventory amounting to ₱165.5 million and ₱216.7 million as of December 31, 2019 and 2018, respectively, are included as part of the Inventories account in the consolidated statements of financial position (see Note 7). The outstanding liability, which are unsecured, and do not bear any interest as the credit terms range from 30 to 90 days, arising from these transactions as of December 31, 2019 and 2018 is presented as part of Trade payables and Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

19.3 Rentals

The Group entered into a one-year contract of lease covering vehicles with Valueleases, Inc., a related party under common ownership. Related expense is presented as part of Rentals under Other Operating Expenses in the consolidated statements of profit or loss (see Note 15). The outstanding security deposits arising from this transaction is presented as part of Security deposits under the Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 22.3).

Furthermore, the Group bills a related party under common ownership for their corresponding share on the office space rent. Income from this transaction is presented as part of Rental income under the Other Income (Charges) section of the consolidated statements of profit or loss (see Note 17.3). The related receivable as of December 31, 2018, is presented as part of Trade receivables under the Trade and Other Receivables account in the 2018 consolidated statement of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest and are normally due within 30 days. No impairment loss was recognized on the outstanding receivables from these transactions as management has determined that such financial assets are fully collectible.

19.4 *Advances to and from Related Parties*

In the normal course of business, the Group grants and obtains unsecured, noninterest-bearing cash advances to and from its related parties mainly for working capital requirements and to bridge financing of vessel acquisitions pending draw down of related loans.

As of December 31, 2019 and 2018, the outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position. These advances have no repayment terms and are payable in cash on demand or through offsetting arrangement with the related parties.

The movement of Advances to Related Parties in 2019 and 2018 follows:

	2019	2018
Balance at beginning of year	**₱3,127,555,209**	₱2,488,434,793
Net advances (collections)	**(2,313,303,074)**	639,120,416
Balance at end of year	**₱814,252,135**	₱3,127,555,209

Based on management's assessment, no impairment loss is recognized in 2019 and 2018 related to the advances granted to related parties (see Note 25.2).

The movement in the Advances from Related Parties account in 2019 and 2018 follows:

	December 31, 2019	December 31, 2018
Balance at beginning of year	**₱36,098,668**	₱1,040,772,152
Net advances (payments)	**1,078,717,998**	(1,004,673,484)
Balance at end of year	**₱1,114,816,666**	₱36,098,668

19.5 *Transactions with Post-employment Benefit Plan*

The Group's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in cash and cash equivalents, equity and debt securities, with fair value totaling ₱68.2 million and ₱48.9 million as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Group's retirement fund do not include any investments in any debt or equity securities issued by the Group or any of its related parties.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 16.2.

19.6 *Acquisition of CSC and SFFC's Shares*

On November 24, 2016, the Company acquired all of the outstanding shares of CSC from PPPI, a related party under common ownership, for a total consideration of ₱2.0 billion. The carrying amounts of the consolidated assets and liabilities of CSC at the time of acquisition amounted to ₱8.4 billion and P5.4 billion, respectively. The excess of the net identifiable assets over the acquisition price is presented as Other Reserves under the Equity section of the consolidated statements of financial position (see Note 20.3).

On October 9, 2019, the Company acquired all of the outstanding shares of SFFC from 2GO for a total consideration of ₱650.0 million. The carrying amounts of the total assets acquired and liabilities assumed at the time of acquisition amounted to ₱1,124.1 million and ₱545.8 million, respectively. The excess of the acquisition price over the net identifiable assets is presented as part of Goodwill account in the 2019 consolidated statement of financial position (see Note 23).

As of December 31, 2019 and 2018, the outstanding liability from these transactions amounting to ₱1,141.0 million and ₱500.0 million, respectively, is presented as Non-trade payables under the Trade and Other Payables account in the consolidated statement of financial position (see Note 13).

19.7 Key Management Personnel Compensation

The Group's key management personnel compensation includes short-term benefits and post-employment defined benefits and are included as part of Salaries and employee benefits under the Other Operating Expenses account in the consolidated statements of profit or loss (see Note 16).

19.8 Others

(a) Certain interest-bearing loans of the Group were secured by a corporate guarantee of Udenna and by certain stockholders through a continuing surety agreement with the respective banks (see Note 12).

(b) The Group granted donations amounting to ₱0.4 million in 2019, 2018 and 2017 to Udenna Foundation, Inc., a non-stock, non-profit organization, established by Udenna. This is presented as part of Miscellaneous under the Other Operating Expenses account in the consolidated statements of profit and loss (see Note 15).

20. EQUITY

20.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2019	2018	**2019**	2018
Authorized - ₱1 par value	**2,000,000,000**	2,000,000,000	**₱2,000,000,000**	₱2,000,000,000
Issued and outstanding				
Balance at beginning and end of period	**1,821,977,615**	1,821,977,615	**₱1,821,977,615**	₱1,821,977,615

As of December 31, 2016, 500,000,000 shares have been subscribed amounting to ₱500.0 million, of which ₱150.0 million have already been collected. Subscription receivable amounting to ₱350.0 million as of December 31, 2016 was fully collected in 2017.

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to CLC 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna (see Note 10). In addition, the Group recognized APIC amounting to ₱5,272,615,385.

On July 11, 2017, the SEC issued an Order approving the Registration Statement covering the securities, which comprised the Company's outstanding capital stock. On August 8, 2017, the Company's shares were listed in the PSE and the trading of offer shares commenced. The Company offered to the public 546,593,000 primary shares at an offer price of ₱10.68 per share for a total gross proceeds of ₱5.8 billion. In addition, the Group recognized the APIC amounting to ₱4,725,754,772, net of issuance costs amounting to ₱565,265,468. As at December 31, 2019 and 2018, the Company's listed shares closed at ₱5.50 and ₱6.46 per share, respectively.

20.2 *Revaluation Reserves*

The components and reconciliation of items of other comprehensive income presented in the consolidated statements of changes in equity at their aggregate amount under the Revaluation Reserves account are shown below.

	Revaluation of Property and Equipment (see Note 9)	Gain or Loss on AFS Financial Asset	Actuarial Gain or Loss on PBO (see Note 16.2)	Share in OCI of Associates and a Joint Venture (see note 10)	Cumulative translation adjustments	Total
Balance as of January 1, 2019	**₱1,334,617,413**	**-**	**₱53,959,943**	**₱108,049,607**	**₱1,242,692**	**₱1,497,869,655**
Revaluation increment	632,951,901	-	-	-	-	632,951,901
Remeasurements of post-employment benefit obligation	-	-	(9,799,526)	(26,478,210)	-	(36,277,736)
Currency exchange differences on translating financial statements of foreign operations	-	-	-	-	(715,045)	(715,045)
Other comprehensive income before tax	632,951,901	-	-9,799,526	-26,478,210	-715,045	595,959,120
Tax income (expense)	(163,634,508)	-	4,484,214	-	-	-159,150,294
Other comprehensive income after tax	469,317,393	-	-5,315,312	-26,478,210	-715,045	436,808,826
Transfer to retained earnings - Depreciation of revalued tankers	(157,642,430)	-	-	-	-	(157,642,430)
Balance at December 31, 2019	**₱1,646,292,376**	**-**	**₱48,644,631**	**₱81,571,397**	**₱527,647**	**₱1,777,036,051**
Balance as of January 1, 2018	₱1,287,281,993	-	₱34,808,921	₱108,049,607	(₱223,517)	₱1,429,917,004
Revaluation increment	167,829,312	-	-	-	-	167,829,312
Remeasurements of post-employment benefit obligation	-	-	27,358,603	-	-	27,358,603
Currency exchange differences on translating financial statements of foreign operations	-	-	-	-	1,466,209	1,466,209
Other comprehensive income before tax	167,829,312	-	27,358,603	-	1,466,209	196,654,124
Tax income (expense)	(50,348,794)	-	(8,207,581)	-	-	(58,556,375)
Other comprehensive income after tax	117,480,518	-	19,151,022	-	1,466,209	138,097,749
Transfer to retained earnings - Depreciation of revalued tankers	(70,145,098)	-	-	-	-	(70,145,098)
Balance at December 31, 2018	₱1,334,617,413	-	₱53,959,943	₱108,049,607	₱1,242,692	₱1,497,869,655
Balance as of January 1, 2017	₱1,335,232,117	₱34,725	₱35,731,425	-	-	₱1,370,998,267
Remeasurements of post-employment benefit obligation	-	-	(1,317,864)	-	-	(1,317,864)
Disposal of AFS financial assets	-	(49,607)	-	-	-	(49,607)
Revaluation increment	67,317,920	-	-	108,049,607	-	175,367,527
Pre-acquisition other comprehensive income	(55,484,964)	-	-	-	-	(55,484,964)
Currency exchange differences on translating financial statements of foreign operations	-	-	-	-	(223,517)	(223,517)
Other comprehensive income before tax	11,832,956	(49,607)	(1,317,864)	108,049,607	(223,517)	118,291,575
Tax income (expense)	(3,549,886)	14,882	395,359	-	-	(3,139,645)
Other comprehensive income after tax	8,283,070	(34,725)	(922,505)	108,049,607	(223,517)	115,151,930
Transfer to retained earnings - Depreciation of revalued tankers	(56,233,193)	-	-	-	-	(56,233,193)
Balance at December 31, 2017	₱1,287,281,994	-	₱34,808,920	₱108,049,607	(₱223,517)	₱1,429,917,004

20.3 *Other Reserves*

Other reserves amounting to ₱1.0 billion pertain to the excess of the net identifiable assets of CSC amounting to totaling ₱3.0 billion over the Company's acquisition price of ₱2.0 billion. The business combination entered was accounted for under the pooling-of-interest method (see Note 19.6).

20.4 *Non-controlling Interest*

The balance as at December 31, 2019 and 2018 represents preferred shares subscription of certain individuals in Trans-Asia. These shares are non-voting and redeemable at the option of Trans-Asia.

20.5 *Employee Stock Option Plan*

On February 13, 2019, the BOD of the Company approved an Employee Stock Option Plan (the ESOP) covering all regular employees with at least one year of service from the date of grant. This was subsequently ratified by stockholders holding at least two-thirds of the outstanding capital stock on March 15, 2019. The objective of the ESOP is to recognize the loyalty, dedication and exemplary performance of the employees of the Company, thereby encouraging long-term commitment to the Company.

Under the ESOP, the Company shall initially reserve for exercise of stock options up to 56.3 million common shares of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares, 66.67% of which were granted to existing employees as of the initial offering date (IOD) while the remaining 33.33% is reserved for employees hired after the IOD. Stock options may be granted within five years from the adoption of the ESOP and may be exercised within 10 years from the date of grant. The exercise price shall be based on the volume weighted average price of the Company 30 days prior to the IOD. The options shall vest for a period of one to five years from the initial offering date. The Company shall receive cash for the stock options.

As of December 31, 2019, pursuant to the ESOP, the Company has granted the option to its eligible employees to subscribe to 37.6 million shares of the Company. An option holder may exercise in whole or in part his vested option, provided that, an option exercisable but not actually exercised within a given year shall accrue and may be exercised at any time thereafter but prior to the expiration of said option's life cycle. No options have vested as at December 31, 2019.

21. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings for profit (loss) attributable to the Company's stockholders are computed as follows:

	2019	2018	2017
Net profit (loss)	**(₱831,761,000)**	(₱550,532,956)	₱161,219,723
Divided by weighted average shares outstanding	**1,821,977,615**	1,821,977,615	1,309,830,939
Earnings (Loss) per share – basic and diluted	**(₱0.457)**	(₱0.302)	₱0.123

In relation to the approved ESOP for eligible employees, the options exercisable by any of the option holders are considered as potentially anti-dilutive shares as at the end of December 31, 2019. There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2019 and 2018; hence, diluted earnings per share is equal to the basic earnings per share.

22. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

22.1 Charter Agreements

The Group has existing commitments to charterers under TC, CVC, and BB agreements, which ranges from two to five years, for the use of its vessels in transporting oil products for a fixed period. Also associated with these charter agreements is the obligation to keep the Group's vessels in good working condition and compliant with all the shipping regulations as required by the Maritime Industry Authority.

22.2 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering certain office spaces in 2019 and 2018. The leases have terms from one to five years, with renewal options, and include annual escalation from 5.0% to 10.0%. Commitments amounted to ₱635,685 as of December 31, 2018, and is expected to be settled within a year. As of December 31, 2019, the Group does not have operating lease commitments as a lessor as the leases have already expired during the year.

Rent income amounted to ₱5.1 million, ₱16.5 million and ₱7.4 million in 2019, 2018 and 2017, respectively, and is presented as part of Other income account under Other Income (Charges) – net section of the consolidated statements of profit and loss (see Note 17.3).

The Group also entered into BB agreements, which qualifies as a lease. Income recognized under BB agreements amounted to ₱152.4 million, ₱157.4 million and ₱130.7 million in 2019, 2018 and 2017, respectively. These are presented as part of Charter fees under Revenues in the consolidated statements of profit or loss. Commitments relating to these agreements as of December 31, 2019 and 2018 are as follows:

	2019	2018
Within one year	**₱155,082,336**	₱161,854,224
After one year but not more than five years	**161,544,100**	330,452,374
	₱316,626,436	₱492,306,598

22.3 Operating Lease Commitments – Group as Lessee (2018)

The Group is a lessee under lease covering the usage of vessels, container yards, certain office and warehouse spaces. The leases have terms ranging from five to ten years, with renewal options, and includes annual escalation rate of 3.0% to 10.0%. The future minimum lease payables under this operating lease are as follows as of December 31, 2018:

Within one year	₱105,661,233
More than one year but not more than five years	156,174,921
More than five years	76,956,496
	₱338,792,650

The related security deposit on this operating lease amounted to ₱81.2 million and ₱11.5 million as of December 31, 2019 and 2018, respectively, and is shown as part of Security deposits under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 11).

22.4 Finance Lease Commitments – Group as Lessee (2018)

The Group has finance leases covering certain machinery and equipment with terms maturing in 2021. The future minimum lease payment (MLP) under finance leases together with the present value (PV) of net minimum lease payments (NMLP) as of December 31, 2018 follows:

	MLP	PV of NMLP
Within one year	₱29,808,914	₱24,207,330
After one year but not more than five years	39,414,096	35,673,912
	69,223,010	59,881,242
Amounts representing finance charges	(9,341,768)	-
	₱59,881,242	**₱59,881,242**

Total liability relating the finance lease is shown as part of Interest-bearing Loans and Borrowings in the 2018 consolidated statement of financial position (see Note 12.4).

22.5 Legal Claims

In 2016, Trans-Asia was a defendant of a litigation related to the sinking of MV Asia South Korea. The Regional Trial Court had provided a decision to award the plaintiffs of the case a total of ₱8.9 million for four casualties and 11 survivors. The Group's legal counsel has advised that it is probable that Trans-Asia will be found liable; hence, a provision for the claim has been made in the consolidated financial statements. On August 9, 2017, Trans-Asia and the plaintiffs signed a compromise agreement whereby Trans-Asia paid ₱8.8 million.

In October 2017, three other complainants of the similar litigation that was filed against the Company related to a dispute with passengers for the sinking of M/V Asia South Korea signed a compromise agreement with the Company to which Trans-Asia paid ₱0.5 million. A provision for the claim with probable settlement amount of ₱0.8 million has been made in the consolidated financial statements. On June 1, 2018, Trans-Asia and the two plaintiffs signed a compromise agreement whereby Trans-Asia paid ₱0.2 million. The outstanding liability is presented as part of Provisions under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

22.6 Unused Lines of Credit

As of December 31, 2019 and 2018, the Group has unused lines of credit amounting to ₱64.0 million and ₱409.6 million, respectively.

22.7 Mergers and Acquisitions

On June 28, 2018, the Company received the Philippine Competition Commission's (PCC) Decision, which declared void the Company's acquisition of Trans-Asia in 2016 for failure to comply with the notification requirements of the PCC. A penalty of ₱22.8 million was imposed by PCC against the Company and Udenna. On the same date, in its Decision regarding the Company's acquisition of additional direct shareholdings in KGLI-NM and consequent consolidation of ownership over 2GO, the PCC upheld said acquisition on account that the Trans-Asia acquisition had been declared void.

On July 13, 2018, the Company filed its Motion for Reconsideration of the June 28, 2018 Decision of the PCC on the Trans-Asia acquisition, and on July 18, 2018, it filed its Motion for Partial Reconsideration of the PCC Decision on the KGLI-NM acquisition wherein it prayed that it be allowed to proceed with the transaction without the PCC's imposed condition voiding the acquisition of Trans-Asia.

Subsequently, on September 5, 2018, the Company received the order of the PCC setting the Trans-Asia and the KGLI-NM acquisitions for joint hearing on September 17, 2018. At said hearing, the Company's Chairman, Dennis A. Uy, confirmed that the Company intends to proceed with the acquisition of Trans-Asia and that it agrees to be bound by the PCC's conditions and remedies to address the competition concerns arising from the Trans- Asia acquisition.

On September 21, 2018, the Company and Trans-Asia filed their separate Notification Forms on the Trans-Asia acquisition. Subsequently, in its October 4, 2018 Resolution, the PCC ruled that the Company's Motion for Reconsideration of the June 28, 2018 Decision is denied for being moot. In the same Resolution, the PCC reduced the penalty earlier imposed on Udenna and the Company to 1% of the Trans-Asia transaction or ₱11.4 million.

On October 9, 2018, the Notice of Sufficiency from the PCC regarding the Notification Forms for the Trans-Asia acquisition was received and the Company paid the imposed penalty on October 10, 2018.

On October 19, 2018, the Company filed its Voluntary Commitments for the Trans-Asia acquisition and on January 11, 2019, the PCC resolved that it will not take further action on the said acquisition on the basis of the conditions provided in the Voluntary Commitments submitted by the Company. The Voluntary Commitments submitted by the Company include among others, price monitoring of passenger and cargo rates, submission of semi-annual reports on all trips of passenger and cargo services in the critical routes, explanation of all extraordinary rates increases in the critical routes, and maintenance of service quality of passenger and cargo routes based on customer satisfaction index developed by a third party monitor.

On October 7, 2019, the Company, Trans-Asia and 2GO filed a Joint Manifestation and Compliance stating that the Parties are unable to comply with the Voluntary Commitments and, as a result, PCC ordered the setting aside of the Decision approving the Trans-Asia acquisition and reverting the transaction to merger review.

On October 25, 2019, the Company received the Request for Information / Documents issued by the PCC on the Trans-Asia acquisition, and on November 26, 2019, the PCC issued another order requiring the submission of additional documents / information largely pertaining to 2Go, which were both complied with by the Company.

Management is optimistic that it will be able to comply with the requirements of the PCC regarding the Trans-Asia acquisition, and that the pending matter will not have an adverse effect on the operations and financial condition of the Group.

22.8 Shipbuilding Agreements

On April 25, 2018, the Group signed two shipbuilding contracts for the delivery of two 98-meter bed/seat Ro-Ro type passenger ferry ships presently identified as Builder's Nos. S-1190 and S-1191. These ferry ships will be built at Kegoya Dock's shipyard in Hiroshima Prefecture, Japan. S-1190 was delivered on October 2019 while S-1199 will be delivered on April 2020. As part of these shipbuilding agreements, the Group has paid an amount equivalent to ₱1,128.9 million and ₱180.6 million in 2019 and 2018, respectively, and is presented as part of Vessels and vessel equipment and CIP under the Property and Equipment account of the consolidated statement of financial position (see Note 11). Total capital commitments amounted to ₱576.5 million and ₱1,886 million as of December 31, 2019 and 2018, respectively.

Also, on June 20, 2019, the Company signed another shipbuilding agreement for the construction of a 123-m Bed/Seat Ro-Ro type passenger vessel. This vessel will be built in Fukuoka Shipyard and will be delivered in June 2021. As part of the shipbuilding agreement, the Group has initially paid ₱71.7 million and is presented as part of CIP under the Property and Equipment account of the 2019 consolidated statement of financial position.

22.9 Warehouse Construction

On September 19, 2019, the Group entered into a Construction Contract with a general contractor to undertake the construction of its central distribution warehouse for a total amount of ₱390.2 million, exclusive of VAT. As part of the agreement, the Group initially paid 15% mobilization fees and is included as part of Advances to suppliers under the Other Non-Current Assets account in the 2019 consolidated statement of financial position (see Note 11).

22.10 Others

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations which have not been reflected in the Group's consolidated financial statements. Management is of the opinion that losses, if any, from other commitments and contingencies will not have material effects on the Group's consolidated financial statements.

23. GOODWILL

Goodwill recognized primarily comprises the value of expected synergies from the acquisition of the subsidiaries as part of the Group's expansion and is derived by deducting the fair values of the net assets acquired as of the date of acquisition from the amount of consideration paid. The movements of this account as of December 31 are as follows:

	2019	2018
Balance at beginning of year	**₱5,641,434,544**	₱5,637,918,869
Additions due to business combinations	**71,688,064**	3,515,675
Balance at end of year	**₱5,713,122,608**	₱5,641,434,544

(a) *2019 Acquisitions*

On October 9, 2019, the Company acquired 100% ownership interest in SFFC for a total consideration amounting to ₱650.0 million. The following are the provisional fair values of the identifiable assets acquired and liabilities assumed from this subsidiary as at the date of acquisition:

Cash	₱40,417,324
Trade and other receivables	6,233,897
Inventories	10,395,342
Other current assets	28,545,381
Property and equipment - net	979,609,198
Other non-current assets	58,861,116
Trade and other payables	(160,009,581)
Interest-bearing loans	(385,740,741)
	₱578,311,937

The excess of the acquisition costs over the net assets of SFFC amounting to ₱71.7 million is presented as part of Goodwill in the 2019 consolidated statement of financial position. The accounting for this business combination was determined provisionally as the Company is still finalizing the fair valuation of the assets acquired.

The revenues and net loss of SFFC that were included in the 2019 consolidated financial statements amounted to ₱205.2 million and ₱14.7 million, respectively.

(b) *2018 Acquisitions*

On October 22 and August 10, 2018, the Company acquired 100% ownership interest in SPFI and SGFI, respectively, for a total consideration amounting to ₱90.6 million and ₱14.2 million, respectively. The fair values of the identifiable assets acquired and liabilities assumed from these subsidiaries as at the date of acquisition are presented below.

	SFPI	SGFI	Total
Cash and cash equivalents	₱12,731,674	₱2,603,783	₱15,335,457
Trade and other receivables	25,930,140	910,938	25,841,078
Inventories	3,151,286	128,334	3,279,620
Property and equipment	451,942,901	542,325,953	994,268,854
Other non-current assets	986,754	122,850	1,109,604
Trade and other payables	(82,476,819)	(75,366,829)	(157,843,648)
Interest-bearing loans	(317,249,752)	(460,0789,204)	(777,327.956)
Net Assets	**₱95,016,184**	**₱10,646,825**	**₱105,663,009**

The excess of acquisition costs over the net assets of SGFI amounting to ₱3.5 million is presented as part of Goodwill account in the consolidated statements of financial position.

In addition, the fair values of the identifiable assets and liabilities assumed from SPFI as at the date of acquisition were determined to be higher than the total cost; hence, the Group recognized a gain amounting to ₱4.4 million and is presented as Gain on bargain purchase under Other Income (Charges) section of the 2018 consolidated statement of profit or loss.

The revenues and net profit (loss) of SPFI and SGFI that were included in the 2018 consolidated financial statements are as follows:

2018	SPFI	SGFI	Total
Revenues	₱9,000,000	₱16,500.000	₱125,135,813
Net Profit (Loss)	₱4,963,842	₱7,752,864	₱4,051,247

(c) *2017 Acquisitions*

On March 27, November 8 and November 9, 2017, the Company acquired 100% ownership interest in UIBV, WSI and Starlite, respectively, for a total consideration of ₱6,048.0 million, ₱600.0 million and ₱1,677.8 million, respectively. The fair values of the identifiable assets acquired and liabilities assumed from these subsidiaries as at the date of acquisition were as follows:

	UIBV	WSI	Starlite	Total
Cash and cash equivalents	₱25,508,842	₱65,588,642	₱88,983,637	₱180,081,121
Trade and other receivables	765,659	63,365,673	844,057,036	908,188,368
Prepayments and other current assets	-	4,936,396	89,270,689	94,207,085
Property and equipment	-	13,864,952	2,301,692,380	2,315,557,332
Investment in associate	2,104,212,296	-	-	2,104,212,296
Other non-current assets	-	5,614,686	11,470,799	17,085,485
Trade and other payables	-	(18,282,601)	(360,025,772)	(378,308,373)
Interest-bearing loans	-	(7,561,112)	(2,446,689,650)	(2,454,250,762)
Other non-current liabilities	-	(6,025,955)	(18,663,921)	(24,689,876)
Net Assets	**₱2,130,486,797**	**₱121,500,681**	**₱510,095,198**	**₱2,762,082,676**

The excess of acquisition costs over the net assets of UIBV, WSI and Starlite amounting to ₱3,917.4 million, ₱478.5 million and ₱1,167.7 million, respectively, is presented as part of Goodwill account in the consolidated statements of financial position.

The revenues and net profit recognized by UIBV, WSI and Starlite at the date of acquisition were as follows:

	UIBV	WSI	Starlite	Total
Revenues	-	₱192,467,905	₱786,745,751	₱979,213,656
Net Profit	-	₱45,611,439	₱59,764,337	₱105,375,776

In prior years, the Company acquired 100% ownership interest in BMI and MI. The fair value of the net assets of BMI and MI as of the acquisition date amounted to ₱21.6 million and ₱1.1 million, respectively. As such, goodwill amounting to ₱10.4 million for BMI and ₱63.9 million for MI representing excess of purchase price over the fair value of their respective net assets and net liabilities was recognized in the consolidated statements of financial position.

Goodwill is subject to annual impairment testing as required under PAS 36. Management used different approaches in determining the recoverable amount of the recorded Goodwill.

Management's impairment analysis for Starlite and WSI were based on discounted cash flows based on each cash generating unit's five-year financial projections using each entity's weighted average cost of capital as the discount rate. The weighted average cost of capital of SFI and WSI were computed based on the capital asset pricing model. Further, the impairment analysis generally assumes inflation rate of 6.00% and terminal growth rate of 3.74%, which was based on the forecasted Philippine long-term growth rate. Revenue projections were based on the capacities of existing and projected capital expenditures within the five-year period. Management also assessed that the entities will continue as going concern entities and will have sufficient financial resources to finance its working capital requirements to achieve its projected forecast and to support its business needs.

On the other hand, the Company engaged a third party consultant to perform an independent impairment testing of goodwill for UIBV. The third party consultant used market-based valuation methodologies based on the subsidiary's five year financial forecasts and used industry data and comparable metrics. Among these were trading analysis using comparable shipping and logistics companies that are publicly-listed within the Association of Southeast Asian Nations and analysis of precedent majority and minority stake transactions within the comparable industry in the Southeast Asian region. The third party consultant's valuation report was dated October 31, 2018 and management has assessed that there is no significant change since the date of the report.

Based on these analyses, management has assessed that no impairment of goodwill is required to be recognized as of December 31, 2019 and 2018.

24. SEGMENT INFORMATION

24.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

(a) Tankering services is involved in the conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind;

(b) Tugboats services is involved in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors and other waterways between the various ports of the Philippines;

(c) Roll-on/roll of passenger shipping services is involved in the transport of passengers and cargoes within Philippine territorial waters and/or high seas;

(d) Distribution and warehousing services is involved in the logistics services such as but not limited to cargo freight forwarding (air, land and sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crating, etc.;

(e) Ship management and crewing services is involved in the business of ship management and in providing full and partial crewing for domestic and foreign vessels; and,

(f) Investing and other activities include holding companies.

Segment accounting policies are the same as the policies described in Note 2.4.

24.2 Segment Assets and Segment Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

24.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation and combination in 2019, 2018 and 2017.

24.4 *Analysis of Segment Information*

The tables below present revenue and profit information regarding business segments for the years ended December 31, 2019 and 2018 and 2017 and assets and liabilities information regarding segments as at December 31, 2019 and 2018.

	Investing and Other Activities	**Tankering**	**Tugboats**	**Roll-on/ Roll-off Passenger**	**Distribution and Warehousing**	**Ship Management and Crewing**	**Elimination**	**Consolidated**
2019								
SEGMENT RESULTS								
Sales to external customers	-	₱1,978,682,852	₱338,321,437	₱4,056,243,693	₱458,661,865	₱141,634,496	-	₱6,973,544,343
Intersegment sales	388,311,679	-	80,156,825	10,200,000	-	455,525,924	-934,194,428	0
Total revenues	388,311,679	1,978,682,852	418,478,262	4,066,443,693	458,661,865	597,160,420	-934,194,428	6,973,544,343
Cost of sales and services	-	1,605,856,363	316,032,833	3,355,107,460	251,712,924	439,949,644	-545,882,749	5,422,776,475
Other operating expenses	198,804,313	245,629,481	56,023,539	629,915,848	125,861,244	130,591,698	-390,654,512	996,171,610
Operating profit (loss)	189,507,366	127,197,008	-33,734,935	71,220,385	81,087,697	26,619,078	2,342,833	554,596,258
Finance costs	(86,935,787)	(569,335,493)	(9,678,457)	(552,882,476)	(3,693,143)	(3,518,011)	-	(1,226,043,366)
Share in net income of an associate	(483,155,985)	-	-	-	-	-	-	(483,155,985)
Finance income	6,434,559	9,499,865	9,184	8,298,430	439,044	75,322	-	24,756,404
Other income	72,528,076	156,049,682	5,400,089	124,498,767	420,547	2,792,459	-204,342,833	157,346,787
Profit (loss) before tax	(301,621,771)	(276,588,938)	(38,004,118)	(348,864,894)	78,254,145	25,968,848	(202,000,000)	(972,499,902)
Tax expense (income)	34,126,083	(115,350,578)	16,370,749	(116,460,090)	28,002,742	12,572,192	-	(140,738,902)
Net profit (loss)	**(₱353,517,885)**	**(₱161,238,360)**	**(₱54,374,867)**	**(₱232,404,804)**	**₱50,251,403**	**₱13,396,656**	**(₱202,000,000)**	**(₱831,761,000)**
SEGMENT ASSETS AND LIABILITIES								
Total assets	**₱19,924,076,266**	**₱14,818,151,787**	**₱1,249,471,699**	**₱16,108,395,993**	**₱457,694,586**	**₱472,657,869**	**(₱16,381,459,024)**	**₱36,648,989,177**
Total liabilities	**₱6,200,252,653**	**₱10,287,822,825**	**₱606,525,683**	**₱13,780,104,720**	**₱242,400,788**	**₱174,210,951**	**(₱7,095,895,831)**	**₱24,195,421,789**
2018								
SEGMENT RESULTS								
Sales to external customers	-	1,757,891,739	333,938,349	2,718,512,313	286,904,889	74,784,753	-	5,172,032,043
Intersegment sales	270,600,136	-	27,561,495	-	-	343,386,758	(641,548,389)	0
Total revenues	270,600,136	1,757,891,739	361,499,844	2,718,512,313	286,904,889	418,171,511	(641,548,389)	5,172,032,043
Cost of sales and services	-	1,280,255,117	236,836,409	2,108,489,121	156,265,142	343,843,989	(370,948,253)	3,754,741,525
Other operating expenses	213,688,403	303,991,393	66,622,200	467,902,115	63,339,429	59,400,047	(274,433,385)	900,510,203
Operating profit (loss)	56,911,733	173,645,228	30,479,740	142,121,077	67,300,318	14,927,475	3,833,249	516,780,315
Finance costs	(67,130,802)	(472,419,797)	(5,063,296)	(287,529,810)	(1,708,695)	(1,535,744)	-	(835,388,144)
Share in net income of an associate	(453,048,188)	-	-	-	-	-	-	(453,048,188)
Finance income	260,327	551,970	120,186	4,787,732	822,973	10,495	-	6,553,683
Gain on bargain purchase	4,370,340	-	-	-	-	-	-	4,370,340
Other income	2,422,448	13,497,623	126,180	125,223,180	-	1,166,233	(3,833,249)	138,602,416
Profit (loss) before tax	(456,214,142)	(284,724,975)	25,662,810	(15,397,821)	66,414,596	14,568,459	0	(622,129,578)
Tax expense (income	8,087,094	(107,518,851)	16,698,734	(14,857,071)	20,138,887	5,854,585	-	(71,596,622)
Net profit (loss)	**(₱464,301,236)**	**(₱177,206,124)**	**₱8,964,076**	**(₱540,750)**	**₱46,275,709**	**₱8,713,874**	**-**	**(₱550,532,956)**
SEGMENT ASSETS AND LIABILITIES								
Total assets	**₱19,079,431,497**	**₱14,365,262,097**	**₱1,116,384,381**	**₱9,796,950,150**	**₱288,718,724**	**₱138,661,865**	**(₱12,494,153,390)**	**₱32,291,255,323**
Total liabilities	**₱4,949,434,237**	**₱9,708,083,288**	**₱583,364,648**	**₱8,065,317,881**	**₱115,344,703**	**₱118,707,818**	**(₱4,173,950,458)**	**₱19,366,302,118**
2017								
SEGMENT RESULTS								
Sales to external customers	-	1,227,036,207	261,321,170	2,180,760,492	240,049,535	-	-	3,909,167,404
Intersegment sales	203,293,982	-	12,473,814	-	-	204,735,092	(420,502,888)	0
Total revenues	203,293,982	1,227,036,207	273,794,984	2,180,760,492	240,049,535	204,735,092	(420,502,888)	3,909,167,404
Cost of sales and services	-	1,053,472,689	147,451,363	1,569,346,286	125,538,141	183,547,791	(217,208,906)	2,862,147,364
Other operating expenses	60,674,201	189,548,416	50,077,935	247,416,585	34,357,486	39,948,017	(92,349,729)	529,672,911
Operating profit (loss)	142,619,781	(15,984,898)	76,265,686	363,997,621	80,153,908	(18,760,716)	(110,944,253)	517,347,129
Other income (charges) - net	(54,433,571)	(209,382,650)	(11,591,672)	(84,700,326)	(1,181,265)	(272,925)	(3,055,747)	(364,618,156)
Profit (loss) before pre-acquisition income and tax	88,186,210	(225,367,548)	64,674,014	279,297,295	78,972,643	(19,033,641)	(114,000,000)	152,728,973
Pre-acquisition income	-	-	-	(59,764,337)	(45,611,439)	-	-	(105,375,776)
Profit (loss) before tax	88,186,210	(225,367,548)	64,674,014	219,532,958	33,361,204	(19,033,641)	(114,000,000)	47,353,197
Tax expense (income)	(196,012,113)	(43,543,308	21,622,850	84,176,814	23,963,290	(4,074,059)	-	(113,866,526)
Net profit (loss)	**₱284,198,323**	**(₱181,824,240)**	**₱43,051,164**	**₱135,356,144**	**₱9,397,914**	**(₱14,959,582)**	**(₱114,000,000)**	**₱161,219,723**

The Group earned revenues from a certain related party, accounting for 14%, 13% and 13% of the total consolidated revenues of the Group in 2019, 2018 and 2017 (see Note 19.1).

24.5 Disaggregation of Revenues from Contracts with Customers

When the Group prepares its investor presentations and when the Group's Executive Committee evaluates the financial performance of the operating segments, it disaggregates revenue similar to its segment reporting as presented in Note 24.4. The Group determines that the categories used in the investor presentations and financial reports used by the Group's Executive Committee can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Tankering services segment mainly pertains to revenues from charter fees and standby charges, while tugboats services segment refers to revenues from tugboat fees. Roll-on/roll of passenger shipping services segment includes revenues from passage and freight, while distribution and warehousing, and ship management and crewing services segments pertain to revenues from rendering of services. All revenues presented in the segment information are recognized over time, except for those arising from standby charges amounting to ₱93.5 million and ₱24.0 million in 2019 and 2018, respectively, and sale of goods amounting to ₱127.6 million and ₱36.0 million in 2019 and 2018, respectively, which are recognized at point in time and those arising from BB agreements amounting to ₱149.8 million and ₱157.3 million in 2019 and 2018, respectively, which qualifies as a lease (see Note 2.16).

25. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to its financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 26. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its parent Company, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Group is exposed to are described below.

25.1 Market Risks

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's cash, trade and other receivables and interest-bearing loans, which are denominated in U.S. dollars.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets and financial liabilities, translated into Philippine pesos at the December 31, 2019 and 2018 closing rates follow:

	2019	2018
Financial assets	**₱2,433,568**	₱10,647,346
Financial liabilities	**(236,805,333)**	(316,344,000)
Net exposure	**(₱234,371,765)**	(₱305,696,654)

If the Philippine peso had strengthened against the U.S. dollar, loss before tax in 2019 and 2018 would have decreased by ₱30.4 million and ₱39.6 million, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have increased loss before tax in 2019 and 2018, respectively, by the same amount. This sensitivity of the net result for the period assumes a +/- 12.97% and +/- 12.95% change of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2019 and 2018, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in 12 months for 2019 and 2018 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

(b) *Interest Rate Sensitivity*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At December 31, 2019 and 2018, the Group is exposed to changes in market interest rates through cash in bank and certain bank borrowings which are subject to variable interest rates (see Note 12). All other financial assets and financial liabilities have either fixed interest rates or are noninterest-bearing.

Cash in banks are tested on a reasonably possible change of +/- 0.68% and +/- 0.54% in 2019 and 2018, respectively. Bank loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.46% and +/- 0.23% in 2019 and 2018, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous twelve months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/- ₱3.3 million and +/-₱1.9 million for the years ended December 31, 2019 and 2018, respectively.

25.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example, by granting advances and rendering services to customers and related parties and by placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. Also, it is the Group's policy that all customers are subject to credit verification procedures.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position as summarized below.

	Notes	**2019**	2018
Cash and cash equivalents	4	**₱375,228,505**	₱443,495,969
Trade and other receivables – net (excluding advances to officers and employees)	5	**2,204,826,665**	1,369,911,121
Restricted cash	8, 11	**20,748,270**	1,637,081
Security deposits	8, 11	**136,616,637**	40,529,028
Advances to related parties	19.4	**814,252,135**	3,127,555,209
		₱3,551,672,212	₱4,983,128,408

None of the financial assets are secured by collateral or other credit enhancements, except for cash and trade and other receivables as described below.

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash are cash and cash equivalents which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of ₱0.5 million for every depositor per banking institution.

The Group applies the PFRS 9 simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade receivables and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2019 and 2018, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at December 31, 2019 and 2018 was determined based on months past due, as follows for trade receivables (see Note 5).

	Current	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	Total
December 31 , 2019					
Expected loss rate					
Gross carrying amount -	0.00%	0.00%	0.00%	11.37%	
trade receivables	919,964,891	504,236,808	416,947,104	171,569,269	2,012,718,072
Loss allowance	-	-	-	19,504,177	19,504,177
December 31, 2018					
Expected loss rate					
Gross carrying amount -	0.00%	0.00%	0.00%	13.35%	
trade receivables	910,679,168	192,273,740	54,062,333	131,821,567	1,288,836,808
Loss allowance	-	-	-	17,601,775	17,601,775

No additional impairment was recognized in relation to the Group's trade receivables as the historical loss rates from existing customers are low and deemed insignificant. The Group also considers the existence of financial liabilities, which may be offset against the outstanding trade receivables with the same counterparty. Financial assets past due for more than three months pertain mostly to the trade receivables from PPPI. The management believes that such receivables are not impaired as it may be offset against the Group's outstanding liabilities to PPPI. For due from agencies and claims receivable, no impairment losses were also recognized as these are assessed to be recoverable as there were no historical defaults from the authorized transacting agencies.

The credit risk for security and other deposits is also considered negligible as the Group has ongoing lease agreements with the counterparties and the latter are considered to be with sound financial condition and sufficient liquidity.

Furthermore, the Group's advances to related parties are repayable on demand and the contractual period refers only to the short period needed to transfer the cash once demanded. Management determines possible impairment based on the related party's ability to repay the advances upon demand at the reporting date, taking into consideration historical defaults from the related parties. Management assessed that the outstanding advances from related parties as of December 31, 2019 and 2018 are recoverable since these the related parties were assessed to have a capacity to pay the advances upon demand and there were no historical defaults. Hence, no impairment is necessary.

25.3 *Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for short-term and long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Funding for short-term and long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2019, the Group's financial liabilities, excluding lease liabilities, have contractual maturities which are presented below.

		Current		Non-current	
	Notes	Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	12	₱3,652,965,371	₱2,765,901,031	₱8,007,417,469	₱3,348,327,507
Trade and other payables (except for government-related obligations)	13	10,191,038,037	-	-	-
Advances from related parties	19.4	557,408,333	557,408,333	-	-
		₱14,401,411,741	**₱3,323,309,364**	**₱8,007,417,469**	**₱3,348,327,507**

As at December 31, 2018, the Group's financial liabilities have contractual maturities which are presented below.

		Current		Non-current	
	Notes	Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	12	₱5,673,981,385	₱1,130,501,732	₱9,740,720,792	₱2,408,802,755
Trade and other payables (except for government-related obligations)	13	3,146,020,255	-	-	-
Advances from related parties	19.4	18,049,334	18,049,333	-	-
		₱8,838,050,974	**₱1,148,551,065**	**₱9,740,720,792**	**₱2,408,802,755**

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

26. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

26.1 *Carrying Amounts and Fair Values by Category*

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

		2019		2018	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets:					
At amortized cost:					
Cash and cash equivalents	4	**₱375,228,505**	**₱375,228,505**	₱443,495,969	₱443,495,969
Trade and other receivables - net	5	**2,204,826,665**	**2,204,826,665**	1,369,911,121	1,369,911,121
Restricted cash	8,11	**20,748,270**	**20,748,270**	1,637,081	1,637,081
Security deposits	8,11	**136,616,637**	**136,616,637**	40,529,028	40,529,028
Advances to related parties	19.4	**814,252,135**	**814,252,135**	3,127,555,209	3,127,555,209
Financial Assets at FVTPL - Equity securities	6	**3,947,736**	**3,947,736**	3,947,736	3,947,736
		₱3,555,619,948	**₱3,555,619,948**	₱4,987,076,144	₱4,987,076,144
Financial Liabilities -					
At amortized cost:					
Trade and other payables	13	**₱10,191,038,037**	**₱10,191,038,037**	3,146,020,255	₱3,146,020,255
Interest-bearing loans	12	**16,307,121,192**	**16,307,121,192**	15,619,861,853	15,619,861,853
Advances from related parties	19.4	**1,114,816,666**	**1,114,816,666**	36,098,668	36,098,668
		₱27,612,975,895	**₱27,612,975,895**	₱18,801,980,776	₱18,801,980,776

See Notes 2.5 and 2.10 for the description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 25.

26.2 *Offsetting of Financial Assets and Financial Liabilities*

The Group has not set off financial assets and financial liabilities in 2019 and 2018 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instruments may have the option to settle on a net basis in the event of default of one of the parties through approval by the respective BOD and stockholders of both parties or upon instruction by Udenna. In addition, the Group's outstanding interest-bearing loans from certain banks can be potentially set-off to the extent of the Group's outstanding cash deposited in the same banks.

The outstanding balances of trade and other receivables and cash advances granted to related parties totaling ₱1,138.2 million and ₱3,352.0 million as of December 31, 2019 and 2018, respectively, may be offset against the outstanding balances of trade and other payables and cash advances obtained from related parties totaling ₱3,306.0 million and ₱604.5 million as of December 31, 2019 and 2018, respectively.

The Group also has certain trade receivables which were used as collateral to secure the payment of certain interest-bearing loans (see Notes 5 and 12.1). Certain cash balances are also restricted for use to secure line of credits with banks (see Notes 8 and 11).

27. FAIR VALUE MEASUREMENTS AND DISCLOSURES

27.1 *Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

27.2 *Financial Instruments Measured at Fair Value*

The Group's financial instruments measured at fair value includes the Financial Assets at FVTPL amounting to ₱3.9 million and is presented in the consolidated statements of financial position on a recurring basis.

These are included in Level 1 as the prices of the shares were valued based on their market prices quoted in the PSE at the end of each reporting period.

The Group has no financial liabilities measured at fair value as of December 31, 2019 and 2018.

27.3 *Financial Instruments Measured at Amortized Cost but for which Fair Value is Disclosed*

The tables below summarize the fair value hierarchy of the Group's financial assets and financial liabilities as of December 31, 2019 and 2018, which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:				
At amortized cost:				
Cash and cash equivalents	₱375,228,505	-	-	₱375,228,505
Trade and other receivables - net	-	-	2,204,826,665	2,204,826,665
Restricted cash	20,748,270	-	-	20,748,270
Security deposits	-	-	136,616,637	136,616,637
Advances to related parties	-	-	814,252,135	814,252,135
	₱395,976,775	-	₱3,155,695,437	₱3,551,672,212
Financial Liabilities -				
At amortized cost:				
Trade and other payables	-	-	₱10,191,038,037	₱10,191,038,037
Interest-bearing loans	-	-	16,307,121,192	16,307,121,192
Advances from related parties	-	-	1,114,816,666	1,114,816,666
	-	**-**	**₱27,617,975,895**	**₱27,617,975,895**

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:				
Loans and Receivables:				
Cash and cash equivalents	₱443,495,969	-	-	₱443,495,969
Trade and other receivables - net	-	-	1,369,911,121	1,369,911,121
Restricted cash	1,637,081	-	-	1,637,081
Security deposits	-	-	40,529,028	40,529,028
Advances to related parties	-	-	3,127,555,209	3,127,555,209
	₱445,133,050	-	₱4,537,995,358	₱4,983,128,408
Financial Liabilities:				
At amortized cost:				
Trade and other payables	-	-	3,146,020,255	3,146,020,255
Interest-bearing loans	-	-	15,619,861,853	15,619,861,853
Advances from related parties	-	-	36,098,668	36,098,668
	-	-	₱18,801,980,776	₱18,801,980,776

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

27.4 Fair Value Measurements of Non-financial Assets

The fair values of the Group's vessels, included as part of Property and Equipment account, were determined based on the appraisal reports of a professional and independent appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Note 9). To some extent, the valuation process was conducted by the appraisers in discussion with the Group's management with respect to the determination of the inputs such as the size, age, capacity and condition of the vessels. In estimating the fair value of these vessels, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's non-financial assets indicated above is their current use.

The Level 3 fair value of vessels was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2019 and 2018.

28. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	2019	2018
Total liabilities	**₱28,550,652,121**	₱19,366,302,118
Total equity	**12,453,545,388**	12,924,953,205
Debt-to-equity ratio	**2.29 : 1.00**	1.50 : 1.00

The Group's goal in capital management is to maintain a debt-to-equity structure ratio which is in line with the Group's covenants related to its bank borrowings.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and total liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

This discussion summarizes the significant factors affecting the consolidated operating results and financial condition of Chelsea Logistics and Infrastructure Holdings Corp. and its Subsidiaries as of and for the year ended December 31, 2019. The following discussion should be read in conjunction with the attached consolidated financial statements of the Company as of December 31, 2019 and 2018, and the related consolidated statements of profit or loss, comprehensive income, changes in stockholders' equity, and cash flows for each of the years ended December 31, 2019, 2018 and 2017.

Comparable discussion on Material Changes in Results of Operations for the Year Ended December 31, 2019 vs. December 31, 2018.

Revenues

Presented below is the comparison of the Group's consolidated revenues for the year ended December 31, 2019 as compared to the consolidated revenues for the year 2018.

Amounts in millions	December 2019		December 2018		Change	
					Peso	%
Freight	**₱2,441**	**35%**	₱1,709	33%	₱732	43%
Tankering	**1,983**	**28%**	1,746	34%	237	14%
Passage	**1,423**	**20%**	969	19%	454	47%
Logistics	**459**	**7%**	287	6%	172	60%
Tugboat Fees	**338**	**5%**	334	6%	4	1%
Others	**329**	**5%**	127	2%	202	159%
Net Profit (Loss)	**₱6,974**	**100%**	₱5,172	100%	₱1,802	35%

Based on the comparison of the actual performance during the year ended 2019 against the previous year, the Group's revenues increased by ₱1,802 million or 35% to ₱6.97 billion from 5.17 billion. Each business segment of the Group showed robust growth. Tankering revenues (consisting of charter fees and standby charges) increased from ₱1,746 million to ₱1,983 million as a result of the operations of MT Chelsea Providence, the Group's medium-range tanker and the largest registered tanker in the Philippines. In addition, the utilization of the Group's other tankers also increased with the higher volume of petroleum products shipped for the period from 656 million liters in 2018 to 1,193 million liters in 2019. Similarly, revenues from freight segment grew by 43% from ₱1,709 million in 2018 to ₱2,441 million in 2019, while passage revenues rose by 47% from ₱969 million in 2018 to ₱1,423 million in 2019. The growth in the freight and passage revenues can be attributed to the operations of new vessels deployed during the year. In addition, the conversion from seat to bed RORO and re-routing of MV Starlite Archer and MV Starlite Saturn from short-haul trips to Batangas-Caticlan and Batangas-Culasi via Sibuyan also contributed to better revenue performance for the passage and freight business.

Tugboat fees slightly increased by 1% for the year ended 2019 from ₱334 million to ₱338 million as a result of the Group's expanded tugboat operations in Batangas, Davao, and recently, in Cagayan de Oro.

The Group's logistics business, which currently accounts for 7% of the total consolidated revenues, posted the biggest growth of 60% from 2018's ₱287 million to ₱459 million in 2019. This was a result of the Group's continued expansion program of increasing its warehouse capacity from 6,522 sqm. in 2018 to 13,973 sqm. in 2019 and trucking fleet. This segment is expected to further improve once the Group's warehouse complex located on a 2.5-hectare property in Brgy. Ligid-Tipas, Taguig City commences commercial operations in 2020.

Costs of Sales and Services

A breakdown of the Group's consolidated Costs of Sales and Services for the year 2019 as compared to details of direct costs for 2018 is shown below.

Amounts in millions	December 2019	December 2018	% Change
Bunkering	**₱1,984**	₱1,243	60%
Depreciation and amortization	**1,213**	836	45%
Salaries and employee benefits	**746**	590	26%
Outside services	**290**	139	109%
Repairs and maintenance	**266**	121	120%
Insurance	**249**	146	71%
Port expenses	**206**	148	39%
Charter hire fees	**87**	240	-64%
Supplies	**79**	97	-19%
Cost of inventories sold	**69**	11	527%
Taxes and licenses	**32**	30	7%
Rentals	**31**	41	-24%
Utilities and communication	**26**	23	13%
Commission	**22**	41	-46%
Transportation and travel	**12**	19	-37%
Miscellaneous	**111**	30	270%
Total Costs of Sales and Services	**₱5,423**	₱3,755	44%

As can be seen from the preceding table, the significant drivers to the increase in Costs of Sales and Services were the bunkering costs, depreciation and amortization, crew salaries and employee benefits, repairs and maintenance and insurance, which grew by ₱741 million, ₱377 million, ₱156 million, ₱145 million and ₱103 million, respectively, as a result of additional vessel deployments for the period. In addition, outside services increased by ₱151 million as a result of the significant increase in volume of delivery services for the Group's logistics business.

Operating Expenses

Other Operating Expenses grew by 19% from ₱901 million in 2018 to ₱996 million in 2019 due to increases in salaries and employee benefits, outside services and rentals resulting from the Group's continued expansion. On the other hand, taxes and licenses declined in 2019 which was due one-time payment of documentary stamp taxes for the conversion of certain loans and filing fees related to incorporation of new companies were incurred in 2018.

Other Income (Charges)

Other charges primarily include interest expense on loans and borrowings totaling ₱1,224 million and share in net losses of 2Go Group and DITO totaling ₱483 million. Interest expense increased by ₱447 million as a result of new borrowings related to new vessels acquired.

EBITDA and Net Losses

Overall, the Group posted a net loss of ₱832 million for the year ended December 31, 2019 compared to the ₱551 million net loss reported during the previous year. A significant portion of the net loss reported by the Group can be attributed to its share in net losses of 2Go Group and DITO totaling to ₱483 million. Excluding this amount, CLC would have reported a net loss of just ₱349 million, which is primarily due to higher direct costs and increased interest costs as discussed further in the succeeding paragraphs.

EBITDA, on the other hand, grew by 36% from ₱1,472 million in 2018 to ₱2,005 million in 2019.

Financial Condition
(December 31, 2019 vs. December 31, 2018)

Amounts in millions	December 2019	December 2018	% Change
Current Assets	**₱5,055**	₱6,494	-22%
Non-Current Assets	**35,950**	25,797	39%
Total Assets	**41,004**	32,291	27%
Current Liabilities	**₱18,077**	10,126	79%
Non-Current Liabilities	**10,473**	9,241	13%
Total Liabilities	**28,550**	19,367	47%
Total Equity	**₱12,454**	₱12,924	-4%

Total resources of the Group grew to ₱41,004 million as of December 31, 2019 from ₱32,291 million as of December 31, 2018. The increase was brought about by the Group's continued expansion programs in the shipping and logistics business and through the subscription of shares in DITO Telecommunity Corporation (DITO) and the consolidation of The Supercat Fast Ferry Corporation (SFFC), which was acquired in October 2019.

Cash and cash equivalents decreased by 15% from ₱443 million as of December 31, 2018 to ₱375 million as of end of the current year as a result of capital expenditures paid in relation to the Group's continued expansion programs.

Trade and other receivables increased by 56% from ₱1,430 million as of December 31, 2018 to ₱2,226 million as of December 31, 2019 primarily due to timing of collections from customers.

Advances to related parties decreased significantly from ₱3,128 million as of December 31, 2018 to ₱814 million as of December 31, 2019 as a result of collections of advances to related parties for working capital requirements and other purposes. The remaining advances are expected to be settled in cash or through offsetting arrangements with the related parties.

Property and equipment grew from ₱17,304 million as of December 31, 2018 to ₱22,915 million as a result of the consolidation of SFFC which has 11 fastcrafts, additional vessel acquisitions and other capital expenditures during the year 2019 as part of the Group's continued expansion programs. In addition, the effect of adoption of PFRS 16, Leases, also contributed to the increase in property and equipment whereby the Group was required to reflect on-balance sheet the "right-of-use" (ROU) asset with a corresponding increase in lease liabilities.

While drydocking is normally done once every two years, Maritime Regulatory Authority (MARINA) may extend the vessel's trading certificates upon request by the vessel owner. Following are the status of the drydocking activities of certain vessels with appraisals of more than two years: (a) MT Great Diamond and MT Great Princess are covered by a five-year Bareboat Agreement since November 2016 and March 2017, respectively. Under a bareboat agreement, the charterer obtains full control of the vessel with all costs including drydocking are to be shouldered by the charterer; hence, appraisal cannot be made. Meanwhile, the drydocking procedures for MT Chelsea Denise and MV Asia Pacific are expected to be completed during the first quarter of 2020; accordingly, appraisals will be conducted during such period.

As disclosed in the consolidated financial statements, management estimates the useful lives of vessels between 2 to 35 years, which were based on each separately identifiable components of the vessel i.e., vessel equipment acquired are depreciated based on an EUL of 5 to 10 years. Acquired vessels are depreciated over an estimated useful life of 25 to 35 years from the dates of acquisition depending on whether such vessels were acquired brand new or from the second hand market. Drydocking costs, as an industry practice, are amortized over an estimated useful lives of 24 months.

Investments in associates and a joint venture increased significantly from ₱1,821 million as of December 31, 2018 to ₱6,416 million as of December 31, 2019 resulting from subscription of shares of DITO, additional investment in Meridian. These were partially offset by the recognition of the Group's share in net losses of 2Go Group and DITO for the current year.

Trade and other payables increased by ₱7,263 million from ₱3,497 million as of December 31, 2018 to ₱10,760 million as of the end of the current year. The increase in Trade and other payables was primarily due to timing of payment of trade payables.

The increase in advances from related parties was primarily due to additional borrowings from such related parties. These advances are generally expected to be settled on demand or through offsetting arrangements with the related party.

Interest-bearing loans and borrowings increased by 13% from ₱15,619 million as of December 31, 2018 to ₱16,307 million as of December 31, 2019 resulting from the availment of new loans related to the acquisition of vessels in relation to the Group's continued expansion programs. In addition, the effect of adoption of PFRS 16, Leases, also contributed to the increase in interest-bearing loans and borrowings whereby the Group was required to reflect on-balance sheet the lease liabilities instead of recording expenses during the period incurred.

The increase in deferred tax liabilities by 99% was mainly due to additional revaluation increment related to the appraisal of vessels after drydocking also contributed to the increase.

Other reserves pertain to the excess of the acquisition price over the net identifiable assets of Chelsea Shipping Corp. (CSC) amounting to ₱1.0 billion. As disclosed in the notes to the consolidated financial statements, CLC acquired CSC on November 24, 2016 for a total consideration of ₱2.0 billion. The carrying amounts of the consolidated assets and liabilities of CSC and subsidiaries amounted to ₱8.4 billion and ₱5.4 billion, respectively. The business combination entered on December 12, 2016 is accounted for under the pooling-of-interest method (see Note 20.6).

The decrease in equity, primarily retained earnings, was due to the results of the Company's financial performance for the year ended December 31, 2019.

Comparable discussion on Material Changes in Results of Operations for the Year Ended December 31, 2018 vs. December 31, 2017.

Revenues

Presented below is the comparison of the Group's consolidated revenues for the year ended December 31, 2018 as compared to the consolidated revenues for the same period in 2017.

Amounts in millions	December 2018		December 2017		Change	
					Peso	%
Freight	**₱1,709**	**33%**	₱1,387	35%	₱322	23%
Tankering	**1,746**	**34%**	1,217	31%	529	43%
Passage	**969**	**19%**	773	20%	196	25%
Logistics	**287**	**6%**	240	6%	47	20%
Tugboat fees	**334**	**6%**	261	7%	73	28%
Others	**127**	**2%**	31	1%	96	310%
Net Profit (Loss)	**₱5,172**	**100%**	₱3,909	100%	₱1,263	32%

Based on the comparison of actual 2018 performance for the against 2017, the Group's revenues increased by ₱1,263 million or 32% to ₱5,172 million from ₱3,909 million. Each business segment of the Group showed robust growth and improved profitability. The tankering revenues increased from ₱1,217 million to ₱1,746 million as a result of higher freight rates charged for farther distance of port calls during the current year. Similarly, freight segment increased by 23% from ₱1,387 million for the year ended 31 December 2017 to ₱1,709 million during 2018 as a result of the acquisition of three freighters in November 2017. On the other hand, passage revenues increased by 25% which was attributable to the full years' operations of MV Starlite Eagle in 2018 which only started commercial operations in April 2017 plying the Roxas – Caticlan route as well as the commencement of operations of MV Salve Regina in September 2018 plying the Batangas – Caticlan route and the acquisition of MV Stella Del Mar plying Liloan – Lipata.

Tugboat fees improved by 28% for year ended December 31, 2018 from ₱261 million to ₱334 million. The increase in tugboat fees was primarily due to additional customers acquired during the last quarter of 2017 coupled with higher number of port calls in Calaca Industrial Park where Fortis Tugs Corporation is the exclusive tugboat service provider.

Finally, revenues from logistics services, which currently accounts for 6% of the Group's total revenues, increased from 240 million to ₱287 million as a result of additional customers acquired during the current year.

Costs of Sales and Services

Presented below is the breakdown of the Group's consolidated Costs of Sales and Services for the year 2018 as compared to 2018.

Amounts in millions	December 2018	December 2017	% Change
Bunkering	**₱1,243**	₱867	43%
Depreciation and amortization	**836**	796	5%
Salaries and employee benefits	**590**	363	63%
Outside services	**139**	127	9%
Repairs and maintenance	**121**	135	-10%
Insurance	**146**	130	12%
Port expenses	**148**	151	-2%
Charter hire fees	**240**	98	145%
Supplies	**97**	45	116%
Cost of inventories sold	**11**	37	-70%
Taxes and licenses	**30**	20	50%
Rentals	**41**	12	242%
Utilities and communication	**23**	9	156%
Commission	**41**	31	32%
Transportation and travel	**19**	14	36%
Miscellaneous	**30**	27	11%
Total Costs of Sales and Services	**₱3,755**	₱2,862	31%

The increase in Costs of Sales and Services significantly came from larger bunkering costs, crew salaries and employee benefits, and supplies. Bunkering costs grew 43% from ₱867 million to ₱1,243 million due to deployment of additional vessels and higher fuel price caused by increase in the benchmark rates in the international market and the implementation of excise taxes on petroleum products effective 01 January 2018. Similarly, crew salaries and employee benefits and vessel supplies increased as a result of the full years' operations of MV Starlite Eagle and three freighters namely, MV San Lorenzo Uno, MV San Pedro Calungsod and MV St. Nicholas of Myra. In addition, five new vessels commenced operations in 2018, which include MV Stella Del Mar, MV Salve Regina, MV Trans-Asia 1, MV Trans-Asia 16 and MV Trans-Asia 17.

Meanwhile, charter hire costs also increased by 145% from ₱98 million to ₱240 million primarily due to deliveries made by Chelsea Shipping Corp. for Phoenix Petroleum Philippines, Inc. in to NPC Malaya. The Group had to hire third party vessels as all of its barges are currently covered by a Contract of Affreightment in servicing the bunkering requirements of 2GO Group, Inc.

Operating Expenses

Operating expenses grew from ₱530 million to ₱900 million due to increases in salaries and employee benefits, outside services and rentals as a result of the Group's continued expansion. In addition, the Group paid additional taxes and licenses related to conversion of certain loans, availment of new loans and filing fees related to incorporation of new companies. Finally, Miscellaneous Expenses increased as a result of the₱20 million fines and penalties paid to the Philippine Competition Commission with respect to the acquisition of a Trans-Asia as well as settlement of tax assessments of various companies covering the taxable years 2014 to 2016.

Other Income (Charges)

Other charges primarily include interest expense on loans and borrowings totaling ₱777 million, share in net losses of 2Go Group, Inc. amounting to ₱453 million and foreign currency exchange losses of ₱64 million resulting from the Group's loans and borrowings denominated in foreign currency.

EBITDA and Net Profit (Loss)

Overall, the Group posted a net loss of ₱551 million for the year ended December 31, 2018 compared to the ₱161 million net profit reported during the year ended December 31, 2017. A significant portion of the net loss reported by the Group can be attributed to its share in net losses of 2Go Group, Inc. amounting to ₱453 million. Excluding this amount, CLC would have reported a net loss of just ₱98 million, which is primarily due to higher bunkering costs and increased interest rates as discussed further in the succeeding paragraphs.

EBITDA, on the other hand, grew by 6% from ₱1,297 million in 2017 to ₱1,472 million in 2018.

Financial Condition
December 31, 2018 vs. December 31, 2017

Total resources of the Group grew to ₱32,291 million as of December 31, 2018 from ₱26,380 million as of December 31, 2017. The increase was brought about by the Group's continued expansion programs through the acquisition of various capital asset expenditures.

Cash and cash equivalents declined by 69% from ₱1,442 million as of December 31, 2017 to only ₱443 million as of December 31, 2018 as a result of the Group's cash management efforts maintaining certain level of cash and some timing in disbursements and collections.

Trade and other receivables surged by 21% from ₱876 million as of December 31, 2017 to ₱1,430 million as of December 31, 2018 primarily as a result of timing of collections from customers.

Increase in inventories of approximately ₱341 million was due to acquisition of spare parts inventories in preparation for drydocking of certain vessels, and additional fuel and lubricants inventory in anticipation of increased fuel prices as a result of the implementation of the Tax Reform for Acceleration and Inclusion. Spare parts inventories rose from ₱88 million as of December 31, 2017 to ₱165 million as of December 31, 2018 while fuel and lubricants rose from ₱49 million to ₱217 million as of the end of the reporting period.

The increase in Other Current Assets from ₱464 million as of December 31, 2017 to ₱963 million as of December 31, 2018 was primarily due to the related input value-added taxes related to various capital asset expenditures.

Property and equipment grew from ₱11,303 million as of December 31, 2017 to ₱17,304 million as a result of additional vessel acquisitions during the first half of 2018, including a medium range tanker, delivery of which was accepted on April 25, 2018. In addition, the Group also acquired a 2.5 hectare property in Brgy. Ligid-Tipas, Taguig City, where CLC will build a warehouse in relation to its continued expansion in the logistics business.

The decline in Investments in an associate and a joint venture from ₱2,269 million as of December 31, 2017 to ₱1,821 million as of December 31, 2018 was due to the recognition of the Company's share in net loss of 2Go Group.

Trade and other payables increased from ₱1,381 million as of December 31, 2017 to ₱3,497 million as of December 31, 2018. The increase in Trade and other payables was primarily due to timing of payment of trade payables.

Interest-bearing loans significantly increased by 51% from ₱10,332 million as of December 31, 2017 to ₱15,620 million as of December 31, 2018 primarily as a result of additional loan drawdown during the period as part of the Group's continued expansion programs.

Advances from related parties significantly declined due to repayments made by such related parties.

Deposits for future stock subscriptions was reclassified as Non-controlling interests in 2018 as the application for the increase in Trans-Asia's authorized capital stock and creation of preferred shares were approved by the SEC in May 2018. Such preferred shares were subscribed by individual stockholders.

The decline in Income tax payable was primarily due to the tax payments made in April 2018.

The significant decline in deferred tax liabilities by 52% was mainly due to the tax effect of depreciation on revaluation increment related to vessels.

The decrease in retained earnings was primarily due to the results of the Company's financial performance for the year ended December 31, 2018.

Key Performance Indicators and Relevant Ratios

The Group's key performance indicators and relevant ratios and how they are computed are listed below.

	2019	2018	2017
Current Ratio	0.28	0.64	1.13
Debt-to-Equity Ratio	2.29	1.50	1.00
Book Value Per Share	6.74	7.00	7.22
EBITDA Margin	29%	28%	33%
Return on Average Equity	-6.65%	-4.25%	2.19%
Earnings Per Share	-0.457	-0.30	0.12

These key indicators were chosen to provide management with a measure of the Group's financial strength (Current Ratio and Debt to Equity) and the Group's ability to maximize the value of its stockholders' investment in the Group (Return on Average Equity, Net Book Value per Share and Earnings per Share). Likewise, these ratios are used to compare the Group's performance with similar companies.

Known Trends or Demands, Commitments, Events or Uncertainties that will impact Liquidity

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will materially impact on its liquidity.

Events that will trigger Direct or Contingent Financial Obligation that is material to the Company, including any default or acceleration of an obligation

Management is not aware of other events that will materially trigger direct or contingent financial obligation.

Material Off-Balance Sheet Transactions, Arrangements, Obligations (including contingent obligations), and Other Relationships of the Company with Unconsolidated Entities or Other Persons Created during the Reporting Period

The Company has no material off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons created during the period that is not included in the Financial Statements.

Material Commitments for Capital Expenditures, the General Purpose of the Commitment and Expected Sources of Funds

As disclosed in the notes to the consolidated financial statements, the Group signed two shipbuilding agreements for the delivery of a 98-meter and 123-meter bed/seat Ro-Ro type passenger ferry ships presently identified as Builder's Nos. S-1191 and F-1351. The total contract price for these vessels amount to ¥5,085 million (approximately ₱2,354 million). Total amounts paid as of December 31, 2019 amounted to ₱367.3 million.

Known Trends, Events or Uncertainties that will impact Sales / Revenues / Income from Continuing Operations

The Company is not aware of any known trends, events or uncertainties that will impact sales and/or income from continuing operations.

Significant Elements of Income or Loss that Did Not Arise from Continuing Operations

The Company is not aware of any element of income or loss that did not arise from continuing operations.

Seasonal Aspects that had Material Effect on the Financial Condition or Results of Operations

The RoPax segment transports passengers and cargoes within Philippine territorial waters and/or on the high seas. Due to the seasonal nature of this segment, higher passage revenues and operating profits are usually experienced in the summer months of the year (March, April and May), school holidays (October and November) and Christmas holidays (December and January) rather than in the other months of the year. Freight revenues, on the other hand, are higher at the last quarter of the year rather than in the early months.

The seasons of the year have no or little effect on the operations of the tanker and tugboat segments.

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