

**CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Holdings Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2020 AND DECEMBER 31, 2019**  
*(Amounts in Philippine Pesos)*

	Notes	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	P 210,684,757	P 375,228,505
Trade and other receivables - net	5	2,717,260,979	2,225,735,811
Financial assets at fair value through profit or loss	6	3,947,736	3,947,736
Inventories	7	550,066,175	546,803,953
Advances to related parties	20	898,274,662	814,252,135
Other current assets	8	1,171,116,480	1,088,657,865
Total Current Assets		5,551,350,789	5,054,626,005
<b>NON-CURRENT ASSETS</b>			
Property and equipment - net	9	21,955,041,358	22,915,005,555
Investments in associates and a joint venture	10	6,534,396,256	6,416,269,582
Goodwill	24	6,341,870,485	5,713,122,608
Post-employment benefit asset	17	7,673,898	7,673,898
Deferred tax assets - net	19	429,597,014	375,161,580
Other non-current assets - net	11	561,922,933	522,338,281
Total Non-current Assets		35,830,501,944	35,949,571,504
<b>TOTAL ASSETS</b>		<b>P 41,381,852,733</b>	<b>P 41,004,197,509</b>

	Notes	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	P 11,271,263,089	P 10,759,925,409
Interest-bearing loans and borrowings	12	6,170,055,934	6,124,500,567
Redeemable preference shares	14	1,230,436,441	-
Advances from related parties	20	1,045,316,666	1,114,816,666
Advances from customers	2	38,398,517	55,788,185
Income tax payable		<u>33,889,290</u>	<u>22,256,833</u>
Total Current Liabilities		<u>19,789,359,937</u>	<u>18,077,287,660</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	12	10,031,422,805	10,182,620,625
Post-employment benefit obligation	17	56,528,581	56,528,581
Deferred tax liabilities - net	19	226,094,324	163,931,353
Other non-current liabilities		<u>110,944,112</u>	<u>70,283,902</u>
Total Non-current Liabilities		<u>10,424,989,822</u>	<u>10,473,364,461</u>
Total Liabilities		<u>30,214,349,759</u>	<u>28,550,652,121</u>
<b>EQUITY</b>			
Equity attributable to shareholders of the Company			
Capital stock	21	1,821,977,615	1,821,977,615
Additional paid-in capital	21	9,998,370,157	9,998,370,157
Revaluation reserves	21	1,738,352,364	1,777,036,051
Other reserves	21	( 1,058,033,280 )	( 1,058,033,280 )
Deficit		<u>( 1,513,163,882 )</u>	<u>( 265,805,155 )</u>
		10,987,502,974	12,273,545,388
Non-controlling interest	21	<u>180,000,000</u>	<u>180,000,000</u>
Total Equity		<u>11,167,502,974</u>	<u>12,453,545,388</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 41,381,852,733</u></b>	<b><u>P 41,004,197,509</u></b>

*See Notes to Interim Consolidated Financial Statements.*

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES  
(Formerly Chelsea Logistics Holdings Corp.)  
(A Subsidiary of Udena Corporation)  
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS  
FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2020, 2019 AND 2018  
(Amounts in Philippine Pesos)  
(Unaudited)

Notes	For the six months ended June 30,			For the three months ended June 30,		
	2020	2019	2018	2020	2019	2018
<b>REVENUES</b>	25					
Freight	P 967,945,852	P 1,031,836,066	P 855,328,875	P 450,952,803	P 509,571,630	P 469,633,266
Charter fees	20 735,656,561	1,215,458,060	965,785,688	331,464,328	705,537,871	554,862,527
Passage	426,541,698	732,760,220	544,845,869	13,747,898	436,817,876	326,874,728
Rendering of services	230,745,801	305,493,395	158,021,374	74,359,076	147,946,725	84,512,570
Tugboat fees	156,415,395	163,075,851	179,407,600	70,189,352	81,346,284	96,139,238
Sale of goods	54,904,735	45,903,031	16,740,936	18,542,430	31,365,503	8,380,591
	2,572,210,042	3,494,526,623	2,720,130,342	959,255,887	1,912,585,889	1,540,402,920
	2,850,425,677	2,767,772,120		1,277,281,307	1,549,863,878	
<b>COST OF SALES AND SERVICES</b>	15	2,238,070,778	2,308,481,127	982,124,171	1,300,480,467	914,879,721
	334,139,264	1,186,045,496	1,046,579,952	( 22,868,284 )	612,105,422	625,523,199
<b>GROSS PROFIT (LOSS)</b>						
<b>OTHER OPERATING EXPENSES</b>	16	612,354,899	459,290,993	295,157,136	249,383,411	283,566,712
<b>OPERATING PROFIT</b>		( 278,215,635 )	726,754,503	589,126,003	( 318,025,420 )	362,722,011
	159,765,719	130,219,574		92,591,948	60,114,028	
<b>OTHER INCOME (CHARGES) - Net</b>		1,158,591,279	576,862,605	674,375,976	228,016,906	
Finance costs	18 ( 671,825,264 )	( 516,971,161 )	( 348,165,876 )	( 321,002,303 )	( 261,440,939 )	( 183,070,302 )
Share in net loss of associates	10 ( 486,766,015 )	( 59,891,444 )	55,978,411	( 353,373,673 )	33,424,033	44,885,127
Finance income	18 5,605,750	3,289,681	11,471,299	818,499	720,678	9,856,983
Other income	18 154,159,969	126,929,893	65,906,657	91,773,449	59,393,350	35,667,396
	( 998,825,560 )	( 446,643,031 )	( 214,809,509 )	( 581,784,028 )	( 167,902,878 )	( 92,660,796 )
<b>PROFIT (LOSS) BEFORE TAX</b>		( 1,277,041,195 )	280,111,472	374,316,494	( 899,809,448 )	194,819,133
	249,295,691					
<b>TAX EXPENSE (INCOME)</b>	19	9,155,525	( 28,251,571 )	13,570,586	41,304,571	8,328,642
	3,650,381					
<b>NET PROFIT (LOSS)</b>		( P 1,286,196,720 )	P 308,363,043	P 360,745,908	( P 941,114,019 )	P 186,490,491
	P 245,645,310					
<b>Earnings (Loss) Per Share (Basic and Diluted)</b>	22	( P 0.706 )	P 0.169	P 0.198	( P 0.517 )	P 0.102
	P 0.135					

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES  
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2020, 2019 AND 2018  
(Amounts in Philippine Pesos)  
(Unaudited)

	Notes	2020	2019	2018	2020	2019	2018
<b>NET PROFIT (LOSS)</b>		<b>(P 1,286,196,720)</b>	<b>P 308,363,043</b>	<b>P 360,745,908</b>	<b>(P 941,114,019)</b>	<b>P 186,490,491</b>	<b>P 245,645,310</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>							
Items that will not be reclassified subsequently to profit or loss:							
Revaluation of vessels	9	-	P 37,789,866	85,818,163	-	116,219,509	85,818,163
Tax income	18	-	( 34,865,853 )	( 25,745,449 )	-	( 34,865,853 )	( 25,745,449 )
		-	2,924,013	60,072,714	-	81,353,656	60,072,714
Items that will be reclassified subsequently to profit or loss:							
Currency exchange differences on translating financial statements of foreign operations	2	154,306	715,045	-	123,945	684,684	-
<b>Other Comprehensive Income - net of tax</b>		<b>154,306</b>	<b>3,639,058</b>	<b>60,072,714</b>	<b>123,945</b>	<b>82,038,340</b>	<b>60,072,714</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>( 1,286,042,414 )</b>	<b>P 312,002,101</b>	<b>420,818,622</b>	<b>( 940,990,074 )</b>	<b>268,528,831</b>	<b>305,718,024</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>(P 1,286,042,414)</b>	<b>P 312,002,101</b>	<b>P 420,818,622</b>	<b>(P 940,990,074)</b>	<b>P 268,528,831</b>	<b>P 305,718,024</b>

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES  
(Formerly Chelsea Logistics Holdings Corp.)  
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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE SIX MONTHS MONTHS ENDED JUNE 30, 2020, 2019 AND 2018  
(Amounts in Philippine Pesos)

Notes	Attributable to Owners of the Parent Company					Total	Non-controlling Interest	Total Equity
	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings (Deficit)			
Balance at January 1, 2020	P 1,821,977,615	P 9,998,370,157	P 1,777,036,051	(P 1,058,033,280)	(P 265,805,155)	P 12,273,545,388	P 180,000,000	P 12,453,545,388
Total comprehensive income (loss) for the year	-	-	154,306	-	( 1,286,196,720)	( 1,286,042,414)	-	( 1,286,042,414)
Transfer of revaluation reserves through depreciation, net of tax	21	-	( 38,837,993)	-	38,837,993	-	-	-
Balance at June 30, 2020	21	<u>P 1,821,977,615</u>	<u>P 9,998,370,157</u>	<u>P 1,738,352,364</u>	<u>(P 1,058,033,280)</u>	<u>(P 1,513,163,882)</u>	<u>P 180,000,000</u>	<u>P 11,167,502,974</u>
Balance at January 1, 2019	P 1,821,977,615	P 9,998,370,157	P 1,497,869,655	(P 1,058,033,280)	P 484,769,058	P 12,744,953,205	P 180,000,000	P 12,924,953,205
Additions during the year	21	-	-	-	-	-	180,000,000	180,000,000
Total comprehensive income (loss) for the year	-	-	3,639,058	-	308,363,043	312,002,101	-	312,002,101
Transfer of revaluation reserves through depreciation, net of tax	21	-	( 57,379,088)	-	57,379,088	-	-	-
Balance at June 30, 2019	21	<u>P 1,821,977,615</u>	<u>P 9,998,370,157</u>	<u>P 1,444,129,625</u>	<u>(P 1,058,033,280)</u>	<u>P 850,511,189</u>	<u>P 360,000,000</u>	<u>P 13,416,955,306</u>
Balance at January 1, 2018	P 1,821,977,615	P 9,998,370,157	P 1,429,917,004	(P 1,058,033,280)	P 965,156,916	P 13,157,388,412	P -	P 13,157,388,412
Total comprehensive income for the year	-	-	60,072,714	-	360,745,908	420,818,622	-	420,818,622
Transfer of revaluation reserves through depreciation, net of tax	-	-	( 21,493,622)	-	21,493,622	-	-	-
Balance at June 30, 2018	P 1,821,977,615	P 9,998,370,157	P 1,468,496,096	(P 1,058,033,280)	P 1,347,396,446	P 13,578,207,034	P -	P 13,578,207,034

See Notes to Interim Consolidated Financial Statements.

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*(Formerly Chelsea Logistics Holdings Corp.)*  
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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*  
*(Unaudited)*

	Notes	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit (loss) before tax		( P 1,277,041,195 )	P 280,111,472	P 374,316,494
Adjustments for:				
Depreciation and amortization	9, 11	720,896,496	553,893,575	389,546,053
Interest expense	18	671,383,303	515,971,577	291,736,850
Share in net loss of associates	10	486,766,015	59,891,444	( 55,978,411 )
Gain on sale of property and equipment	9	( 48,776,371 )	-	-
Unrealized foreign currency exchange losses (gains) - net	18	1,300,000	-	47,938,161
Interest income	18	( 183,454 )	( 3,289,681 )	( 6,553,091 )
Operating profit before working capital changes		554,344,794	1,406,578,387	1,041,006,055
Increase in trade and other receivables		( 491,525,168 )	( 376,438,725 )	( 367,768,654 )
Decrease (Increase) in inventories		( 3,262,222 )	44,616,041	( 99,526,915 )
Decrease (increase) in advances to related parties		( 84,022,527 )	1,600,967,711	( 12,900,493 )
Decrease (Increase) in other current assets		129,361,681	22,683,356	( 1,560,896,297 )
Decrease (Increase) in post-employment benefit asset		-	-	42,223
increase in other non-current assets		( 41,059,892 )	( 102,989,425 )	( 107,321,193 )
Increase in trade and other payables		446,747,864	762,539,254	859,189,506
Decrease in advances from customers		( 17,389,668 )	-	-
Increase (decrease) in other non-current liabilities		40,660,210	( 8,633,246 )	3,761,654
Cash generated from (used in) operations		533,855,072	3,349,323,353	( 244,414,114 )
Interest received		183,454	3,289,681	6,553,091
Cash paid for income taxes		( 12,348,846 )	( 171,018 )	( 61,436,907 )
Net Cash From (Used in) Operating Activities		521,689,680	3,352,442,016	( 299,297,929 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from disposal of property and equipment	9	491,071,429	-	100,416,137
Acquisitions of property and equipment	9	( 386,677,752 )	( 1,525,910,849 )	( 3,676,804,748 )
Additional investment in a joint venture	10, 24	-	( 542,411,062 )	-
Net Cash Used in Investing Activities		104,393,677	( 2,068,321,911 )	( 3,576,388,611 )
<i>Balance carried forward</i>		P 626,083,357	P 1,284,120,105	( P 3,875,686,540 )

	Notes	2020	2019	2018
<i>Balance brought forward</i>		<u>P 626,083,357</u>	<u>P 1,284,120,105</u>	<u>( P 3,875,686,540 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayments of interest-bearing loans and borrowings	12	( 874,865,453 )	( 1,715,835,774 )	( 363,218,618 )
Proceeds from interest-bearing loans and borrowings	12	767,923,000	325,800,000	4,206,661,487
Interest paid	18	( 613,969,532 )	( 458,557,806 )	( 278,718,529 )
Repayments of advances from related parties	20	( 69,998,903 )	( 35,203,829 )	( 43,000,000 )
Proceeds from advances from related parties	20	<u>-</u>	<u>538,455,795</u>	<u>8,693,164</u>
Net Cash From (Used In) Financing Activities		<u>( 790,910,888 )</u>	<u>( 1,345,341,614 )</u>	<u>3,530,417,504</u>
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		<u>-</u>	<u>1,482,359</u>	<u>( 21,966,883 )</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>( 164,827,531 )</b>	<b>( 59,739,150 )</b>	<b>( 367,235,919 )</b>
<b>CASH AND CASH EQUIVALENTS FROM ACQUIRED SUBSIDIARY</b>	23	<u>283,783</u>	<u>-</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>375,228,505</u>	<u>443,495,969</u>	<u>1,441,704,190</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><b>P 210,684,757</b></u>	<u><b>P 383,756,819</b></u>	<u><b>P 1,074,468,271</b></u>

*See Notes to Interim Consolidated Financial Statements.*

**CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES**  
***(Formerly Chelsea Logistics Holdings Corp.)***  
***(A Subsidiary of Udenna Corporation)***  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND DECEMBER 31, 2019**  
***(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. Pampang, Davao City.



## 1.2 Subsidiaries, Associates and their Operations

As of June 30, 2020 and December 31, 2019, the Company holds ownership interests in the following subsidiaries and associates:

Company Name	Explanatory Notes	Percentage of Ownership	
		2020	2019
<b>Subsidiaries through direct interest:</b>			
Chelsea Shipping Corporation (CSC) Trans-Asia Shipping Lines, Incorporated (Trans-Asia)	(a)	100%	100%
Udena Investments B. V. (UIBV)	(b)	100%	100%
Starlite Ferries, Inc. (Starlite)	(c)	100%	100%
Worklink Services, Inc. (WSI)	(d)	100%	100%
Tasli Services, Incorporated (TSI)	(e)	100%	100%
The Supercat Fast Ferry Corporation (SFFC)	(f)	100%	100%
<b>Subsidiaries through indirect interest:</b>			
Bunkers Manila, Inc. (BMI) <sup>1</sup>	(g)	100%	100%
Michael, Inc. (MI) <sup>1</sup>	(h)	100%	100%
PNX-Chelsea Shipping Corp. (PNX-Chelsea) <sup>1</sup>	(i)	100%	100%
Chelsea Ship Management & Marine Services Corp. (CSMMSC) <sup>1</sup>	(j)	100%	100%
Fortis Tugs Corporation (FTC) <sup>1</sup>	(k)	100%	100%
Davao Gulf Marine Services, Inc. (DGMSI) <sup>2</sup>	(l)	100%	100%
Chelsea Marine Manpower Resources, Inc. (CMMRI) <sup>1</sup>	(m)	100%	100%
Chelsea Dockyard Corporation (CDC) <sup>1</sup>	(n)	100%	100%
CD Ship Management & Marine Services Corp. (CDSMMSC) <sup>1</sup>	(o)	100%	100%
Chelsea Shipping and Logistics Singapore Pte. Ltd. (CSLSP) <sup>1</sup>	(p)	100%	100%
Quality Metals & Shipworks, Inc. (QMSI) <sup>3</sup>	(q)	100%	100%
Oceanstar Shipping, Inc. (Oceanstar) <sup>3</sup>	(r)	100%	100%
Dynamic Cuisine, Inc. (DCI) <sup>3</sup>	(s)	100%	100%
Starsy Shoppe, Inc. (SSI) <sup>3</sup>	(t)	100%	100%
Star Maritima Port and Allied Services (Star Maritima) <sup>3</sup>	(u)	100%	100%
Starbites Food Services Corp. (Starbites) <sup>4</sup>	(v)	100%	100%
Starlite Gallant Ferries, Inc. (SGFI) <sup>4</sup>	(d)	100%	100%
Starlite Premiere Ferries, Inc. (SPFI) <sup>4</sup>	(d)	100%	100%
Big Hub Transport and Logistics Corp. (Big Hub) <sup>3</sup>	(w)	100%	100%
KGLI-NM Holdings, Inc. (KGLI-NM)	(x)	100%	80%

Company Name	Explanatory Notes	Percentage of Ownership	
		2020	2019
<b>Associates:</b>			
Dito Telecommunity Corporation (Dito)	(y)	25%	25%
Dito Holdings Corp (DHC)	(z)	41.67%	41.67%
2GO Group, Inc. (2GO)	(aa)	35.22%	28.18%

<sup>1</sup>Wholly owned subsidiary of CSC

<sup>2</sup>Wholly owned subsidiary of FTC

<sup>3</sup>Wholly owned subsidiary of Trans-Asia

<sup>4</sup>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).

(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.

On January 1, 2020, the Company acquired the Pref C Shares of KGLI representing 20% of the outstanding common stock and 50.37% of the voting rights of KGLI-NM.

- (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.

- (aa) Incorporated in the Philippines on May 26, 1949 and is primarily engaged to provide shipping, logistics and distribution services to small and medium enterprises, large corporations, and government agencies throughout the Philippines. The shipping group operates interisland roll-on/roll-off freight and passenger vessels, interisland freighters, and short-haul fast ferry passenger vessels. The logistics group offers transportation, warehousing and distribution, cold chain solutions, domestic and international ocean and air forwarding services, customs brokerage, project logistics, and express and last mile package and e-commerce delivery. The distribution group leverages 2GO's shipping and logistics services to provide value-added distribution services to principals and customers.

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

### **1.3 Approval of Consolidated Financial Statements**

The interim consolidated financial statements of the Group as of and for the six months ended June 30, 2020 (including the comparative consolidated financial statements as of December 31, 2019 and for the six months ended June 30, 2019 and 2018) were authorized for issue by the Company's BOD.

## 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 2020 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, 2020:

PAS 1 (Amendments)	:	Presentation of Financial Statements
PAS 8 (Amendments)	:	Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material

PFRS 3 (Amendments) : Business Combinations – Definition of a Business

Discussed below are the relevant information about these pronouncements.

- (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, (e) 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.

(b) *Effective Subsequent to 2020 but not Adopted Early*

There are new amendments and annual improvements that are effective for annual periods beginning after January 1, 2021. 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) 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.

#### **(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 meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any ECL.

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 provisional 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.

(h)

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 qualified employees 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 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 P103.4 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 P58.4 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 June 30, 2020 and December 31, 2019 will be fully utilized in the coming periods. The carrying value of deferred tax assets as of June 30, 2020 and December 31, 2019 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 P7.4 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:

	<u>2020</u>	<u>2019</u>
Cash on hand and in banks	<b>P 198,632,078</b>	P 362,873,262
Short-term placements	<b><u>12,052,679</u></b>	<u>12,355,243</u>
	<b><u>P 210,684,757</u></b>	<b><u>P 375,228,505</u></b>

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 2020 and 2019.

The balances of cash on hand and in banks as of June 30, 2020 and December 31, 2019 did not include an amount of P20.7 million 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:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Trade receivables	20.1, 20.3	<b>P 2,477,279,305</b>	P 2,012,718,072
Due from agencies		<b>196,261,881</b>	172,264,135
Advances to officers and employees		<b>35,033,469</b>	20,909,146
Claims receivables		<b>8,157,124</b>	16,658,828
Others		<b><u>20,033,377</u></b>	<u>22,689,807</u>
		<b>2,736,765,156</b>	2,245,239,988
Allowance for expected credit losses		<b>( <u>19,504,177</u> )</b>	<b>( <u>19,504,177</u> )</b>
		<b><u>P 2,717,260,979</u></b>	<b><u>P 2,225,735,811</u></b>



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 2020 and 2019 is shown below.

	<u>2020</u>	<u>2019</u>
Balance at beginning of period	<b>P 19,504,177</b>	P 17,601,775
Balance from acquired subsidiary	<u>-</u>	<u>1,902,402</u>
Balance at end of period	<b><u>P 19,504,177</u></b>	<b><u>P 19,504,177</u></b>

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 P352.7 million and P333.2 million as of June 30, 2020 and December 31, 2019, 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 28.2).

There were no changes in the fair values of financial assets at FVTPL for the periods ended June 30, 2020 and December 31, 2019.

## 7. INVENTORIES

This account includes the following:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Spare parts		<b>P 276,030,950</b>	P 335,357,723
Fuel and lubricants	20.2	<b>229,450,638</b>	165,527,972
Shipping supplies		<b>41,446,879</b>	42,169,599
Food, beverage and other supplies		<u><b>3,137,708</b></u>	<u>3,748,659</u>
		<b><u>P 550,066,175</u></b>	<b><u>P 546,803,953</u></b>

As of June 30, 2020 and December 31, 2019, 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 15 and 16).

As of June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019 follows:

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Input VAT		P 336,996,001	P 328,432,137
Deferred input VAT		299,828,967	268,563,972
Creditable withholding taxes		259,293,584	247,937,317
Prepayments		147,876,838	145,954,235
Deferred charges		78,517,642	69,603,867
Advances to suppliers		42,360,178	21,918,067
Restricted cash	4	<u>6,243,270</u>	<u>6,248,270</u>
		<u>P 1,171,116,480</u>	<u>P 1,088,657,865</u>

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 2020 and 2019 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
June 30, 2020								
Cost or revalued amounts	P 1,413,263,540	P 25,285,616,427	P 230,185,927	P 292,638,085	P 166,655,531	P 1,234,591,265	P 736,100,651	P 29,359,051,426
Accumulated depreciation and amortization	-	( 6,991,869,642 )	( 125,444,996 )	( 54,186,400 )	( 119,398,409 )	( 105,715,879 )	-	( 7,396,615,326 )
Accumulated impairment loss	-	( 7,394,742 )	-	-	-	-	-	( 7,394,742 )
Net carrying amount	<u>P 1,413,263,540</u>	<u>P 18,286,352,043</u>	<u>P 104,740,931</u>	<u>P 238,451,685</u>	<u>P 47,257,122</u>	<u>P 1,128,875,386</u>	<u>P 736,100,651</u>	<u>P 21,955,041,358</u>
December 31, 2019								
Cost or revalued amounts	P 1,413,263,540	P 25,044,105,607	P 182,402,234	P 228,140,385	P 162,911,778	P 1,234,591,265	P 1,280,335,958	P 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	<u>P 1,413,263,540</u>	<u>P 18,695,396,505</u>	<u>P 96,441,291</u>	<u>P 183,379,342</u>	<u>P 55,584,933</u>	<u>P 1,190,603,986</u>	<u>P 1,280,335,958</u>	<u>P 22,915,005,555</u>
January 1, 2019								
Cost or revalued amounts	P 1,383,120,059	P 17,474,604,261	P 159,722,803	P 101,709,707	P 168,388,806	P -	P 1,332,056,903	P 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	<u>P 1,383,120,059</u>	<u>P 14,353,226,521</u>	<u>P 102,771,588</u>	<u>P 65,259,809</u>	<u>P 67,462,277</u>	<u>P -</u>	<u>P 1,332,056,903</u>	<u>P 17,303,897,157</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2020 and 2019 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, 2020, net of accumulated depreciation and amortization and impairment losses	P 1,413,263,540	P 18,695,396,505	P 96,441,291	P 183,379,342	P 55,584,933	P 1,190,603,986	P 1,280,335,958	P 22,915,005,555
Additions	-	206,085,892	25,303,873	67,365,334	4,937,267	-	82,985,386	386,677,752
Reclassification	-	-	-	-	-	( 184,925,636 )	( 184,925,636 )	( 384,295,057 )
Disposals - net	-	-	-	-	-	( 442,295,057 )	-	( 442,295,057 )
Depreciation and amortization charges for the year	-	( 615,130,354 )	( 17,004,233 )	( 12,292,991 )	( 13,265,078 )	( 61,728,600 )	-	( 719,421,256 )
Balance at June 30, 2020, net of accumulated depreciation and amortization and impairment losses	<u>P 1,413,263,540</u>	<u>P 18,286,352,043</u>	<u>P 104,740,931</u>	<u>P 238,451,685</u>	<u>P 47,257,122</u>	<u>P 1,128,875,386</u>	<u>P 736,100,651</u>	<u>P 21,955,041,358</u>
Balance at January 1, 2019, 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	P 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	<u>P 1,413,263,540</u>	<u>P 18,695,396,505</u>	<u>P 96,441,291</u>	<u>P 183,379,342</u>	<u>P 55,584,933</u>	<u>P 1,190,603,986</u>	<u>P 1,280,335,958</u>	<u>P 22,915,005,555</u>

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	P 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 June 30, 2020 and December 31, 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Cost	<b>P19,065,420,594</b>	P20,438,660,970
Accumulated depreciation	<b>( 4,379,992,905 )</b>	( 4,391,704,916 )
Accumulated impairment losses	<b>( <u>7,394,742</u> )</b>	( <u>7,394,742</u> )
 Net carrying amount	 <b><u>P14,678,032,945</u></b>	 <b><u>P16,039,561,312</u></b>

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

	<u>Notes</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cost of sales and services	15	<b>P 664,927,627</b>	P 530,311,727	P 374,274,594
Other operating expenses		<b><u>54,493,629</u></b>	<u>23,581,848</u>	<u>15,271,459</u>
	16	<b><u>P 719,421,256</u></b>	<b><u>P 553,893,575</u></b>	<b><u>P 389,546,053</u></b>

Certain vessels of the Group with a total net carrying amount of P11,736.9 million and P11,259.3 million as of June 30, 2020 and December 31, 2019, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 12).

Capitalized borrowing costs amounted to P65.6 million as of December 31, 2019 and is recognized using a capitalization rate of 7.74% (see Note 12.1).

The 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:

	<u>2020</u>	<u>2019</u>
Associates:		
KGLI-NM		
Cost	P -	P 2,104,212,296
Accumulated equity share in the total comprehensive income from previous year	-	( 346,960,795 )
Equity share in net loss		( 250,901,194 )
Equity share in OCI		( 26,478,210 )
	<u>-</u>	<u>1,479,872,097</u>
DHC - Cost	<u>1,041,666,665</u>	<u>1,041,666,665</u>
Dito		
Cost	4,106,249,866	4,106,249,866
Accumulated equity share in the total comprehensive income from previous year	( 292,520,586 )	-
Equity share in net loss	( 245,792,815 )	( 232,254,791 )
Equity share in stock issuance costs	-	( 60,265,795 )
	<u>3,567,936,465</u>	<u>3,813,729,380</u>
2GO		
Cost	2,084,764,786	-
Equity share in net loss	( 240,973,200 )	-
	<u>1,843,791,586</u>	<u>-</u>
	<b>6,453,394,716</b>	6,335,268,142
Jointly controlled entity –		
Meridian Maritime		
Training Center (Meridian)	<u>81,001,540</u>	<u>81,001,440</u>
	<u>P 6,534,396,256</u>	<u>P 6,416,269,582</u>

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 P4.1 billion. Out of the subscribed shares, P3.6 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 P1.0 billion. Out of the subscribed shares, P781.2 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 June 30, 2020 and December 31, 2019 (in thousands).

	<u>KGLI-NM</u>	<u>Dito</u>	<u>DHC</u>	<u>2GO</u>	<u>Total</u>
<b><u>June 30, 2020</u></b>					
Total current assets	P -	P 2,028,120	P 625,000	P 8,166,974	P 10,820,094
Total non-current assets	-	<u>37,394,211</u>	-	<u>7,735,829</u>	<u>45,130,040</u>
Total assets	<u>P -</u>	<u>P 39,422,331</u>	<u>P 625,000</u>	<u>P 15,902,803</u>	<u>P 55,950,134</u>
Total current liabilities	P -	P 8,053,372	P -	P 8,312,316	P 16,365,688
Total non-current liabilities	-	<u>19,091,177</u>	-	<u>4,787,097</u>	<u>23,878,274</u>
Total liabilities	<u>P -</u>	<u>P 27,144,549</u>	<u>P -</u>	<u>P 13,099,413</u>	<u>P 40,243,962</u>
Total revenues	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 9,089,289</u>	<u>P 9,089,289</u>
Net loss	<u>P -</u>	<u>P 983,171</u>	<u>P -</u>	<u>P 733,295</u>	<u>P 1,716,466</u>
<b><u>December 31, 2019</u></b>					
Total current assets	P 7,846,952	P 1,323,845	P 625,000	P -	P 9,795,797
Total non-current assets	<u>8,555,600</u>	<u>12,625,137</u>	-	-	<u>21,180,737</u>
Total assets	<u>P 16,402,552</u>	<u>P 13,948,982</u>	<u>P 625,000</u>	<u>P -</u>	<u>P 30,976,534</u>
Total current liabilities	P 8,883,408	P 376,841	P -	P -	P 9,260,249
Total non-current liabilities	<u>3,962,993</u>	<u>765,839</u>	-	-	<u>4,728,832</u>
Total liabilities	<u>P 12,846,401</u>	<u>P 1,142,680</u>	<u>P -</u>	<u>P -</u>	<u>P 13,989,081</u>
Total revenues	<u>P 21,409,914</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 21,409,914</u>
Net loss	<u>P 890,352</u>	<u>P 929,019</u>	<u>P -</u>	<u>P -</u>	<u>P 1,819,371</u>

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 P50.0 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, CSC made additional investments in the Meridian amounting to P17.1 million.

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 June 30, 2020 and December 31, 2019, 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:

	Notes	<u>2020</u>	<u>2019</u>
Advances to suppliers	23.9	<b>P 324,192,402</b>	P 279,567,940
Security deposits	20.3, 23.3	<b>141,416,867</b>	136,616,637
Deferred input VAT		<b>45,755,910</b>	54,657,288
Software, net of amortization		<b>26,345,168</b>	27,753,354
Restricted cash	4	<b>14,505,000</b>	14,500,000
Others		<b><u>9,707,586</u></b>	<b><u>9,243,062</u></b>
		<b><u>P 561,922,933</u></b>	<b><u>P 522,338,281</u></b>

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, net of amortization.

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 and borrowings are broken down as follows:

	Note	<u>2020</u>	<u>2019</u>
Current:			
Bank loans	12.2	<b>P 4,292,065,489</b>	P 4,043,147,077
Term loans	12.1	<b>1,737,770,656</b>	1,924,295,582
Lease liabilities	12.4	<b>105,296,392</b>	111,246,482
Mortgage loans	12.3	<b><u>34,923,397</u></b>	<u>45,811,426</u>
		<b><u>6,170,055,934</u></b>	<u>6,124,500,567</u>
Non-current:			
Term loans	12.1	<b>8,797,761,502</b>	8,874,595,628
Lease liabilities	12.4	<b>1,065,344,074</b>	1,123,285,149
Mortgage loans	12.3	<b><u>168,317,229</u></b>	<u>184,739,848</u>
		<b><u>10,031,422,805</u></b>	<u>10,182,620,625</u>
		<b><u>P16,201,478,739</u></b>	<b><u>P16,307,121,192</u></b>



A reconciliation of the carrying amounts of interest-bearing loans and borrowings at the beginning and end of June 30, 2020 and December 31, 2019 is shown below.

	Term loans (see Note 12.1)	Bank loans (see Note 12.2)	Mortgage loans (see Note 12.3)	Lease Liabilities (see Note 12.4)	Total
Balance as of January 1, 2020	P 10,798,891,210	P 4,043,147,077	P 230,551,274	P 1,234,531,631	P 16,307,121,192
Cash flows from financing activities:					
Additions	47,873,000	720,050,000	-	-	767,923,000
Repayments	( 312,532,052 )	( 471,131,588 )	( 27,310,648 )	( 63,891,165 )	( 874,865,453 )
	( 264,659,052 )	248,918,412	27,310,648	63,891,165	106,942,453
Non-cash financing activities -					
Restatement of foreign currency denominated loans	1,300,000	-	-	-	1,300,000
	1,300,000	-	-	-	1,300,000
Balance at June 30, 2020	<b>P 10,535,532,158</b>	<b>P 4,292,065,489</b>	<b>P 203,240,626</b>	<b>P 1,170,640,466</b>	<b>P 16,201,478,739</b>
Balance as of January 1, 2019	P 10,485,492,375	P 4,894,210,434	P 180,277,802	P 59,881,242	P 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 )	( 28,625,571 )	( 3,307,245,190 )
	( 13,101,906 )	( 822,123,948 )	( 50,230,413 )	( 28,625,571 )	( 914,081,837 )
Non-cash financing activities:					
Balance from acquired subsidiaries	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	P 10,798,891,210	P 4,043,147,077	P 230,551,274	P 1,234,531,631	P 16,307,121,192

## 12.1 Term Loans

The details of the Group's term loans as of June 30, 2020 and December 31, 2019 are as follows:

	Security	Terms	Interest Rates	Outstanding Balance	
				June 30, 2020	December 31, 2019
China Banking Corporation (CBC)	CSC shares of stocks/ Continuing Suretyship	6 years	4.50%	P 1,620,000,000	P 1,665,000,000
Development Bank of the Philippines (DBP)	MT Chelsea Providence	15 years	6.50%	1,455,953,655	1,473,214,286
Philippine Business Bank (PBB)	MV Eagle, FD Exuberance MV Archer, MV Saturn	10 years	7.50%	813,238,917	843,799,503
CBC	Real Estate Mortgage	15 years	7.25%	800,000,000	800,000,000
PBB		15 years	7.00%	700,000,000	749,689,849
DBP	Trans - Asia 16, 17 and 18	15 years	6.50%	584,892,857	595,928,571
DBP	MV San Pedro Calungsod MV San Lorenzo Ruis Uno	15 years	6.50%	526,460,393	532,875,621
DBP	MV St. Nicholas of Myra	15 years	6.95%	521,280,000	529,400,000
PBB	MV Salve Regina	15 years	7.00%	449,168,468	457,097,220
BDO Unibank, Inc. (BDO)	Trans - Asia 8, Trans - Asia 9, Trans - Asia 10	10 years	4.25%	340,323,661	364,179,579
DBP	MV St. Camael and MV St. Ariel	15 years	6.50%	322,037,037	328,888,889
PBB	MV Stella Del Mar	15 years	7.00%	302,843,650	302,914,899
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	247,500,000	258,750,000
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	247,500,000	258,750,000
CTBC Bank (Phils) Inc. (CTBC)	Continuing Suretyship	5 years	4.09%	247,500,000	258,750,000
CBC	Trans-Asia 15	10 years	7.00%	228,703,704	242,129,630
PBB	MT Chelsea Dominance	7 years	6.06%	227,048,850	243,266,625
CBC	MT Chelsea Charlize	7 years	3.25%	220,999,996	236,805,333
PBB	MT Chelsea Endurance	7 years	6.06%	192,578,750	206,334,375
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	165,000,000	172,500,000
Rizal Commercial Banking Corp.	Starlite Sprint I	5 years	9.50%	111,507,790	113,094,452
BDO	MT Chelsea Denise II	5 years	6.46%	103,820,000	103,820,000
Asia United Bank (AUB)	MTug Fortis VI, MTug Fortis VII and MTug Fortis VIII	7 years	5.56%	59,934,039	62,539,867
AUB	MTug Fortis IX and Mtug Fortis X	7 years	7.07%	47,873,000	-
AUB	MTug Fortis III and MTug Fortis V	7 years	5.56%	43,882,793	46,464,133
				10,580,047,560	10,846,192,831
				( 44,515,402 )	( 47,301,621 )
Discount on loans payable					
				<b>P 10,535,532,158</b>	<b>P 10,798,891,210</b>

(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 P300.0 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.

In 2020, PNX-Chelsea and BDO entered into another OLSA to refinance the outstanding loan balance of P103.8 million for another two years, the payment of which will be made in equal quarterly amortizations.

The outstanding loan is secured by a chattel mortgage on MT Chelsea Denise II with net carrying amount of P477.2 million and P506.3 million as of June 30, 2020 and December 31, 2019, 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.

(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 provide for any financial covenants to be met.

Debt issuance costs amounted to P13.5 million, of which P0.3 million and P0.4 million was amortized in 2020 and 2019, 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 P362.9 million and P383.3 million as of June 30, 2020 and December 31, 2019, 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 P848.8 million and P909.0 million, as of June 30, 2020 and December 31, 2019, respectively (see Note 9).

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

On April 12, 2017, FTC obtained interest-bearing loans amounting to P69.7 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 P70.4 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.

On January 16, 2020, FTC obtained additional interest-bearing loans amounting to P47.9 million from the same bank to partially refinance the acquisition of MTug Fortis IX and MTug Fortis X. The loan bears fixed interest rate of 7.07% and the principal is payable in 28 quarterly installments.

Certain trade receivables amounting to P89.7 million as of June 30, 2020 and December 31, 2019, 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 P483.3 million and P232.5 million as of June 30, 2020 and December 31, 2019, respectively, were used as collateral to secure the payment of these loans (see Note 9). The loan agreement do not provide for any financial covenants.

(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 P120.0 million at an interest rate of 4.5% per annum. Also, a loan amounting to P79.7 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 P263.5 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 P152.8 million and P156.6 million as of June 30, 2020 and December 31, 2019, respectively, was used as collateral to secure the payment of these loans (see Note 9).

(f) *TLA with CBC – Trans-Asia 15*

On October 2, 2018, Trans-Asia obtained a long-term loan from CBC amounting to P200.0 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 13<sup>th</sup> month of the drawdown.

On August 30, 2019, Trans-Asia obtained additional loan from the same bank amounting to P50.0 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 13<sup>th</sup> month of the drawdown.

Certain vessel with a net carrying amount of P298.2 million and P301.1 million as of June 30, 2020 and December 31, 2019, 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 CBC - CSC*

In 2016, the Company obtained a P1.8 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 P1.8 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 June 30, 2020 and December 31, 2019, CSC has complied with this covenant.

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

In 2017, Trans-Asia entered into a five-year loan facility agreement amounting to P300.0 million each with CTBC, MICBC and RBC and P200.0 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 P1,100.0 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 P525.0 million, a corporate guarantee by Udenna and individual surety of the Company's Chairman of the BOD [see Note 19.8(a)].

(i) *TLA with PBB – Starlite*

In 2015, Starlite entered into a 10-year term loan agreement amounting to P1,037.4 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 P800.0 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 P1,361.4 million and P1,248.2 million as of June 30, 2020 and December 31, 2019, respectively, were used as collateral to secure the payment of these loans (see Note 9).

(j) *TLA with DBP - Starlite*

In 2016 and 2015, Starlite entered into 15-year term loan agreements amounting to P306.0 million and P300.0 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 P847.6 million and P684.5 million as of June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019, Starlite has complied with these covenants.

(k) *TLA with DBP – PNX-Chelsea*

On January 25, 2018, PNX-Chelsea entered into a loan agreement with DBP amounting to P575.0 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 P8.7 million and P18.5 million as of June 30, 2020 and December 31, 2019, 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 P798.4 million and P834.0 million as of June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019, PNX-Chelsea has complied with this covenant.

(l) *TLA with DBP – Trans-Asia*

On May 2, 2018, Trans-Asia entered into a loan agreement with DBP amounting to P618.0 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 P1,027.3 million and P1,005.7 million as of June 30, 2020 and December 31, 2019 were used as collateral to secure the payment of these loans (see Note 9).

(m) *TLA with DBP – CSC*

On September 28, 2018, CSC entered into a loan agreement with DBP amounting to P1.5 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 P1,567.7 million and P1,587.7 million as of June 30, 2020 and December 31, 2019, respectively, was used as collateral to secure the payment of these loans (see Note 9).

(n) *TLA with PBB – SPFI*

In 2017, SPFI entered into a loan agreement with PBB amounting to P368.1 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 P567.6 million and P412.2 million as of June 30, 2020 and December 31, 2019, respectively, was used as a collateral to secure the payment of this loan (see Note 9).

(o) *TLA with PBB – SGFI*

In 2018, SGFI entered into a loan agreement with PBB amounting to P460.0 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 P542.0 million and P778.8 million as of June 30, 2020 and December 31, 2019 was used as a collateral to secure the payment of this loan (see Note 9).

(p) *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 P105.0 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 P125.3 million and P118.1 million as of June 30, 2020 and December 31, 2019, respectively, was used as a collateral to secure the payment of this loan (see Note 9).

(q) *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 P800.0 million and P450.0 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 P800.0 million from the term loan facility.

Debt issuance costs amounted to P9.4 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 P1,199.5 million as of June 30, 2020 and 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).

(r) *TLA with DBP – SFFC*

On May 20, 2016, SFFC obtained a long-term loan facility from DBP amounting to P370.0 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 P455.6 million and P440.6 million as of June 30, 2020 and December 31, 2019, respectively, 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.

Interest incurred on these loans 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 June 30, 2020 and December 31, 2019 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	
				June 30, 2020	December 31, 2019
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 7.50%	P 1,528,948,093	P 1,265,823,896
UCPB	MT Chelsea Intrepid				
	Unsecured	90 days	5.00% to 5.75%	897,500,000	896,400,000
CBC	Unsecured	60 days	6.00%	500,000,000	522,163,934
Landbank of the Philippines	Unsecured	90 days	9.00%	500,000,000	500,000,000
DBP	MT Chelsea Cheryllyn	180 days	4.00 to 4.25%	300,000,000	300,000,000
Pentacapital	Unsecured	360 days	6.00%	200,000,000	200,000,000
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	79,250,000	60,300,000
AUB	Unsecured			37,867,396	50,000,000
BDO Unibank Inc	Trans-Asia 1	180 days	6.50%	48,500,000	48,459,247
Union Bank of the Philippines	Unsecured	360 days	4.50%	200,000,000	200,000,000
				<b>P 4,292,065,489</b>	<b>P 4,043,147,077</b>

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 P1,820.8 million and P1,842.7 million as of June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019 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	
				June 30, 2020	December 31, 2019
BDO	Real Estate Mortgage	10 years	6.75%	P 163,006,255	P 173,432,009
Chinabank Savings	Chattel Mortgage on				
	Transportation Equipment	3 years	11.00% to 17.00%	19,873,397	30,416,821
AUB	Chattel Mortgage on				
	Transportation Equipment	3 to 5 years	7.00% to 8.50%	15,434,524	21,034,055
RCBC	Chattel Mortgage on				
	Transportation Equipment	3 years	7.00%	2,063,867	2,261,162
PNB	Chattel Mortgage on				
	Transportation Equipment	1 year	7.30%	1,306,964	1,631,211
BDO	Chattel Mortgage on				
	Transportation Equipment	3 years	8.51%	1,500,707	1,069,594
BPI	Chattel Mortgage on				
	Transportation Equipment	3 years	10.28%	54,912	706,422
				<b>P 203,240,626</b>	<b>P 230,551,274</b>

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 2020 and 2019. 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 P340.1 million and P351.6 million as of June 30, 2020 and December 31, 2019, respectively (see Note 9).



#### 12.4 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 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	P 11,807,770	P 127,979,122	P 202,441,615	P 892,303,124	P 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	P 9,039,292	-	P 187,363,688	-	P 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	P 172,852,618	P 1,329,932,977	P 44,940,134	P 1,547,725,729
Finance charges	( 61,606,136)	( 247,985,943)	( 3,602,019)	( 313,194,099)
Net present value	<u>P 111,246,482</u>	<u>P 1,081,947,034</u>	<u>P 41,338,114</u>	<u>P 1,234,531,631</u>

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 P53.5 million and is presented as Rentals under Cost of Sales and Services and Other Operating Expenses in the 2020 consolidated statement of profit or loss (see Notes 14 and 15). As of June 30, 2020 and December 31, 2019, the Company is committed to these short-term leases, and the total commitment amounts to P31.9 million.

### 13. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2020	2019
Trade payables	20.2, 20.6	<b>P 5,719,808,640</b>	P 5,641,407,436
Subscription payable	10	<b>4,355,208,332</b>	4,355,208,332
Accrued expenses	12, 20.2	<b>752,103,010</b>	342,341,676
Deferred output VAT		<b>306,521,377</b>	239,818,083
Output VAT		<b>48,145,759</b>	24,434,333
Government-related obligations		<b>44,680,648</b>	48,085,363
Deferred income		<b>5,375,945</b>	13,658,758
Provisions	23.5	<b>707,213</b>	707,213
Others		<b>38,712,165</b>	94,264,215
		<u><b>P11,271,263,089</b></u>	<u>P10,759,925,409</u>

Subscription payable pertains to the amount of subscribed shares on the Group's investments in associates that remains unpaid as of June 30, 2020 and 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. REDEEMABLE PREFERENCE SHARES

The carrying amount of KGLI's RPS is composed of the following as of June 30, 2020:

<i>RPS Class B</i>	
Face value – P10,000 par value	P 430,810,000
Accrued interest	<u>799,626,441</u>
	<u>P1,230,436,441</u>

Holders of RPS B earn a fixed dividend for four years upon issuance based on the par value of the shares and any cumulative dividend not paid and shall be redeemable at the option of the holder after the fourth year and from thereon, the shares shall not be entitled to receive any dividends unless such dividends represent the dividends from the first four years after the issuance. RPS B shares are non-participating and voting. The declaration and distribution of dividends may take place only upon the resolution of the shareholders of the Company.

Accrued interest on the preferred shares as of June 30, 2020 amount to P800.0 million and is also shown as part of Redeemable Preference Shares account in the 2020 consolidated statement of financial position.

As of June 30, 2020, all of the KGLI's redeemable preference shares have matured and are all carried at its face value; hence, no further interest was accrued in 2020.

#### 15. COST OF SALES AND SERVICES

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

	<u>Notes</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Bunkering	7, 20.2	P 714,647,970	P 785,533,739	P 554,239,657
Depreciation and amortization	9	664,927,627	530,311,727	374,274,594
Salaries and employee benefits	17.1	294,443,268	332,972,480	271,885,818
Outside services		116,885,786	129,917,492	59,373,011
Repairs and maintenance	7	112,011,546	101,696,601	69,943,503
Insurance		108,220,622	88,443,485	49,531,681
Port expenses		76,456,983	101,186,175	82,870,851
Cost of inventories sold		26,317,433	32,136,896	4,838,930
Supplies	7	22,874,297	41,583,075	40,676,148
Charter hire fees		16,305,697	52,918,938	95,769,187
Taxes and licenses		13,330,934	11,706,415	12,170,685
Commission		13,250,337	25,562,696	1,574,426
Utilities and communication		9,268,642	7,951,913	9,570,042
Rentals	12.4, 23.3	5,324,753	11,055,724	23,008,839
Transportation and travel		1,780,793	9,023,045	8,159,827
Professional fees		40,286	254,592	1,458,507
Miscellaneous		<u>41,983,804</u>	<u>46,226,134</u>	<u>14,204,684</u>
		<u>P 2,238,070,778</u>	<u>P 2,308,481,127</u>	<u>P 1,673,550,390</u>

## 16. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the years ended June 30, 2020, 2019 and 2018 are presented below.

	Notes	2020	2019	2018
Depreciation and amortization	9, 11	P 720,896,496	P 553,893,575	P 389,546,053
Bunkering	7, 20.2	714,647,970	785,533,739	554,239,657
Salaries and employee benefits	17.1	515,614,760	517,507,981	435,733,632
Outside services		204,058,543	159,733,000	80,412,630
Repairs and maintenance	7	116,907,192	107,789,158	75,397,685
Insurance		113,448,365	93,946,882	51,034,284
Port expenses		76,456,983	101,186,175	82,874,401
Handling expense		73,508,628	79,713,185	45,766,704
Taxes and licenses		60,249,165	56,254,448	94,914,715
Rentals	12.4, 20.3, 23.3	53,400,477	31,310,829	43,283,292
Supplies	7	28,337,010	48,579,222	48,151,367
Cost of inventories sold		26,317,433	32,136,896	4,838,930
Utilities and communication		20,010,704	18,904,429	18,496,114
Charter hire fees		16,305,697	52,918,938	95,769,187
Professional fees		15,287,335	13,705,189	12,996,542
Transportation and travel		12,231,250	20,816,729	22,017,462
Commission		13,501,567	35,671,891	5,633,684
Representation and entertainment		2,482,901	2,563,683	9,263,302
Advertising and promotions		440,618	26,570,996	289,149
Miscellaneous	20.8(b)	66,322,583	29,035,175	60,345,549
		<u>P 2,850,425,677</u>	<u>P 2,767,772,120</u>	<u>P 2,131,004,339</u>

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

	Note	2020	2019	2018
Cost of sales and services	15	P 2,238,070,778	P 2,308,481,127	P 1,673,550,390
Other operating expense		612,354,899	459,290,993	457,453,949
		<u>P 2,850,425,677</u>	<u>P 2,767,772,120</u>	<u>P 2,131,004,339</u>

## 17. SALARIES AND EMPLOYEE BENEFITS

### 17.1 Salaries and Employee Benefits

The details of salaries and employee benefits for the years ended June 30, 2020, 2019 and 2018 are presented below.

	Notes	2020	2019	2018
Short-term employee benefits		P 497,961,672	P 494,474,231	P 430,470,335
Other employee benefits		17,653,088	23,033,750	5,263,297
	16	<u>P 515,614,760</u>	<u>P 517,507,981</u>	<u>P 435,733,632</u>

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	2020	2019	2018
Cost of sales and services	15	P 294,443,268	P 332,972,480	P 271,885,818
Other operating expense		<u>221,171,492</u>	<u>184,535,501</u>	<u>163,847,814</u>
	16	P 515,614,760	P 517,507,981	P 435,733,632

## 17.2 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 June 30, 2020 and December 31, 2019.

(i) *Post-employment Benefit Asset*

The amounts of post-employment defined benefit asset of CSC and MI as of June 30, 2020 and December 31, 2019, which is recognized in the consolidated statements of financial position are determined as follows:

	<u>2020</u>	<u>2019</u>
Fair value of plan assets	<b>P 11,689,387</b>	P 11,689,387
Present value of the obligation	<b>( 4,015,489)</b>	( 4,015,489)
	<b><u>P 7,673,898</u></b>	<b><u>P 7,673,898</u></b>

The movements in the present value of post-employment defined benefit obligation recognized as of June 30, 2020 and December 31, 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 4,015,489</b>	P 36,566,566
Reclassifications	-	( 32,551,077)
Current service cost	-	340,578
Interest cost	-	133,991
Actuarial loss (gains) due to changes in:		
Financial assumptions	-	438,755
Experience assumptions	-	1,291,470
Balance at end of year	<b><u>P 4,015,489</u></b>	<b><u>P 4,015,489</u></b>

The details of the fair value of plan assets in 2020 and 2019 are presented below.

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 11,689,387</b>	P 48,867,276
Reclassifications	-	( 37,177,889)
Interest income	-	752,124
Return on plan assets (excluding amounts included in net interest)	-	( 728,606)
Balance at end of year	<b><u>P 11,689,387</u></b>	<b><u>P 11,689,387</u></b>

The composition of the fair value of plan assets as at June 30, 2020 and December 31, 2019 by category and risk characteristics is shown below.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	P 6,582	P 6,582
Debt and equity securities:		
FVTPL	4,969,471	4,969,471
FVOCI	6,685,919	6,685,919
Others	<u>27,415</u>	<u>27,415</u>
	<u>P 11,689,387</u>	<u>P 11,689,387</u>

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 P0.02 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.

*(ii) Post-employment Benefit Obligation*

The amounts of post-employment defined benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	<u>2020</u>	<u>2019</u>
Present value of the obligation	P 113,011,020	P 113,011,020
Fair value of plan assets	( <u>56,482,439</u> )	( <u>56,482,439</u> )
	<u>P 56,528,581</u>	<u>P 56,528,581</u>

The amounts of post-employment defined benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	P 113,011,020	P 35,162,375
Actuarial loss (gains) due to changes in:		
Financial assumptions	-	23,257,102
Experience assumptions	-	( 10,991,338 )
Demographic assumptions	-	( 3,874,107 )
Reclassifications	-	( 32,751,497 )
Balance from acquired subsidiary	-	19,727,562
Current service cost	-	12,915,080
Interest cost	-	6,612,816
Benefits paid	-	( <u>2,549,967</u> )
Balance at end of year	<u>P 113,011,020</u>	<u>P 113,011,020</u>

The details of the fair value of plan assets in 2020 and 2019 are presented below.

Balance from acquired subsidiary	P	15,896,016
Reclassification		37,201,407
Interest income		3,973,144
Contributions		222,664
Benefits paid	(	1,861,753)
Remeasurements		<u>1,050,961</u>
Balance at end of year	P	<u>56,482,439</u>

The composition of the fair value of plan assets as at June 30, 2020 and December 31, 2019 by category and risk characteristics is shown below.

Cash and cash equivalents	P	94,116
Debt and equity securities:		
FVTPL		51,523,907
FVOCI		4,326,052
Others		<u>538,364</u>
	P	<u>56,482,439</u>

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 P5.0 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 is nil both in 2020, 2019 and 2018:

In determining the retirement benefit obligation as at June 30, 2020 and December 31, 2019, the following actuarial assumptions were used:

	<u>2020</u>	<u>2019</u>
Discount rates	<b>5.10% - 7.40%</b>	5.10% - 7.40%
Expected rate of salary increase	<b>4.60% - 5.20%</b>	4.60% - 5.20%

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.

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
<u>December 31, 2019</u>			
Discount rate	+/- 1.0%	(P 10,682,360)	P 13,180,776
Salary growth rate	+/- 1.0%	12,234,856	( 10,090,930)

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 June 30, 2020 and December 31, 2019 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 June 30, 2020 and December 31, 2019, the plan is underfunded by P48.8 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 P2.4 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 June 30, 2020 and December 31, 2019 follows:

	<u>2020</u>	<u>2019</u>
One to five years	<b>P 54,175,096</b>	P 54,175,096
More than five years but not more than ten years	<u><b>74,055,162</b></u>	<u>74,055,162</u>
	<u><b>P 128,230,258</b></u>	<u>P 128,230,258</u>

## 18. OTHER INCOME (CHARGES)

### 18.1 Finance Costs

The details of this account for the years ended June 30, 2020, 2019 and 2018 are shown below.

	Notes	<u>2020</u>	<u>2019</u>	<u>2018</u>
Interest expense on –				
Interest-bearing loans	12	P 671,383,303	P 515,971,577	P 291,736,850
Bank charges		441,961	999,584	939,441
Foreign currency exchange losses – net		-	-	55,489,585
		<u>P 671,825,264</u>	<u>P 516,971,161</u>	<u>P 348,165,876</u>

### 18.2 Finance Income

The breakdown of this account for the years ended June 30, 2020, 2019 and 2018 are shown below.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Interest income	P 183,454	P 3,289,681	P 6,553,091
Foreign currency exchange gains	5,422,296	-	-
	<u>P 5,605,750</u>	<u>P 3,289,681</u>	<u>P 11,471,299</u>

### 18.3 Other Income

Presented below are the details of other income for the years ended June 30, 2020, 2019 and 2018.

	Notes	<u>2020</u>	<u>2019</u>	<u>2018</u>
Handling and trucking		P 86,642,729	P 80,228,836	P 49,841,082
Gain on sale of property and equipment		48,776,371	-	-
Rental income	20.3, 23.2	-	14,403,175	2,571,974
Rebates		-	-	8,000,000
Miscellaneous		18,740,869	32,297,882	5,493,601
		<u>P 154,159,969</u>	<u>P 126,929,893</u>	<u>P 65,906,657</u>

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.

## 19. TAXES

### ***19.1 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.

**19.2 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.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Recognized in profit or loss:</i>			
Regular corporate income tax	P 16,865,177	P 55,996,312	P 63,617,384
Minimum corporate income tax (MCIT)	-	113,189	320,475
Final tax at 20% and 7.5%	<u>17,885</u>	<u>171,018</u>	<u>73,588</u>
Deferred tax income relating to origination and reversal of temporary differences	16,883,062	56,280,519	64,011,447
	( <u>7,727,537</u> )	( <u>84,532,090</u> )	( <u>50,440,861</u> )
	<u>P 9,155,525</u>	( <u>P 28,251,571</u> )	<u>P 13,570,586</u>
<i>Recognized in other comprehensive income —</i>			
Deferred tax expense relating to origination and reversal of temporary differences	P -	( <u>P 34,865,853</u> )	( <u>P 25,745,449</u> )

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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Tax on pretax profit (loss) at 30%	( P 383,112,359 )	P 84,033,442	P 112,294,948
Adjustments for income subjected to lower tax rates	( 8,943 )	( 85,509 )	( 33,735 )
Tax effects of:			
Unrecognized DTA on Net Operating Loss Carry Over (NOLCO)	246,247,022	-	2,681,515
Nondeductible expenses	146,029,805	10,899,371	7,949,939
Nontaxable income	-	( 27,552,633 )	( 16,793,523 )
Net profit (loss) on BOI-registered activities	-	( 95,546,242 )	( 92,599,278 )
Excess of optional standard deduction	-	-	70,720
	<u>P 9,155,525</u>	( <u>P 28,251,571</u> )	<u>P 13,570,586</u>

The net deferred tax assets of the Company and certain subsidiaries pertain to the following:

	<u>2020</u>	<u>2019</u>
NOLCO	<b>P 488,157,656</b>	P 493,264,822
Revaluation reserves on property and equipment	<b>( 69,453,082)</b>	( 128,995,682)
Post-employment benefit obligation	<b>11,678,604</b>	11,678,604
Capitalized borrowing costs	<b>( 6,972,952)</b>	( 6,972,952)
MCIT	<b>3,818,851</b>	3,818,851
Impairment losses on trade and other receivables	<b>1,162,230</b>	1,162,230
Accrued expenses	<b>890,150</b>	890,150
Unamortized past service cost	<b><u>315,557</u></b>	<u>315,557</u>
	<b><u>P 429,597,014</u></b>	<u>P 375,161,580</u>

The net deferred tax liabilities of certain subsidiaries as of June 30, 2020 and December 31, 2019 are as follows:

	<u>2019</u>	<u>2018</u>
Revaluation reserves on property and equipment	<b>(P 230,212,342)</b>	(P 168,049,371)
Revaluation surplus on disposed vessel	<b>( 3,036,983)</b>	( 3,036,983)
Impairment losses on long-term financial assets	<b>2,721,268</b>	2,721,268
Post-employment benefit obligation	<b>2,448,967</b>	2,448,967
Accrued expenses	<b>2,057,831</b>	2,057,831
NOLCO	<b>410,883</b>	410,883
Provisions	<b>137,535</b>	137,535
Impairment losses on trade and other receivables	<b>51,291</b>	51,291
Unrealized foreign currency exchange gains – net	<b>4,490</b>	4,490
Others	<b><u>( 677,264)</u></b>	<u>( 677,264)</u>
	<b><u>(P 226,094,324)</u></b>	<u>(P 163,931,353)</u>

The net deferred tax income (expense) reported in the consolidated statements of profit or loss and consolidated statements of comprehensive income is shown below.

	2020		2019		2018	
	Profit or Loss	Other Comprehensive Income	Profit or Loss	Other Comprehensive Income	Profit or Loss	Other Comprehensive Income
Deferred tax expense (income):						
NOLCO	P 8,917,317	P -	( P 55,214,755 )	P -	( P 21,997,029 )	P -
Revaluation reserves of vessels	( 16,644,854 )	-	( 34,152,892 )	( 34,865,853 )	( 28,187,743 )	( 25,745,449 )
Unrealized foreign currency loss – net	-	-	4,948,745	-	-	-
MCIT	-	-	( 113,189 )	-	( 256,089 )	-
	( P 7,727,537 )	P -	( P 84,532,091 )	( P 34,865,853 )	( P 50,440,861 )	( P 25,745,449 )

The details of the Group's NOLCO and MCIT are shown below.

Year	Original Amount	Applied in Previous Periods	Applied in Current Period	Expired Balance	Remaining Balance	Valid Until
<b>NOLCO:</b>						
2020	P 1,282,723,201	P -	P -	P -	P 1,282,723,201	2023
2019	426,330,880	-	-	-	426,330,880	2022
2018	461,300,595	-	-	-	461,300,595	2021
2017	895,541,094	137,507,881	-	-	758,033,213	2020
	<u>P 3,065,895,771</u>	<u>P 137,507,881</u>	<u>-</u>	<u>P -</u>	<u>P 2,928,387,890</u>	
<b>MCIT:</b>						
2019	P 2,102,988	P -	P -	P -	P 2,102,988	2022
2018	942,908	-	-	-	942,908	2021
2017	772,955	-	-	-	772,955	2020
	<u>P 8,211,394</u>	<u>P -</u>	<u>P 1,744,011</u>	<u>P 2,648,532</u>	<u>P 3,818,851</u>	

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 2020, 2019 and 2018, the Group opted to claim itemized deductions in computing for its income tax due.

## 20. 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 June 30, 2020, 2019 and 2018 and the related outstanding balances as of June 30, 2020 and December 31, 2019 is presented below.

Related Party Category	Notes	Amounts of Transactions			Outstanding Balances	
		2020	2019	2018	June 30, 2020	December 31, 2019
<b>Parent —</b>						
Cash advances granted	20.4	P 50,013,892	( P 1,622,766,411 )	( P 544,404,295 )	P 713,208,161	P 663,194,269
<b>Associate —</b>						
Chartering of services rendered	20.1	52,828,600	145,563,583	191,163,541	8,663,988	18,525,327
<b>Related parties under common ownership:</b>						
Chartering of services rendered	20.1	188,474,143	552,727,249	328,252,586	70,355,694	305,378,198
Fuel purchases	20.2	703,532,903	856,335,722	90,851,194	( 2,765,576,146 )	( 1,050,164,518 )
Acquisition of SFFC's shares	20.6	-	-	-	( 578,581,107 )	( 640,956,087 )
Acquisition of CSC's shares	20.6	-	-	-	( 500,000,000 )	( 500,000,000 )
Rental income	20.3	-	2,578,889	2,534,482	-	-
Rental expense	20.3	80,955	1,273,953	683,273	( 57,748 )	( 57,748 )
Donation	20.8(b)	180,000	150,000	180,000	( 30,000 )	( 30,000 )
Cash advances granted	20.4	34,008,635	21,798,700	557,304,788	185,066,501	151,057,866
Cash advances obtained	20.4	( 69,500,000 )	503,251,966	34,306,837	( 1,045,316,666 )	( 1,114,816,666 )

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.

### 20.1 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 June 30, 2020 and December 31, 2019 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 June 30, 2020 and December 31, 2019 based on management's assessment.



## 20.2 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 15) while the remaining fuel and lubricants inventory amounting to P229.5 million and P216.7 million as of June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019 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).

## 20.3 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 23.3).

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 18.3). 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.

## 20.4 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 June 30, 2020 and December 31, 2019, 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 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	P 814,252,135	P 3,127,555,209
Net advances (collections)	<u>84,022,527</u>	<u>( 2,313,303,074)</u>
Balance at end of year	<u>P 898,274,662</u>	<u>P 814,252,135</u>

Based on management's assessment, no impairment loss is recognized in 2020 and 2019 related to the advances granted to related parties (see Note 26.2).

The movement in the Advances from Related Parties account in 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	P 1,114,816,666	P 36,098,668
Net advances (payments)	( <u>69,500,000</u> )	<u>1,078,717,998</u>
Balance at end of year	<u>P 1,045,316,666</u>	<u>P 1,114,816,666</u>

### **20.5 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 P68.2 million and P48.9 million as of June 30, 2020 and December 31, 2019, respectively. As of June 30, 2020 and December 31, 2019, 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 17.2.

### **20.6 Acquisition of CSC and SFFC 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 P2.0 billion. The carrying amounts of the consolidated assets and liabilities of CSC at the time of acquisition amounted to P8.4 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 21.3).

On October 9, 2019, the Company acquired all of the outstanding shares of SFFC from 2GO for a total consideration of P650.0 million. The carrying amounts of the total assets acquired and liabilities assumed at the time of acquisition amounted to P1,124.1 million and P545.8 million, respectively. The excess of the acquisition price over the net identifiable assets is presented as part of Goodwill account in the consolidated statement of financial position (see Note 23).

As of June 30, 2020 and December 31, 2019, the outstanding liability from these transactions amounting to P1,078.0 million and P1,141.0 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).

### **20.7 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 17).

### **20.8 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 P0.4 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 16).

## 21. EQUITY

### 21.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2020	2019	2020	2019
<b>Authorized</b> - P1 par value	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>P 2,000,000,000</u>	<u>P 2,000,000,000</u>
<b>Issued and outstanding</b>				
Balance at beginning and end of period	<u>1,821,977,615</u>	<u>1,821,977,615</u>	<u>P 1,821,977,615</u>	<u>P 1,821,977,615</u>

As of December 31, 2016, 500,000,000 shares have been subscribed amounting to P500.0 million, of which P150.0 million have already been collected. Subscription receivable amounting to P350.0 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 P5,272,615,385.

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 P10.68 per share for a total gross proceeds of P5.8 billion. In addition, the Group recognized the APIC amounting to P4,725,754,772, net of issuance costs amounting to P565,265,468. As at June 30, 2020 and December 31, 2019, the Company's listed shares closed at P3.62 and P5.50 per share, respectively.

### 21.2 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.

	Property and Equipment (see Note 9)	Post-employment Benefit Obligation (see Note 17.2)	Investment in Associate and a Joint Venture (see Note 10)	Cumulative translation adjustments	Total
Balance as of January 1, 2020	P 1,646,292,376	P 48,644,631	P 81,571,397	P 527,647	P 1,777,036,051
Currency exchange differences on translating financial statements of foreign operations				154,306	154,306
Depreciation transferred to retained earnings - revalued tankers	( 38,837,993 )	-	-	-	( 38,837,993 )
Other comprehensive income	( 38,837,993 )	-	-	154,306	( 38,683,687 )
Balance at June 30, 2020	<u>P 1,607,454,383</u>	<u>P 48,644,631</u>	<u>P 81,571,397</u>	<u>P 681,953</u>	<u>P 1,738,352,364</u>
Balance as of January 1, 2019	P 1,334,617,413	P 53,959,943	P 108,049,607	P 1,242,692	P 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 )
Depreciation transferred to retained earnings - revalued tankers	( 157,642,430 )	-	-	-	( 157,642,430 )
Other comprehensive income before tax	475,309,471	( 9,799,526 )	( 26,478,210 )	( 715,045 )	438,316,690
Tax income	( 163,634,508 )	4,484,214	-	-	( 159,150,294 )
Other comprehensive income after tax	<u>311,674,963</u>	<u>( 5,315,312 )</u>	<u>( 26,478,210 )</u>	<u>( 715,045 )</u>	<u>279,166,396</u>
Balance at December 31, 2019	<u>P 1,646,292,376</u>	<u>P 48,644,631</u>	<u>P 81,571,397</u>	<u>P 527,647</u>	<u>P 1,777,036,051</u>

### 21.3 Other Reserves

Other reserves amounting to P1.0 billion pertain to the excess of the net identifiable assets of CSC amounting to totaling P3.0 billion over the Company's acquisition price of P2.0 billion. The business combination entered was accounted for under the pooling-of-interest method (see Note 20.6).

### 21.4 Non-controlling Interest

The balance as at June 30, 2020 and December 31, 2019 represents preferred shares subscription of certain individuals in Trans-Asia. These shares are non-voting and redeemable at the option of Trans-Asia.

### 21.5 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 June 30, 2020 and 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 June 30, 2020 and December 31, 2019.

## 22. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings for profit (loss) attributable to the Company's stockholders are computed as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net profit (loss)	( P 1,286,196,720 )	P 138,710,166	P 115,100,598
Divided by weighted average shares outstanding	<u>1,821,977,615</u>	<u>1,821,977,615</u>	<u>1,821,977,615</u>
Earnings (loss) per share – basic and diluted	<u>( P 0.706 )</u>	<u>P 0.076</u>	<u>P 0.063</u>

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 June 30, 2020 and December 31, 2019; hence, diluted earnings per share is equal to the basic earnings per share.

## 23. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

### 23.1 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.

### 23.2 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering certain office spaces in 2020 and 2019. 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 P635,685 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 P1.3 million and P1.9 million in 2019 and 2018, 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 18.3).

### **23.3 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 P8.9 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 P8.8 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 P0.5 million. A provision for the claim with probable settlement amount of P0.8 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 P0.2 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).

### **23.4 Unused Lines of Credit**

As of June 30, 2020, the Group has unused lines of credit amounting to P3.0 million.

### **23.5 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 P22.8 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 P 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.

### **23.6 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 P1,128.9 million and P180.6 million in 2020 and 2019, 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 P576.5 million and P1,886 million as of June 30, 2020 and December 31, 2019, 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 P71.7 million and is presented as part of CIP under the Property and Equipment account of the 2019 consolidated statement of financial position.

### **23.7 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 P390.2 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 consolidated statement of financial position (see Note 11).

### **23.8 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.

## 24. 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:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 5,713,122,608</b>	P 5,641,434,544
Additions due to business combinations	<u><b>628,747,877</b></u>	<u>71,688,064</u>
Balance at end of year	<u><b>P 6,341,870,485</b></u>	<u>P 5,713,122,608</u>

### (a) 2020 Acquisitions

On January 1, 2020, the Company acquired 100% ownership interest of Pref C shares of KGLI-NM for a certain consideration. KGLI-NM was an associate as of December 31, 2019. 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	P	283,958
Other current assets		4,187,040
Investment in associate		2,084,764,786
Trade and other payables	(	7,675,122)
Redeemable preference shares	(	<u>1,230,436,441)</u>
	<u>P</u>	<u>851,124,221</u>

The excess of the acquisition costs over the net assets of KGLI-NM amounting to P628.7 million is presented as part of Goodwill in the 2020 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.

### (b) 2019 Acquisitions

On October 9, 2019, the Company acquired 100% ownership interest in SFFC for a total consideration amounting to P650.0 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	P	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	(	<u>385,740,741)</u>
	<u>P</u>	<u>578,311,936</u>

The excess of the acquisition costs over the net assets of SFFC amounting to P71.7 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 P205.2 million and P14.7 million, respectively.

(c) *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 P90.6 million and P14.2 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.

	<u>SPFI</u>	<u>SGFI</u>	<u>Total</u>
Cash and cash equivalents	P 12,731,674	P 2,603,783	P 15,335,457
Trade and other receivables	25,930,140	910,938	26,841,078
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	( <u>317,249,752</u> )	( <u>460,078,204</u> )	( <u>777,327,956</u> )
Net Assets	<u><b>P 95,016,184</b></u>	<u><b>P 10,646,825</b></u>	<u><b>P 105,663,009</b></u>

The excess of acquisition costs over the net assets of SGFI amounting to P3.5 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 P4.4 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	<u>SPFI</u>	<u>SGFI</u>	<u>Total</u>
Revenues	<u>P 9,000,000</u>	<u>P 16,500,000</u>	<u>P 125,135,813</u>
Net Profit (Loss)	<u>P 4,963,842</u>	<u>( P 7,752,864 )</u>	<u>P 4,051,247</u>

(d) *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 P6,048.0 million, P600.0 million and P1,677.8 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	P 25,508,842	P 65,588,642	P 88,983,637	P 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 )
<b>Net Assets</b>	<b><u>P 2,130,486,797</u></b>	<b><u>P 121,500,681</u></b>	<b><u>P 510,095,198</u></b>	<b><u>P 2,762,082,676</u></b>

The excess of acquisition costs over the net assets of UIBV, WSI and Starlite amounting to P3,917.4 million, P478.5 million and P1,167.7 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	P -	P 192,467,905	P 786,745,751	P 979,213,656
Net Profit	P -	P 45,611,439	P 59,764,337	P 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 P21.6 million and P1.1 million, respectively. As such, goodwill amounting to P10.4 million for BMI and P63.9 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 June 30, 2020 and December 31, 2019.

## 25. SEGMENT INFORMATION

### 25.1 *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.

### 25.2 *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.

### 25.3 *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.

### 25.4 *Analysis of Segment Information*

The tables below present revenue and profit information regarding business segments for the years ended June 30, 2020, 2019 and 2018 and assets and liabilities information regarding segments as at June 30, 2020 and December 31, 2019.

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
<b>2020</b>								
<b>SEGMENT RESULTS</b>								
Sales to external customers	P -	P 757,988,971	P 156,435,395	P 1,423,118,254	P 159,341,692	P 75,325,730	P -	P 2,572,210,042
Intersegment sales	122,534,163	-	34,302,714	81,396,250	-	230,504,813	( 468,737,940 )	-
Total revenues	122,534,163	757,988,971	190,738,109	1,504,514,504	159,341,692	305,830,543	( 468,737,940 )	2,572,210,042
Cost of sales and services	-	632,482,061	149,678,366	1,470,131,307	83,836,210	248,146,612	( 346,203,777 )	2,238,070,778
Other operating expenses	153,242,960	94,892,463	20,895,677	330,847,575	85,131,815	49,878,572	( 122,534,163 )	612,354,899
Operating profit (loss)	( 30,708,797 )	30,614,447	20,164,067	( 296,464,378 )	( 9,626,333 )	7,805,360	-	( 278,215,635 )
Finance costs	( 99,973,414 )	( 273,754,942 )	( 7,460,114 )	( 289,043,671 )	( 1,474,575 )	( 118,547 )	-	( 671,825,264 )
Share in net income of an associate	( 486,766,015 )	-	-	-	-	-	-	( 486,766,015 )
Finance income	5,279,808	53,617	4,664	258,213	( 96 )	9,543	-	5,605,750
Other income	-	49,768,125	47,240	102,860,108	( 8,288 )	1,492,784	-	154,159,969
Profit (loss) before tax	( 612,168,418 )	( 193,318,752 )	12,755,856	( 482,389,728 )	( 11,109,292 )	9,189,140	-	( 1,277,041,195 )
Tax expense (income)	4,456	( 2,371,248 )	4,043,511	2,706,145	-	4,772,661	-	9,155,525
Net profit (loss)	( P 612,172,874 )	( P 190,947,504 )	P 8,712,345	( P 485,095,873 )	( P 11,109,292 )	P 4,416,479	-	( P 1,286,196,720 )
<b>SEGMENT ASSETS AND LIABILITIES</b>								
Total assets	P 26,353,755,263	P 13,969,332,722	P 1,243,646,844	P 16,004,005,236	P 477,650,022	P 525,752,683	( P 17,192,290,037 )	P 41,381,852,733
Total liabilities	P 16,742,687,988	P 9,589,281,686	P 591,846,582	P 14,033,020,847	P 276,007,606	P 184,113,925	( P 11,202,608,875 )	P 30,214,349,759
<b>2019</b>								
<b>SEGMENT RESULTS</b>								
Sales to external customers	P -	P 1,216,929,115	P 163,075,851	P 1,815,635,091	P 222,624,205	P 76,262,361	P -	P 3,494,526,623
Intersegment sales	184,176,383	-	29,921,437	-	-	221,102,763	( 435,200,583 )	-
Total revenues	184,176,383	1,216,929,115	192,997,288	1,815,635,091	222,624,205	297,365,124	( 435,200,583 )	3,494,526,623
Cost of sales and services	-	598,623,810	145,674,092	1,471,198,649	113,988,951	230,019,826	( 251,024,200 )	2,308,481,127
Other operating expenses	82,940,996	109,727,879	33,332,502	339,066,905	46,571,197	33,836,038	( 186,184,525 )	459,290,993
Operating profit	101,235,387	508,577,426	13,990,693	5,369,537	62,064,057	33,509,260	2,008,142	726,754,503
Finance costs	( 28,015,145 )	( 215,230,477 )	( 4,690,706 )	( 266,459,957 )	( 1,668,533 )	( 906,343 )	-	( 516,971,161 )
Share in net loss of an associate	( 59,891,444 )	-	-	-	-	-	-	( 59,891,444 )
Finance income	133,836	2,883,341	5,022	207,258	-	60,224	-	3,289,681
Other income	70,000,000	15,573,286	5,132,191	107,328,687	469,717	434,154	( 72,008,142 )	126,929,893
Profit before tax	83,462,634	311,803,577	14,437,199	( 153,554,475 )	60,865,241	33,097,296	-	280,111,472
Tax expense (income)	22,227,842	( 45,139,499 )	5,880,214	( 38,578,352 )	18,259,572	9,098,652	-	( 28,251,571 )
Net profit (loss)	P 61,234,792	P 356,943,076	P 8,556,985	( P 114,976,123 )	P 42,605,669	P 23,998,644	P -	P 308,363,043
<b>June 30, 2018</b>								
<b>SEGMENT RESULTS</b>								
Sales to external customers	P -	P 995,495,009	P 179,407,600	P 1,417,651,160	P 127,576,573	P -	P -	P 2,720,130,342
Intersegment sales	160,911,901	-	-	-	-	155,801,303	( 316,713,204 )	-
Total revenues	160,911,901	995,495,009	179,407,600	1,417,651,160	127,576,573	155,801,303	( 316,713,204 )	2,720,130,342
Cost of sales and services	-	511,202,357	97,631,459	1,011,448,076	63,051,629	146,018,172	( 155,801,303 )	1,673,550,390
Other operating expenses	100,869,099	169,243,654	29,018,404	262,574,527	27,354,743	30,597,424	( 162,203,902 )	457,453,949
Operating profit (loss)	60,042,802	315,048,998	52,757,737	143,628,557	37,170,201	( 20,814,293 )	1,292,001	589,126,003
Finance costs	( 15,884,233 )	( 207,407,169 )	( 4,604,815 )	( 118,873,528 )	( 1,115,548 )	( 280,584 )	-	( 348,165,877 )
Share in net income of an associate	55,978,411	-	-	-	-	-	-	55,978,411
Finance income	5,145,585	151,165	201,373	4,926,858	1,041,235	5,084	-	11,471,300
Other income	-	4,923,523	-	62,275,135	-	-	( 1,292,001 )	65,906,657
Profit (loss) before tax	105,282,565	112,716,518	48,354,295	91,957,022	37,095,888	( 21,089,793 )	-	374,316,494
Tax expense (income)	20,379,308	( 54,967,033 )	15,533,607	17,842,937	13,406,008	1,375,758	-	13,570,586
Net profit (loss)	P 84,903,257	P 167,683,550	P 32,820,687	P 74,114,085	P 23,689,880	( P 22,465,551 )	P -	P 360,745,908

## 25.5 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 P50.1 million, P46.6 million and P10.3 million in 2020, 2019 and 2018, respectively, and sale of goods amounting to P54.9 million, P45.9 million and P16.7 million in 2020, 2019 and 2018, respectively, which are recognized at point in time and those arising from BB agreements amounting to P75.9 million, P74.68 million and 76.8 million in 2020, 2019 and 2018, respectively, which qualifies as a lease (see Note 2.16).

## 26. 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.

### 26.1 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 June 30, 2020 and December 31, 2019 closing rates follow:

	<u>2020</u>	<u>2019</u>
Financial assets	P 3,054,105	P 2,433,568
Financial liabilities	( <u>220,999,996</u> )	( <u>236,805,333</u> )
Net exposure	( <u>P 217,945,891</u> )	( <u>P 234,371,765</u> )

If the Philippine peso had strengthened against the U.S. dollar, loss before tax in 2020 and 2019 would have decreased by P28.6 million and P30.4 million, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have increased loss before tax in 2020 and 2019, 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 June 30, 2020 and December 31, 2019, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in 12 months for 2020 and 2019 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 June 30, 2020 and December 31, 2019, 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 2020 and 2019, respectively. Bank loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.46% and +/- 0.23% in 2020 and 2019, 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 +/- P3.3 million and +/-P1.9 million for the years ended June 30, 2020 and December 31, 2019, respectively.

**26.2 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	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	4	P 210,684,757	P 375,228,505
Trade and other receivables – net (excluding advances to officers and employees)	5	2,682,227,510	2,204,826,665
Restricted cash	8, 11	20,748,270	20,748,270
Security deposits	8, 11	141,416,867	136,616,637
Advances to related parties	20.4	<u>898,274,662</u>	<u>814,252,135</u>
		<u>P 3,953,352,066</u>	<u>P 3,551,672,212</u>

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 P0.5 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 June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019 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
<b>June 30, 2020</b>					
Expected loss rate					
Gross carrying amount - trade receivables	0.00%	0.00%	0.00%	9.21%	
Loss allowance	892,560,509	189,372,564	1,183,823,452	211,873,154	2,477,629,679
	-	-	-	19,504,177	19,504,177
<b>December 31, 2019</b>					
Expected loss rate					
Gross carrying amount - trade receivables	0.00%	0.00%	0.00%	11.37%	
Loss allowance	919,964,891	504,236,808	416,947,104	171,569,269	2,012,718,072
	-	-	-	19,504,177	19,504,177

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 June 30, 2020 and December 31, 2019 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.

### 26.3 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 June 30, 2020, the Group's financial liabilities, excluding lease liabilities, have contractual maturities which are presented below.

	Notes	Current		Non-current	
		Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 2,956,946,031	P 3,220,156,991	P 10,560,803,769	P 4,101,143,094
Trade and other payables (except for government-related obligations)	13	3,031,812,866	-	-	-
Advances from related parties	20.4	522,658,333	522,658,333	-	-
		<b>P 6,511,417,230</b>	<b>P 3,742,815,324</b>	<b>P 10,560,803,769</b>	<b>P 4,101,143,094</b>



As at December 31, 2019, the Group's financial liabilities have contractual maturities which are presented below.

	Notes	Current		Non-current	
		Within Six Months	Six to 12 Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 3,652,965,371	P 2,765,901,031	P 8,007,417,469	P 3,348,327,507
Trade and other payables (except for government-related obligations)	13	2,904,474,553	-	-	-
Advances from related parties	20.4	522,907,784	522,907,784	-	-
		<b>P 7,080,347,708</b>	<b>P 3,288,808,815</b>	<b>P 8,007,417,469</b>	<b>P 3,348,327,507</b>

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.

## 27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 27.1 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.

Notes	June 30, 2020		December 31, 2019		
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values	
<b>Financial Assets:</b>					
<i>At amortized cost:</i>					
Cash and cash equivalents	4	P 210,684,757	P 210,684,757	P 375,228,505	P 375,228,505
Trade and other receivables - net	5	2,682,227,510	2,682,227,510	2,204,826,665	2,204,826,665
Restricted cash	8, 11	20,748,270	20,748,270	20,748,270	20,748,270
Security deposits	8, 11	141,416,867	141,416,867	136,616,637	136,616,637
Advances to related parties	20.4	898,274,662	898,274,662	814,252,135	814,252,135
<i>Financial Assets at FVTPL —</i>					
Equity securities	6	3,947,736	3,947,736	3,947,736	3,947,736
		<b>P 3,957,299,802</b>	<b>P 3,957,299,802</b>	<b>P 3,555,619,948</b>	<b>P 3,555,619,948</b>
<b>Financial Liabilities —</b>					
<i>At amortized cost:</i>					
Trade and other payables	13	P 2,995,812,866	P 2,995,812,866	P 10,191,038,037	P 10,191,038,037
Interest-bearing loans	12	16,201,478,739	16,201,478,739	16,307,121,192	16,307,121,192
Advances from related parties	20.4	1,045,316,666	1,045,316,666	1,114,816,666	1,114,816,666
		<b>P 20,242,608,271</b>	<b>P 20,242,608,271</b>	<b>P 27,612,975,895</b>	<b>P 27,612,975,895</b>

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.

### 27.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2020 and 2019 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 P977.3 million and P1,138.2 million as of June 30, 2020 and December 31, 2019, respectively, may be offset against the outstanding balances of trade and other payables and cash advances obtained from related parties totaling P4,889.6 million and P3,306.0 million as of June 30, 2020 and December 31, 2019, 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).

## **28. 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 P3.9 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 June 30, 2020 and December 31, 2019.

### 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 June 30, 2020 and December 31, 2019, which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

		June 30, 2020			
		Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>					
<i>At amortized cost:</i>					
Cash and cash equivalents	P	210,684,757	p -	P -	P 210,684,757
Trade and other receivables - net		-	-	2,682,227,510	2,682,227,510
Restricted cash		20,748,270	-	-	20,748,270
Security deposits		-	-	141,416,867	141,416,867
Advances to related parties		-	-	898,274,662	898,274,662
	<b>P</b>	<b>231,433,027</b>	<b>P -</b>	<b>3,721,919,039</b>	<b>P 3,953,352,066</b>
<b>Financial Liabilities —</b>					
<i>At amortized cost:</i>					
Trade and other payables	P	-	p -	P 2,995,812,866	P 2,995,812,866
Interest-bearing loans		-	-	16,201,478,739	16,201,478,739
Advances from related parties		-	-	1,045,316,666	1,045,316,666
	<b>P</b>	<b>-</b>	<b>P -</b>	<b>20,242,608,271</b>	<b>P 20,242,608,271</b>
		December 31, 2019			
		Level 1	Level 2	Level 3	Total
<b>Financial Assets:</b>					
<i>Loans and Receivables:</i>					
Cash and cash equivalents	P	375,228,505	P -	P -	P 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
	<b>P</b>	<b>395,976,775</b>	<b>P -</b>	<b>3,155,695,437</b>	<b>P 3,551,672,212</b>
<b>Financial Liabilities:</b>					
<i>At amortized cost:</i>					
Trade and other payables	P	-	P -	P 10,191,038,037	P 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
	<b>P</b>	<b>-</b>	<b>P -</b>	<b>27,612,975,895</b>	<b>P 27,612,975,895</b>

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 2020 and 2019.

## 29. 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:

	<u>2020</u>	<u>2019</u>
Total liabilities	<b>P 30,214,349,759</b>	P 28,550,652,121
Total equity	<b><u>11,167,502,974</u></b>	<u>12,453,545,388</u>
Debt-to-equity ratio	<b><u>2.71 : 1.00</u></b>	<u>2.29 : 1.00</u>

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.