

COVER SHEET

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S.E.C. Registration Number

C H E L S E A L O G I S T I C S A N D
I N F R A S T R U C T U R E H O L D I N G S
C O R P . A N D S U B S I D I A R I E S

(Company's Full Name)

S T E L L A H I Z O N R E Y E S R O A D , B O .
P A M P A N G A , D A V A O C I T Y

(Business Address : No. Street City / Town / Province)

MA. HENEDINA V. SAN JUAN

Contact Person

+63 82 224 5373

Company Telephone Number

1 2 3 1

Month Day

Fiscal Year

1 7 - Q

FORMTYPE

Secondary License Type, If Applicable

N / A

0 3

Month Day

Annual Meeting

S E C

Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

29

Total No. of Stockholders

Total Amount of Borrowings

14,820,560,119

Domestic

3,008,656,793

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **30 September 2022**
2. Commission identification number **CS201619734**
3. BIR Tax Identification No **009-393-167-000**
4. Exact name of issuer as specified in its charter **CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP.**
5. Province, country or other jurisdiction of incorporation or organization **Davao City, Philippines**
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code
Stella Hizon Reyes Road, Bo. Pampanga, Davao City, Philippines 8000
8. Issuer's telephone number, including area code **+63 82 224 5373**
9. Former name, former address and former fiscal year, if changed since last report
N/A
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each class	Number of shares outstanding
<u>COMMON</u>	<u>1,916,227,615</u>

Amount of debt outstanding: **PHP17,829,216,912**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [] No []]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE **COMMON SHARES**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [] No []]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [] No []]

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CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 AND DECEMBER 31, 2021
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2022</u> <u>(Unaudited)</u>	<u>2021</u> <u>(Audited)</u>
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash and cash equivalents	4	P 208,743,605	P 269,690,887
Trade and other receivables - net	5	864,720,970	1,055,240,918
Inventories	6	242,386,941	497,453,817
Advances to related parties	19	7,730,365,244	7,794,510,442
Other current assets	7	<u>1,797,027,503</u>	<u>1,421,224,113</u>
Total Current Assets		<u>10,843,244,263</u>	<u>11,038,120,177</u>
NON-CURRENT ASSETS			
Investment properties	8	1,503,969,983	1,432,307,437
Property and equipment - net	9	18,381,942,431	19,033,334,369
Investments in associates and a joint venture	10	81,001,440	81,001,440
Goodwill	23	1,838,002,446	1,838,002,446
Post-employment benefit asset	16	1,800,436	1,800,436
Deferred tax assets - net	18	130,507,493	130,507,493
Other non-current assets - net	11	<u>679,522,131</u>	<u>567,393,967</u>
Total Non-current Assets		<u>22,616,746,360</u>	<u>23,084,347,588</u>
TOTAL ASSETS		<u>P 33,459,990,623</u>	<u>P 34,122,467,765</u>

	Notes	2022 (Unaudited)	2021 (Audited)
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Trade and other payables	13	P 10,212,517,209	P 9,348,529,006
Interest-bearing loans and borrowings	12	6,264,537,013	6,045,249,030
Advances from related parties	19	695,222,572	624,023,838
Advances from customers	2	163,091,472	115,768,247
Income tax payable		-	1,563,179
Total Current Liabilities		<u>17,335,368,266</u>	<u>16,135,133,300</u>
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	12	11,564,679,899	12,034,180,267
Post-employment benefit obligation	16	80,016,237	80,016,237
Deferred tax liabilities - net	18	218,943,926	218,943,926
Other non-current liabilities		<u>17,937,598</u>	<u>3,935,500</u>
Total Non-current Liabilities		<u>11,881,577,660</u>	<u>12,337,075,930</u>
Total Liabilities		<u>29,216,945,926</u>	<u>28,472,209,230</u>
EQUITY			
Equity attributable to shareholders of the Company			
Capital stock	20	1,916,227,615	1,821,977,615
Deposits on future stock subscriptions		-	720,425,000
Additional paid-in capital		10,709,745,157	9,998,370,157
Share options outstanding		22,812,287	22,812,287
Revaluation reserves		1,036,704,397	1,050,911,063
Other reserves		(1,058,033,280)	(1,058,033,280)
Deficit		(8,564,411,479)	(7,086,204,307)
		<u>4,063,044,697</u>	5,470,258,535
Non-controlling interest	20	<u>180,000,000</u>	<u>180,000,000</u>
Total Equity		<u>4,243,044,697</u>	<u>5,650,258,535</u>
TOTAL LIABILITIES AND EQUITY		<u>P 33,459,990,623</u>	<u>P 34,122,467,765</u>

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Amounts in Philippine Pesos)
(Unaudited)

Notes	For the nine months ended September 30,			For the three months ended September 30,			
	2022	2021	2020	2022	2021	2020	
REVENUES	24	P 4,630,222,569	P 3,272,478,618	P 3,324,746,927	1,716,522,711	1,142,179,074	752,536,885
COST OF SALES AND SERVICES	14	<u>4,276,200,824</u>	<u>3,586,031,629</u>	<u>3,760,165,476</u>	<u>1,637,011,816</u>	<u>1,309,235,859</u>	<u>1,522,094,698</u>
GROSS PROFIT (LOSS)		354,021,745	(313,553,011)	(435,418,549)	79,510,895	(167,056,785)	(769,557,813)
OTHER OPERATING EXPENSES	15	<u>849,388,461</u>	<u>501,547,041</u>	<u>849,612,021</u>	<u>291,754,084</u>	<u>160,789,613</u>	<u>237,257,122</u>
EXPECTED CREDIT LOSSES ON RECEIVABLES	5	<u>2,214,259</u>	<u>204,373,722</u>	<u>-</u>	<u>(2,812,369)</u>	<u>75,469,938</u>	<u>-</u>
OPERATING PROFIT (LOSS)		<u>(497,580,975)</u>	<u>(1,019,473,774)</u>	<u>(1,285,030,570)</u>	<u>(209,430,820)</u>	<u>(403,316,336)</u>	<u>(1,006,814,935)</u>
OTHER INCOME (CHARGES) - Net							
Finance costs	17	(956,748,066)	(1,084,592,971)	(981,212,496)	(260,945,144)	(390,478,103)	(314,809,528)
Share in net loss of associates	10	-	(592,010,329)	(562,620,092)	-	(350,995,517)	(75,854,077)
Gain on sale of an asset held for sale	10	-	154,024,713	-	-	-	-
Finance income	17	267,294	5,966,904	211,989	59,567	462,371	28,535
Other income	17	(21,132,248)	<u>334,205,806</u>	<u>258,011,751</u>	<u>(2,277,751)</u>	<u>15,048,608</u>	<u>103,851,782</u>
		<u>(977,613,020)</u>	<u>(1,182,405,877)</u>	<u>(1,285,608,848)</u>	<u>(263,163,328)</u>	<u>(725,962,641)</u>	<u>(286,783,288)</u>
LOSS BEFORE TAX		<u>(1,475,193,995)</u>	<u>(2,201,879,651)</u>	<u>(2,570,639,418)</u>	<u>(472,594,148)</u>	<u>(1,129,278,977)</u>	<u>(1,293,598,223)</u>
TAX EXPENSE	18	<u>17,219,843</u>	<u>1,832,209</u>	<u>31,396,077</u>	<u>16,545,095</u>	<u>368,355</u>	<u>22,240,552</u>
NET LOSS		<u>(P 1,492,413,838)</u>	<u>(P 2,203,711,860)</u>	<u>(P 2,602,035,495)</u>	<u>(P 489,139,243)</u>	<u>(P 1,129,647,332)</u>	<u>(P 1,315,838,775)</u>
Loss Per Share (Basic and Diluted)	21	<u>(P 0.796)</u>	<u>(P 1.210)</u>	<u>(P 1.428)</u>	<u>(P 0.268)</u>	<u>(P 0.620)</u>	<u>(P 0.722)</u>

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES
(A Subsidiary of Udenna Corporation)
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Amounts in Philippine Pesos)
(Unaudited)

	Notes	For the nine months ended September 30,			For the three months ended September 30,		
		2022	2021	2020	2022	2021	2020
NET LOSS		(P 1,492,413,838)	(P 2,203,711,860)	(P 2,602,035,495)	(P 489,139,243)	(P 1,129,647,332)	(P 1,315,838,775)
OTHER COMPREHENSIVE INCOME							
Items that will be reclassified subsequently to profit or loss:							
Currency exchange differences on translating financial statements of foreign operations	2	-	-	154,306	-	(30,361)	123,945
TOTAL COMPREHENSIVE LOSS		(P 1,492,413,838)	(P 2,203,711,860)	(P 2,601,881,189)	(P 489,139,243)	(P 1,129,677,693)	(P 1,315,714,830)

See Notes to Interim Consolidated Financial Statements.

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CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Amounts in Philippine Pesos)
(Unaudited)

Notes	Attributable to Owners of the Parent Company								Non-controlling Interest	Total Equity
	Capital Stock	Deposits on Future Stock Subscriptions	Additional Paid-in Capital	Share Options Outstanding	Revaluation Reserves	Other Reserves	Retained Earnings (Deficit)	Total		
Balance at January 1, 2022	P 1,821,977,615	P 720,425,000	P 9,998,370,157	P 22,812,287	P 1,050,911,063	(P 1,058,033,280)	(P 7,086,204,307)	P 5,470,258,535	P 180,000,000	P 5,650,258,535
Subscriptions of common shares during the period	93,750,000	(305,625,000)	211,875,000	-	-	-	-	-	-	-
Issuance of preferred shares during the period	500,000	(414,800,000)	499,500,000	-	-	-	-	85,200,000	-	85,200,000
Total comprehensive loss for the year	-	-	-	-	-	-	(1,492,413,838)	(1,492,413,838)	-	(1,492,413,838)
Net loss	-	-	-	-	-	-	(1,492,413,838)	(1,492,413,838)	-	(1,492,413,838)
Transfer of revaluation reserves through depreciation, net of tax	-	-	-	-	(14,206,666)	-	14,206,666	-	-	-
Balance at September 30, 2022	<u>P 1,916,227,615</u>	<u>P -</u>	<u>P 10,709,745,157</u>	<u>P 22,812,287</u>	<u>P 1,036,704,397</u>	<u>(P 1,058,033,280)</u>	<u>(P 8,564,411,479)</u>	<u>P 4,063,044,697</u>	<u>P 180,000,000</u>	<u>P 4,243,044,697</u>
Balance at January 1, 2021	P 1,821,977,615	P 662,596,200	P 9,998,370,157	P 16,869,063	P 1,201,437,920	(P 1,058,033,280)	(P 3,367,774,527)	P 9,275,443,148	P 210,363,269	P 9,485,806,417
Additions during the year	-	57,828,800	-	-	-	-	-	57,828,800	-	57,828,800
Total comprehensive loss for the year	-	-	-	-	-	-	(2,203,711,860)	(2,203,711,860)	-	(2,203,711,860)
Net loss	-	-	-	-	-	-	(2,203,711,860)	(2,203,711,860)	-	(2,203,711,860)
Transfer of revaluation reserves through depreciation, net of tax	-	-	-	-	(58,696,992)	-	58,696,992	-	-	-
Balance at September 30, 2021	<u>P 1,821,977,615</u>	<u>P 720,425,000</u>	<u>P 9,998,370,157</u>	<u>P 16,869,063</u>	<u>P 1,142,740,928</u>	<u>(P 1,058,033,280)</u>	<u>(P 5,512,789,395)</u>	<u>P 7,129,560,088</u>	<u>P 210,363,269</u>	<u>P 7,339,923,357</u>
Balance at January 1, 2020	P 1,821,977,615	P -	P 9,998,370,157	P -	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 loss for the year	-	-	-	-	-	-	(2,602,035,495)	(2,602,035,495)	-	(2,602,035,495)
Net loss	-	-	-	-	154,306	-	-	154,306	-	154,306
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Transfer of revaluation reserves through depreciation, net of tax	-	-	-	-	(38,837,993)	-	38,837,993	-	-	-
Balance at September 30, 2020	<u>P 1,821,977,615</u>	<u>P -</u>	<u>P 9,998,370,157</u>	<u>P -</u>	<u>P 1,738,352,364</u>	<u>(P 1,058,033,280)</u>	<u>(P 2,829,002,657)</u>	<u>P 9,671,664,199</u>	<u>P 180,000,000</u>	<u>P 9,851,664,199</u>

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022, 2021 AND 2020
(Amounts in Philippine Pesos)
(Unaudited)

	Notes	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax		(P 1,475,193,995)	(P 2,201,879,651)	(P 2,570,639,418)
Adjustments for:				
Interest expense	17	908,339,118	1,065,063,887	986,068,417
Depreciation and amortization	9, 11	934,313,658	1,144,607,682	1,239,798,652
Unrealized foreign currency exchange losses - net	17	40,403,678	10,426,500	(17,507,200)
Interest income	17	(21,322)	(57,265)	(211,989)
Gain on sale of assets held for sale	10	-	(154,024,713)	-
Loss (gain) on sale of property and equipment	17	-	4,601,155	(50,502,168)
Share in net loss of associates	10	-	592,010,329	562,620,092
Operating profit before working capital changes		407,841,137	460,747,924	149,626,386
Decrease (increase) in trade and other receivables		190,519,948	(48,353,699)	(290,645,592)
Decrease (increase) in inventories		255,066,876	41,131,505	(48,182,109)
Decrease (increase) in advances to related parties		149,345,198	(11,680,475)	(216,904,039)
Decrease (increase) in other current assets		(393,020,588)	(299,202,653)	62,225,684
Increase in other non-current assets		(114,548,915)	(18,819,429)	37,002,967
Increase in trade and other payables		156,135,675	(75,178,135)	813,692,179
Increase (decrease) in advances from customers		47,323,225	90,230,535	9,489,265
Increase (decrease) in other non-current liabilities		14,002,098	49,859,379	68,843,439
Cash		712,664,654	188,734,952	585,148,180
Interest received		21,322	57,265	211,989
Cash paid for income taxes		(1,565,824)	(9,205,380)	(12,352,347)
Net Cash From Operating Activities		711,120,152	179,586,837	573,007,822
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	9	(229,638,226)	(67,943,571)	(439,417,874)
Proceeds from disposal of property and equipment	9	383,857	2,399,994	491,071,429
Proceeds from disposal of other non-current assets held for sale		-	84,983,406	-
Additional investment in a subsidiary and a joint venture	10, 22	-	-	(219,609)
Net Cash From (Used in) Investing Activities		(229,254,369)	19,439,829	51,433,946
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of interest-bearing loans and borrowings	12	(261,518,548)	(252,345,458)	(966,235,741)
Interest paid		(261,650,751)	(249,682,644)	(793,924,951)
Proceeds from deposits for future stock subscriptions	20	-	57,828,800	200,171,200
Proceeds from interest-bearing loans and borrowings	12	-	276,150,000	767,923,000
Repayments of advances from related parties	19	(19,643,766)	-	(70,498,903)
Proceeds from advances from related parties	19	-	58,261,222	-
Net Cash From (Used In) Financing Activities		(542,813,065)	(109,788,080)	(862,565,395)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(60,947,282)	89,238,586	(238,123,627)
CASH AND CASH EQUIVALENTS FROM ACQUIRED SUBSIDIARY	23	-	-	283,783
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		269,690,887	139,206,973	375,228,505
CASH AND CASH EQUIVALENTS AT END OF PERIOD		P 208,743,605	P 228,445,559	P 137,388,661

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP. AND SUBSIDIARIES
(A Subsidiary of Udenna Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022 and December 31, 2021
(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 August 8, 2017, the shares of stock of the Company were listed at the Philippine Stock Exchange (PSE).

On April 4, 2022, SEC approved the Company's application for the increase in the authorized capital stock in which the Company subsequently reclassified its Deposit for Future Stock Subscription to Capital Stock and Additional Paid-in Capital. The approval resulted to Udenna Corporation (Udenna)'s increase in effective ownership in the Company from 70% in 2021 to 75% in 2022.

The Company is a subsidiary of 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 September 30, 2022 and December 31, 2021, the Company holds ownership interests in the following subsidiaries and associates:

<u>Company Name</u>	<u>Explanatory Notes</u>	<u>Percentage of Ownership</u>	
		<u>2022</u>	<u>2021</u>
Subsidiaries through direct interest:			
Chelsea Shipping Corp. (CSC)	(a)	100%	100%
Trans-Asia Shipping Lines, Incorporated (Trans-Asia)	(b)	100%	100%
Udenna Investments B. V. (UIBV)	(c)	100%	100%

Company Name	Explanatory Notes	Percentage of Ownership	
		2022	2021
Subsidiaries through direct interest:			
Starlite Ferries, Inc. (Starlite)	(d)	100%	100%
Worklink Services, Inc. (WSI)	(e)	100%	100%
TASLI Services, Incorporated (TSI)	(f)	100%	100%
The Supercat Fast Ferry Corporation (SFFC)	(g)	100%	100%
Subsidiaries through indirect interest:			
Bunkers Manila, Inc. (BMI) ¹	(h)	100%	100%
Michael, Inc. (MI) ¹	(i)	100%	100%
PNX-Chelsea Shipping Corp. (PNX-Chelsea) ¹	(j)	100%	100%
Chelsea Ship Management & Marine Services Corp. (CSMMSC) ¹	(k)	100%	100%
Fortis Tugs Corporation (FTC) ¹	(l)	100%	100%
Davao Gulf Marine Services, Inc. (DGMSI) ²	(l)	100%	100%
Chelsea Marine Manpower Resources, Inc. (CMMRI) ¹	(m)	100%	100%
Chelsea Dockyard Corporation (CDC) ¹	(n)	100%	100%
CD Ship Management and Marine Services Corp. (CDSMMSC) ¹	(o)	100%	100%
Chelsea Shipping and Logistics Singapore Pte. Ltd. (CSLSP) ¹	(p)	100%	100%
Quality Metals & Shipworks, Inc. (QMSI) ³	(q)	100%	100%
Oceanstar Shipping, Inc. (Oceanstar) ³	(r)	100%	100%
Dynamic Cuisine, Inc. (DCI) ³	(s)	100%	100%
Starsy Shoppe, Inc. (SSI) ³	(t)	100%	100%
Star Maritima Port and Allied Services (Star Maritima) ³	(u)	100%	100%
Starbites Food Services Corp. (Starbites) ⁴	(v)	100%	100%
Starlite Gallant Ferries, Inc. (SGFI) ⁴	(d)	100%	100%
Starlite Premiere Ferries, Inc. (SPFI) ⁴	(d)	100%	100%
Big Hub Transport and Logistics Corp. (Big Hub) ³	(w)	100%	100%
KGLI-NM Holdings, Inc. (KGLI-NM) ⁵	(x)	100%	100%
Associate –			
Dito Holdings Corporation (DHC)	(y)	10.54%	10.54%

¹Wholly owned subsidiary of CSC

²Wholly owned subsidiary of FTC

³Wholly owned subsidiary of Trans-Asia

⁴Wholly owned subsidiary of Starlite

⁵60.29% owned by CLC and 39.71% owned by UIBV, based on voting rights

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 39.71% of the voting rights in KGLI-NM.

- (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. SFI was acquired on November 9, 2017.

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. WSI was acquired on November 8, 2017.
- (f) Incorporated on September 2, 2019 and is primarily engaged in shipping agency business and maritime operation and services.
- (g) Incorporated in June 20, 2001 and is primarily engaged in domestic shipping business - transporting both passenger and cargoes, to own, operate, and charter vessels of any class or type, and to own, control, construct and operate passenger terminals.
- (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 September 30, 2022, CDC has not yet started commercial operations.
- (o) Incorporated on March 14, 2018 to primarily engage in 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.
- (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 June 30, 2022.
- (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 September 30, 2022, 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 October 1, 2021, the Company acquired the Preferred B Shares and common shares of KGLI representing 20% of the outstanding common stock and 9.93% of the voting rights, resulting to 100% effective ownership in KGLI-NM as of December 31, 2021. On May 11, 2020, the Company acquired the Preferred C Shares of KGLI representing 20% of the outstanding common stock and 50.37% of the voting rights of KGLI-NM.

- (y) 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 initially subscribed to 41.67% ownership interest in DHC on November 4, 2019. DHC has not yet started commercial operations as of September 30, 2022.

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 Continuing Impact of COVID-19 Pandemic on the Group's Businesses

The outbreak of the COVID-19 pandemic and the measures adopted by governments in countries worldwide to mitigate the pandemic's spread have significantly impacted the Group since mid-March 2020 until this reporting period. A subsequent lockdown due to a second wave of infections in the middle of 2021 delayed the economic and business recovery anticipated in 2021. In response, management took the following mitigating actions to reduce costs, optimize the Group's cash flow and preserve liquidity:

- Reducing non-essential capital expenditure and deferring or cancelling discretionary spend;
- Freezing non-essential recruitment;
- Negotiating longer payment terms with suppliers;
- Disposed of investments and certain underperforming and non-performing assets;
- Put vessels on intentional lay-up to save on cash expenses;
- Route rationalization by deploying vessels to profitable routes;
- Tapping new business opportunities in the e-Commerce;
- Entering into strategic partnerships to expand sea freight business; and,
- Obtained additional capital infusion from existing stockholders and other investors amounting to P720.4 million in 2021.

The Group is currently in discussion with its bankers and other financial institutions regarding additional financing arrangements and/or other financing options. This is in addition to the refinancing, restructuring and payment deferral of debt service in accordance with Republic Act (RA) No. 11469, *Bayanihan to Heal as One Act* and RA No. 11494, *Bayanihan to Recover as One Act* in 2020 and 2021.

For the next 12 months with the continued easing of COVID-19 restrictions and regulations, and the expected improvement in the level of customer demand for the Group's services, management foresees a positive impact on the succeeding year's financial results of the Group. It is worthy to note that in 2022, allowed passenger capacity has been increased from 50% to 100%, and travel restrictions have been eased. The logistics segment of the Group has continued to tap the e-commerce market that will boost its current business operations.

Management will continue to take actions to improve the operations as the need arises. Based on these factors, the Group projects sufficient headroom to fund for its operations. The Group also projects recovery from the financial and operational risks of the pandemic. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

1.4 Approval of Interim Consolidated Financial Statements

The interim consolidated financial statements of the Group as of and for the nine months ended September 30, 2022 (including the comparative interim consolidated financial statements as of December 31, 2021 and for the nine months ended September 30, 2022 and 2021) were authorized for issue by the Company's BOD on November 8, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these interim 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 Interim Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The interim 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 interim 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 Interim Consolidated Financial Statements

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

The Group presents a third interim 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 interim consolidated statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These interim 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 interim 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 2022 that are Relevant to the Group*

The Group adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

- (i) PFRS 3 (Amendments), *Business Combination – Reference to the Conceptual Framework* (effective from January 1, 2022)
- (ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)
- (iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022)

(b) *Effective Subsequent to 2022 but not Adopted Early*

There are amendments and improvements to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's interim consolidated financial statements.

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (ii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)
- (iii) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)
- (iv) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

- (v) PFRS 10 (Amendments), *Interim 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)
- (vi) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Group:
 - a. PFRS 9 (Amendments), *Financial Instruments – Fees in the ‘10 percent’ Test for Derecognition of Liabilities*
 - b. Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*

2.3 Basis of Consolidation

The Group's interim 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 interim 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 2.13). 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 arrangement. 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 interim 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 2.19).

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 or dividends 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 2.19).

(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 26, 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 interim consolidated financial statements.

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.

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 solely for payment of principal and interest 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 expected credit losses.

The Group's financial assets at amortized cost are presented in the interim 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 interim 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 fair value through profit or loss (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 interim consolidated statement of profit or loss as part of Finance Income.

At the end of the reporting period, the Group assesses and recognizes allowance for expected credit losses (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 ECL is 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 possible default events 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, ECL is 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. If the Group cannot immediately collect its receivables, management considers the expected manner of recovery to measure ECL. If the recovery strategies indicate that the outstanding balance of the receivables can be collected, the ECL is limited to the effect of discounting the amount due over the period until cash is realized, which may already be negligible.

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.

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 and vessel equipment 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 typically performed 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 every after drydocking, which is generally done once every two years. Revaluations are performed and determined by independent appraisers and by management, for certain vessels. In addition, appraisal of vessels is conducted more frequently if market factors indicate a material change in fair value (see Note 29.4).

Any revaluation surplus is recognized in other comprehensive income and credited to the Revaluation Reserves account in the interim 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 the Deficit for the related depreciation relating to the revaluation increment. Upon disposal of the revalued assets, amount included in Revaluation Reserves is transferred to Deficit.

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 2.21) and other direct costs. The account is not depreciated or amortized 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 2.19).

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 its intended 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 Investment Properties

Investment properties represent properties held either to earn rental income or for capital appreciation or for both, but not for use in the supply of service or for administrative purpose. These are stated at cost, which includes acquisition price plus directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Construction-in-progress represents an investment property under construction and is stated at cost. This includes costs of construction, applicable borrowing costs (see Note 2.21) and other direct costs. The asset is not depreciated until such time that it is completed and available for its intended use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The residual values, estimated useful lives and method of depreciation of investment properties are reviewed, and adjusted if appropriate, at the end of each reporting period.

Transfers from other accounts (such as property and equipment) are made to investment property when and only when there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party, while transfers from investment property are made when and only when there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use.

If an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under Property and Equipment account up to the date of change in use.

An item of investment property, including the related accumulated depreciation and impairment losses, if any, is derecognized upon disposal or when no future economic benefits is expected from its disposal. 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.

2.10 Other Assets

Other current assets, which are generally considered non-financial assets, pertain to other resources controlled by the Group as a result of past events. They are recognized in the interim 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. They are subsequently charged to profit and loss as utilized and or reclassified to another asset account, if capitalizable.

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.

2.11 Financial Liabilities

Financial liabilities, which include interest-bearing loans and borrowings, redeemable preference shares (RPS), 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. These are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

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 (see Note 2.17). 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 2.21). All other interest-related charges incurred on a financial liability are recognized as an expense in the interim consolidated statement of profit or loss.

RPS, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder, are classified as liabilities. The dividends on these preferred shares are recognized on an amortized cost basis using the effective interest method and are presented as part of Finance Costs under Other Income (Charges) – net in the interim 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 interim consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss. Where an existing liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized as gain or loss in profit or loss. If the modification is not considered substantial, the liability is restated to the net present value of revised cash flows discounted at the original effective interest rate, with the adjustment recognized as gain or loss in profit or loss.

2.12 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 interim 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 interim consolidated financial instruments.

2.13 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 interim 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.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group is required to report in its interim consolidated financial statements provisional amount for the items for which accounting is incomplete. The recognized provisional amounts may be adjusted during the measurement period as if the accounting for the business combination had been completed at the date of acquisition. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from acquisition date.

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 2.19). 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, 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.

2.14 Advances from Customers

Advances from customers are measured at the amount of cash received from the customers under bareboat (BB) agreements and are reclassified and recognized as revenue when the related revenue transactions are consummated.

2.15 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 interim 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 interim 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.

2.16 Revenue and Expense Recognition

Revenue comprises revenue earned 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 Group also assesses its revenue agreements against the specific criteria enumerated below in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements.

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. These arrangements qualify as lease; hence, revenue is recognized on a straight-line basis over the term of the contract in accordance with PFRS 16 [see Note 2.17(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) *Other service revenues* – Other service revenues generally include performance of ship management and crewing services, warehousing and distribution services. Ship management and crewing services are recognized 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 primarily include sale of food and beverage items to the vessels' passengers and is recognized at a point in time, which is generally when control over the goods have transferred to the buyer. This is generally when the customer has taken undisputed delivery of goods.

Revenues from TC, CVC, passage, freight, tugboat fees, and other services are recognized 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.

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 2.21).

2.17 Leases

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 interim 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).

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, 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 2.19).

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 payments), 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 interim consolidated statement of financial position, right-of-use assets have been included under Property and Equipment account, which reflects how the underlying assets would have been recognized had they been owned by the Group, 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 significantly from the comparative periods. 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.

2.18 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 interim consolidated statement of profit or loss as part of either 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 Group's functional and presentation currency, as presented below.

- (i) Assets and liabilities for each interim 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 interim 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.

2.19 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.

2.20 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 interim 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 interim 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 interim 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) *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 interim consolidated statement of financial position.

(d) *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 Share Options Outstanding account of the interim consolidated statement of financial position.

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 (APIC).

(e) *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.

(f) *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.

(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 interim consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.21 *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.

2.22 *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.

2.23 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. This is based on the requirements of SEC Memorandum Circular No. 2019-10, *Rules of Material Related Party Transactions of Publicly-listed Corporations*.

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.

Directors with personal interest in the transaction should abstain from participating in discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

2.24 Deposits on Future Stock Subscriptions

Deposits on future stock subscriptions refers to the amount of money or property received by the Company with the purpose of applying the same as payment for future issuance of stocks which may or may not materialize. The Group does not consider a deposit on stock subscription as an equity instrument unless all of the following elements are present:

- (i) There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;
- (ii) The Company's BOD and stockholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and,
- (iii) An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability. The amount of deposit on future stock subscription will be reclassified to equity accounts when the foregoing criteria were satisfied.

2.25 Equity

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

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.

Share options outstanding represent the value of the share options during vesting period upon recognition of share-based remuneration expense in interim consolidated profit or loss, net of any share options exercised or expired.

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.

Deficit represent all current and prior period results of operations as reported in the interim consolidated statement of profit or loss.

2.26 Loss Per Share

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

2.27 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's interim consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the interim 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 interim consolidated financial statements:

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

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 certain 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 other 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) *Determination whether Group is Principal or Agent*

The Group assesses its revenue arrangements against the following criteria to determine whether it is acting as principal or an agent:

- whether the Group has primary responsibility for providing the services;
- whether the Group has inventory risk;
- whether the Group has direction in establishing prices; and,
- whether the Group bears the credit risk.

If the Group has determined it is acting as a principal, the Group recognizes revenue on a gross basis with the amount remitted to the other party being accounted as part of costs and expenses. If the Group has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Group assessed its revenue arrangements and concluded that it is acting as principal in all arrangements.

(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 Group has established control over KGLI-NM, which was previously recognized as an associate, after its acquisition of 50.37% voting interest in 2020. The Group now holds an 80% economic interest and effective 90.07% voting rights in KGLI-NM as of December 31, 2020 (see Notes 1.2, 10 and 25). Prior to 2020, the Group held 80% economic interest and 39.71% voting rights over KGLI-NM.

In 2021, the Company has 100% effective ownership in KGLI-NM as a result of the acquisition of Preferred B shares and common shares representing 20% of the outstanding common stock and 9.93% of the voting rights [see Note 1.2(x)].

Management also assessed that despite the dilution of effective ownership interest in DHC in 2020 (see Note 1.2), the Group continues to exercise significant influence arising from its representation on the board of directors and participation in policy-making processes of DHC.

(e) *Distinction Between Operating and Finance Leases where the Group is a Lessor*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish the 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 property covered by the agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Management has determined that all of its existing lease agreements as a lessor are operating lease agreements.

(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) *Distinction between Investment Properties and Owner-managed Properties*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

In 2021, the Group reclassified certain property and equipment, which consists of land and construction in progress amounting to P1,199.7 million and P232.6 million, respectively, to Investment properties (see Note 8). Based on management's judgement, due to reevaluation of the use of the properties, these properties' future use is currently undetermined. There was no similar transaction in 2022.

(h) *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 2.15 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 in the succeeding pages.

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

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 6 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.

There were no changes made in these accounting estimates in 2022 and 2021.

(e) *Fair Value Measurement of Vessels, Vessel Equipment and Investment Property*

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 mostly engages the services of professional and independent appraiser, except for certain vessels which were valued by management. Valuations were made by applying the relevant methodologies and assumptions 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.

In 2021, the fair value of certain vessels was made in reference to the appraisal reports.

Investment property is measured using the cost model. The fair value disclosed in Note 27.4 to the financial statements is determined by the Company using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations.

A significant change in the inputs and assumptions discussed in Note 27.4 may affect prices and the value of the assets.

(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.

(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 2.19). Though management believes that the assumptions used in the estimation of fair values reflected in the interim 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.

(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.

(i) *Fair Value Measurement of Stock Options*

The Group estimates the fair value of the stock options by applying an option valuation model, taking into account the terms and conditions on which the stock options were granted. The estimates and assumptions used are presented in Note 20.5, which include, among other things, the option life, average standard deviation of share price returns and applicable risk-free investment rate. Changes in these factors can affect the fair value of stock options at grant date.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	<u>2022</u>	<u>2021</u>
Cash on hand and in banks	P 196,086,843	P 257,005,823
Short-term placements	<u>12,656,762</u>	<u>12,685,064</u>
	<u>P 208,743,605</u>	<u>P 269,690,887</u>

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% in 2022, 2021 and 2020.

The balances of cash on hand and in banks as of September 30, 2022 and December 31, 2021 did not include an amount of P6.6 million in both 2022 and 2021, which is shown as Restricted cash under the Other Current Assets and Other Non-current Assets accounts in the interim consolidated statements of financial position (see Notes 7 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>Notes</u>	<u>2022</u>	<u>2021</u>
Trade receivables	9, 19.1	P 1,802,285,509	P 1,975,857,456
Due from agencies		90,967,902	102,886,633
Advances to officers and employees		25,294,305	19,931,175
Claims receivables		4,525,921	5,833,131
Others		<u>3,784,950</u>	<u>10,655,881</u>
		1,926,858,587	2,115,164,276
Allowance for ECL		(1,062,137,617)	(1,059,923,358)
		<u>P 864,720,970</u>	<u>P 1,055,240,918</u>

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).

Trade and other receivables are unsecured, usually settled within 30 to 60 days, 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.

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

Claims receivables include insurance claims from the retirement of certain vessels and 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.

Certain trade receivables amounting to P501.6 million and P507.9 million as of September 30, 2022 and December 31, 2021, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans (see Note 12.1).

6. INVENTORIES

This account, which are all stated at cost, includes the following:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Spare parts		P 103,910,196	P 347,804,330
Fuel and lubricants	19.2	96,184,852	111,963,528
Shipping supplies		37,050,716	36,020,207
Food, beverage and other supplies		<u>5,241,177</u>	<u>1,665,752</u>
		<u>P 242,386,941</u>	<u>P 497,453,817</u>

As of September 30, 2022 and December 31, 2021, 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 routine repair, maintenance 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 interim consolidated statements of profit or loss (see Notes 14 and 15).

As of September 30, 2022 and December 31, 2021, there are no inventories pledged as security for any of the Group's liabilities as of the end of each reporting period.

7. OTHER CURRENT ASSETS

The breakdown of this account as of September 30, 2022 and December 31, 2021 follows:

	Note	<u>2022</u>	<u>2021</u>
Input VAT		P 384,452,897	P 346,015,802
Creditable withholding taxes		389,705,475	317,312,895
Deferred input VAT		376,702,987	367,983,684
Advances to suppliers		336,077,613	182,406,069
Prepayments		243,891,739	140,308,871
Deferred charges		59,953,522	60,953,522
Restricted cash	4	<u>6,243,270</u>	<u>6,243,270</u>
		<u>P 1,797,027,503</u>	<u>P 1,421,224,113</u>

Deferred input VAT pertains to the input VAT on services rendered to the Group that remains unpaid as of the end of each reporting period.

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

Deferred charges pertain to downpayments 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).

8. INVESTMENT PROPERTIES

The parcel of land located at Brgy. Ligid-Tipas, Taguig City was acquired by the Group in the prior years for WSI's warehousing operations. Accordingly, the Group commenced warehouse construction. Pursuant to the plan of the Group to venture into e-Commerce, the management has reevaluated its intention for these properties, and has deemed that the use of the properties is currently undetermined. Consequently, land and the related construction in progress amounting to P1,199.7 million and P232.6 million, respectively, were reclassified from Property and equipment to Investment properties in 2021.

Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 27.4.

The property of the Group with net carrying amount of P1,271.4 million and 1,199.7 million as of September 30, 2022 and December 31, 2021, respectively, was used as a collateral to secure payment of the Company's term loan (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 2022 and 2021 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
September 30, 2022								
Cost or revalued amounts	P 213,761,703	P 23,397,424,610	P 201,750,644	P 226,158,246	P 173,778,623	P 3,786,178,893	P 232,551,957	P 28,231,604,676
Accumulated depreciation and amortization	-	(8,808,359,396)	(159,488,341)	(76,345,495)	(157,073,257)	(522,072,448)	-	(9,723,338,937)
Accumulated impairment losses	-	(126,323,308)	-	-	-	-	-	(126,323,308)
Net carrying amount	<u>P 213,761,703</u>	<u>P 14,462,741,906</u>	<u>P 42,262,303</u>	<u>P 149,812,751</u>	<u>P 16,705,366</u>	<u>P 3,264,106,445</u>	<u>P 232,551,957</u>	<u>P 18,381,942,431</u>
December 31, 2021								
Cost or revalued amounts	P 213,761,703	P 23,720,570,615	P 206,319,488	P 241,458,310	P 168,035,859	P 3,813,704,635	P 211,371,960	P 28,575,222,570
Accumulated depreciation and amortization	-	(8,630,026,591)	(148,928,648)	(79,745,019)	(146,785,627)	(410,079,008)	-	(9,415,564,893)
Accumulated impairment losses	-	(126,323,308)	-	-	-	-	-	(126,323,308)
Net carrying amount	<u>P 213,761,703</u>	<u>P 14,964,220,716</u>	<u>P 57,390,840</u>	<u>P 161,713,291</u>	<u>P 21,250,232</u>	<u>P 3,403,625,627</u>	<u>P 211,371,960</u>	<u>P 19,033,334,369</u>
January 1, 2021								
Cost or revalued amounts	P 1,413,263,540	P 24,288,666,979	P 203,874,640	P 241,458,310	P 169,464,662	P 2,510,590,594	P 614,910,758	P 29,442,229,483
Accumulated depreciation and amortization	-	(7,292,932,976)	(120,444,864)	(63,897,050)	(133,154,660)	(272,810,863)	-	(7,883,240,413)
Accumulated impairment losses	-	(55,282,310)	-	-	-	-	-	(55,282,310)
Net carrying amount	<u>P 1,413,263,540</u>	<u>P 16,940,451,693</u>	<u>P 83,429,776</u>	<u>P 177,561,260</u>	<u>P 36,310,002</u>	<u>P 2,237,779,731</u>	<u>P 614,910,758</u>	<u>P 21,503,706,760</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2022 and 2021 is shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	Right of Use Assets	CIP	Total
Balance at January 1, 2022, net of accumulated depreciation and amortization and impairment losses	P 213,761,703	P 14,964,220,716	P 57,390,840	P 161,713,291	P 21,250,232	P 3,403,625,627	P 211,371,960	P 19,033,334,369
Additions	-	250,736,201	P 1,991,808	-	6,345,908	7,577,578	33,577,570	300,229,065
Reclassification	-	12,397,573	-	-	-	-	(12,397,573)	-
Lease termination	-	-	-	-	-	(18,863,680)	-	(18,863,680)
Disposals - net	-	-	(864,416)	-	-	-	-	(864,416)
Depreciation and amortization charges for the year	-	(764,612,584)	(16,255,929)	(11,900,540)	(10,890,774)	(128,233,080)	-	(931,892,907)
Balance at September 30, 2022, net of accumulated depreciation and amortization and impairment losses	<u>P 213,761,703</u>	<u>P 14,462,741,906</u>	<u>P 42,262,303</u>	<u>P 149,812,751</u>	<u>P 16,705,366</u>	<u>P 3,264,106,445</u>	<u>P 232,551,957</u>	<u>P 18,381,942,431</u>
Balance at January 1, 2021, net of accumulated depreciation and amortization and impairment losses	P 1,413,263,540	P 16,940,451,693	P 83,429,776	P 177,561,260	P 36,310,002	P 2,237,779,731	P 614,910,758	21,503,706,760
Additions	-	145,791,548	3,405,826	-	6,374,918	1,154,912,900	452,840,888	1,763,326,080
Revaluation decrement	-	(97,809,298)	-	-	-	-	-	(97,809,298)
Reclassification	(1,199,501,837)	15,106,877	-	-	-	235,247,488	(483,159,965)	(1,432,307,437)
Lease termination	-	-	-	-	-	(65,585,633)	-	(65,585,633)
Disposals - net	-	(712,927,091)	-	-	-	-	(373,219,721)	(1,086,146,812)
Impairment losses	-	(71,040,998)	-	-	-	-	-	(71,040,998)
Depreciation and amortization charges for the year	-	(1,255,352,015)	(29,444,762)	(15,847,969)	(21,434,688)	(158,728,859)	-	(1,480,808,293)
Balance at December 31, 2021, net of accumulated depreciation and amortization and impairment losses	<u>P 213,761,703</u>	<u>P 14,964,220,716</u>	<u>P 57,390,840</u>	<u>P 161,713,291</u>	<u>P 21,250,232</u>	<u>P 3,403,625,627</u>	<u>P 211,371,960</u>	<u>P 19,033,334,369</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
M/Tug Sigaboy	March 14, 2022	P 32,032,000
MV Trans-Asia 3	February 21, 2022	196,053,000
MV Trans-Asia 19	February 18, 2022	764,208,000
MV Trans-Asia 12	February 17, 2022	152,950,000
M/Tug Fortis XV	February 16, 2022	21,819,000
M/Tug Fortis I	February 16, 2022	30,453,000
M/Tug Pindasan	February 16, 2022	46,600,000
M/Tug Samal	February 16, 2022	44,260,000
MV Starlite Salve Regina	February 14, 2022	742,782,000
M/Tug Fortis VII	February 11, 2022	29,218,000
M/Tug Fortis VIII	February 11, 2022	39,164,000
MV Starlite Saturn	February 2, 2022	466,000,000
MT Chelsea Enterprise	January 25, 2022	100,800,000
MV Starlite Stella Del Mar	January 7, 2022	535,671,000
MV Starlite Stella Maris	January 7, 2022	557,245,000
MV Starlite Archer	January 6, 2022	487,634,000
MV Starlite Pacific	December 31, 2021	26,852,000
MV Starlite Tamaraw	December 31, 2021	19,954,000
M/Tug Fortis II	September 15, 2021	39,071,000
MV Starlite Eagle	June 18, 2021	415,657,000
MV Starlite Reliance	June 18, 2021	410,225,000
MV Starlite Annapolis	June 16, 2021	76,093,000
MV Asia Pacific	March 29, 2021	77,673,000
MV Trans-Asia 17	March 24, 2021	248,382,000
MV Trans-Asia 18	March 19, 2021	744,312,000
MV Starlite Pioneer	March 19, 2021	433,538,000
MT Excellence	March 17, 2021	148,000,000
MT Denise	March 17, 2021	194,000,000
MV Starlite Jupiter	February 10, 2021	26,953,000
MT Great Princess	December 31, 2020	866,531,000
MT Great Diamond	December 31, 2020	817,051,000
MT Chelsea Dominance	January 22, 2020	591,114,000
MV San Nicolas of Myra	January 22, 2020	304,133,000
MT Chelsea Cherylyn	January 15, 2020	843,000,000
MV St. Nuriel	January 14, 2020	67,011,000
MV St. Uriel	January 14, 2020	35,109,000
MV St. Sealthiel	January 14, 2020	76,584,000
MV St. Jhudiel	January 14, 2020	69,084,000
MV St. Bracquel	January 14, 2020	69,084,000
MV St. Emmanuel	January 14, 2020	56,700,000
MV St. Camael	January 14, 2020	200,209,000
MV St. Sariel	January 14, 2020	20,209,000
MV St. Dominic	January 14, 2020	56,174,000
MV St. Micah	January 14, 2020	57,800,000
M/Tug Fortis IX	December 23, 2019	78,000,000
M/Tug Fortis III	December 16, 2019	35,000,000
M/Tug Fortis V	December 16, 2019	80,000,000
MT Chelsea Charlize	November 20, 2019	384,970,000
MV Asia Philippines	November 11, 2019	73,000,000
MV Trans-Asia 10	October 24, 2019	157,378,000
MT BMI Patricia	July 26, 2019	55,500,000
MT Jasaan	July 27, 2019	42,500,000
MV Trans-Asia 8	July 08, 2019	100,000,000
M/Tug Fortis VI	June 27, 2019	70,000,000
M/Tug Fortis X	June 27, 2019	85,000,000

Name of Vessel	Date of Report	Net Appraised Values
MT Chelsea Endurance	May 30, 2019	P 330,000,000
MT Chelsea Denise II	March 26, 2019	442,000,000
MV Trans-Asia 2	February 15, 2019	90,000,000
MT Chelsea Intrepid	December 20, 2018	120,000,000
MT Ernesto Uno	May 29, 2018	152,000,000
MT Chelsea Resolute	January 10, 2018	255,000,000

Revaluation increments and decrements arising from the revaluations above were recognized directly in the Equity section under Revaluation Reserves account (see Note 22.2).

Management believes that there is no significant change in the fair values of the Group's vessels since the dates of their last appraisals. Meanwhile, M/Tug Fortis IX, M/Tug Fortis III, M/Tug Fortis V, MT Chelsea Charlize, MV Asia Philippines, MV Trans-Asia 10, MT BMI Patricia, MT Jasaan, MV Trans-Asia 8, M/Tug Fortis VI, M/Tug Fortis X, MT Chelsea Endurance, MT Chelsea Denise II, MV Trans-Asia 2, MT Ernesto Uno and MT Chelsea Resolute are still undergoing extended drydocking as of September 30, 2022; hence, no latest appraisals are available.

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 September 30, 2022 and December 31, 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Cost	P18,677,941,653	P18,677,941,653
Accumulated depreciation	(6,509,103,961)	(5,338,365,142)
Accumulated impairment losses	(126,323,308)	(126,323,308)
Net carrying amount	<u>P12,042,514,384</u>	<u>P13,213,253,203</u>

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

	Notes	<u>2022</u>	<u>2021</u>	<u>2020</u>
Cost of sales and services	14	P 872,084,539	P 1,057,838,076	P 1,155,312,187
Other operating expenses		<u>59,808,368</u>	<u>90,812,658</u>	<u>82,271,181</u>
	15	<u>P 931,892,907</u>	<u>P 1,148,650,734</u>	<u>P 1,237,583,368</u>

Certain vessels of the Group with a total net carrying amount of P12,490.3 million and P13,122.3 million as of September 30, 2022 and December 31, 2021, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 12). There were no capitalized borrowing costs in 2022 and 2021.

In 2021, a parcel of land and construction in progress amounting to P1,199.7 million and P232.6 million, respectively, were reclassified from property and equipment to investment property (see Note 8).

In 2020, the Group sold a floating dock previously recognized under CIP to a third party for a total consideration of P491.1 million and recognized a gain on sale of the property and equipment amounting to P48.8 million.

The management has assessed that the cost of fully depreciated property and equipment that are still in use in operations is insignificant to the interim consolidated financial statements.

10. INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

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

	<u>2022</u>	<u>2021</u>
Associate –		
DHC		
Cost	P 1,041,666,665	P 1,041,666,665
Accumulated equity share in the total comprehensive income from previous years	(1,041,666,665)	(149,440,722)
Equity share in net loss	<u>-</u>	<u>(892,225,943)</u>
	<u>-</u>	<u>-</u>
Joint venture –		
Meridian Maritime		
Training Center (Meridian)	<u>81,001,440</u>	<u>81,001,440</u>
	<u>P 81,001,440</u>	<u>P 973,227,383</u>

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 September 30, 2022 and December 31, 2021 and is presented as part of Subscription payable under Trade and Other Payables in the interim consolidated statements of financial position (see Note 14). In 2020, Udenna CME, a related party with common ownership, subscribed to additional common shares in DHC, causing the dilution of the Group's effective ownership from 41.67% in 2019 to 10.54% in 2020. Management assessed that the Group still exercises significant influence over DHC; hence, is still recognized as an investment in associate. The Group now indirectly holds 6.32% interest in Dito through its 10.54% ownership in DHC.

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

No dividends were received from the Group's associate in 2022 and 2021. The Group's associate is a private company; 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.

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 September 30, 2022 and December 31, 2021.

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 September 30, 2022 and December 31, 2021, management assessed that the investments in an associate and a joint venture are not impaired.

11. OTHER NON-CURRENT ASSETS

This account is composed of the following:

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Advances to suppliers	22.7	P 357,781,965	P 281,088,772
Deferred input VAT		129,055,602	77,541,301
Security deposits	19.3	71,169,949	88,502,533
Deposit for future acquisition		83,822,243	83,822,243
Software, net of amortization		33,683,255	36,104,006
Restricted cash	4	335,112	335,112
Others		3,674,005	-
		<u>P 679,522,131</u>	<u>P 567,393,967</u>

Advances to suppliers include down payments made to suppliers for the acquisition and construction 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.

Deposit for future acquisition pertains to deposits made by the Group to acquire a stake in another company. As of the date of issuance of the interim consolidated financial statements, the terms of the transaction is yet to be finalized.

Software refers to computer software licenses and software development costs, net of amortization. A reconciliation of the carrying amount of software at the beginning and end of 2021 and 2020 is shown below.

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Balance at beginning of year		P 36,104,006	P 32,911,807
Additions		-	6,565,440
Amortization during the year	15	(2,420,751)	(3,373,241)
Balance at end of year		<u>P 33,683,255</u>	<u>P 36,104,006</u>

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:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Current:			
Bank loans	12.2	P 4,348,542,898	P 4,397,811,724
Term loans	12.1	1,576,142,681	1,283,541,464
Lease liabilities	12.4	318,179,453	335,000,817
Mortgage loans	12.3	<u>21,671,981</u>	<u>28,895,025</u>
		<u>P 6,264,537,013</u>	<u>6,045,249,030</u>
Non-current:			
Term loans	12.1	8,871,807,455	9,171,438,524
Lease liabilities	12.4	2,502,838,824	2,572,118,195
Mortgage loans	12.3	164,680,538	163,713,548
Bank loans	12.2	<u>25,353,082</u>	<u>126,910,000</u>
		<u>P11,564,679,899</u>	<u>12,034,180,267</u>
		<u>P17,829,216,912</u>	<u>P18,079,429,297</u>

The Group has taken necessary steps to soften the impact of the COVID-19 pandemic on its financial condition. It availed of financial relief under RA No. 11469 and No. 11494, which allowed the Group to extend for a minimum of thirty days the currently maturing debt obligations, including interest. It also availed of the "DBP RESPONSE (Rehabilitation Support On Severe Events)" program, wherein the borrower may defer its loan repayment of up to nine months with the option for restructuring in case the borrower is not able to recover within nine months. Lastly, the Group has negotiated with banks for the refinancing, extension, or temporary relief of its loan obligations. The results of these negotiations have been reflected in the subsequent disclosures.

A reconciliation of the carrying amounts of interest-bearing loans and borrowings at the beginning and end of September 30, 2022, December 31, 2021 and 2020 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, 2022	P 10,454,979,988	P 4,524,721,724	P 192,608,573	P 2,907,119,012	P 18,079,429,296
Cash flows from financing activities:					
Repayments	(46,631,633)	(117,185,169)	(6,256,054)	(91,445,692)	(261,518,549)
	(46,631,633)	(117,185,169)	(6,256,054)	(91,445,692)	(261,518,549)
Non-cash financing activities:					
Reclassification	92,148,853	(33,640,575)	-	-	58,508,278
Additions	-	-	-	5,344,957	5,344,957
Amortization of premium on loans payable	(12,143,393)	-	-	-	(12,143,393)
Restatement of foreign currency denominated loans	(40,403,678)	-	-	-	(40,403,678)
	39,601,782	(33,640,575)	-	5,344,957	11,306,164
Balance at September 30, 2022	P 10,447,950,136	P 4,373,895,980	P 186,352,519	P 2,821,018,277	P 17,829,216,912
Balance as of January 1, 2021	P 9,986,923,415	P 4,868,416,676	P 199,626,552	P 1,952,004,583	P 17,006,971,226
Cash flows from financing activities:					
Additions	266,281,556	20,000,000	-	-	286,281,556
Repayments	(137,256,278)	(112,219,308)	(7,017,979)	(135,397,267)	(391,890,832)
	129,025,278	(92,219,308)	(7,017,979)	(135,397,267)	(105,609,276)
Non-cash financing activities -					
Additions	-	-	-	1,154,912,900	1,154,912,900
Termination of lease	-	-	-	(64,401,204)	(64,401,204)
Reclassification	326,055,851	(251,475,644)	-	-	74,580,207
Restatement of foreign currency denominated loans	12,975,444	-	-	-	12,975,444
	339,031,295	(251,475,644)	-	1,090,511,696	1,178,067,347
Balance at December 31, 2021	P 10,454,979,988	P 4,524,721,724	P 192,608,573	P 2,907,119,012	P 18,079,429,297

12.1 Term Loans

The details of the Group's term loans as of September 30, 2022 and December 31, 2021 are as follows:

	Notes	Security	Terms	Interest Rates	Outstanding Balance	
					September 30, 2022	December 31, 2021
China Banking Corporation (CBC)		Real Estate Mortgage (REM), Continuing Suretyship, MT Chelsea Great Princess, MT Chelsea CharliZe, MT Chelsea Resolute, MT Chelsea Enterprise, MT Chelsea Excellence, MT Chelsea Ernesto Uno, MT Chelsea Jasaan				
Development Bank of the Philippines (DBP)	(b.1)	Assignment of receivables MT Chelsea Providence, MT Chelsea Cherylyn, MV Starlite Stella Maris, Assignment of receivables	7 years	6.50%	P 1,926,396,728	P 1,926,396,728
Philippine Business Bank (PBB)	(f.4)	Corporate/Continuing Suretyship	15 years	6.50%	1,820,060,107	1,821,008,778
CBC	(c.2)	MV Eagle, MV Archer, MV Saturn	8 years	3.00% - 7.00%	855,856,717	813,238,917
DBP	(b.3)	REM	15 years	7.25%	800,000,000	800,000,000
DBP	(f.3)	Trans - Asia 16, 17 and 18 Assignment of receivables MV San Pedro Calungsod MV San Lorenzo Ruis Uno MV St. Nicholas of Myra	15 years	6.50%	549,807,588	584,892,857
PBB	(f.2)	Assignment of receivables	15 years	6.50%	496,802,412	496,802,412
DBP	(c.4)	MV Salve Regina	8 years	3.00% - 7.00%	491,555,017	460,000,000
BDO Unibank, Inc. (BDO)	(f.1)	MV Pioneer, MV Reliance	15 years	6.95%	450,514,006	469,953,817
PBB	(a.2)	Trans - Asia 1, 8, 9 and 10	6 years	3.00% - 8.16%	386,207,130	338,707,130
DBP	(c.3)	REM, Continuing suretyship	8 years	3.00% - 7.00%	331,727,800	309,222,352
Mega International Commercial Bank Co. (MICBC)	(f.5)	MV St. Camael and MV St. Saniel	15 years	6.50%	300,086,565	300,238,829
Robinsons Bank Corporation (RBC)	(e)	Pledge of shares, Continuing Suretyship	5 years	4.89%	247,500,000	247,500,000
CTBC Bank (Phils) Inc. (CTBC)	(e)	Pledge of shares, Continuing Suretyship	5 years	4.89%	247,500,000	247,500,000
PBB	(c.1)	MT Chelsea Dominance	8 years	3.00% - 7.00%	227,048,850	227,048,850
PBB	(c.1)	MT Chelsea Endurance	8 years	3.00% - 7.00%	215,647,839	192,578,750
PBB	(c.5)	Pledge of shares of stocks	3 years	10.00%	175,257,250	177,709,000
First Commercial Bank, Ltd. (FCB)	(e)	Pledge of shares, Continuing Suretyship	5 years	6.10%	165,000,000	165,000,000
CBC		REM, MV Asia Philippines,				
Rizal Commercial Banking Corp.	(b.2)	MV Asia Pacific	10 years	5.75%	162,407,407	162,407,407
8H Capital Asia Growth Fund	(g)	Starlite Sprint I	7 years	9.50%	106,276,039	110,776,039
Asia United Bank (AUB)	(h)	Unsecured	5 years	9.00%	117,292,000	101,548,000
AUB	(d)	MTug Fortis VI, MTug Fortis VII	7 years	5.56%	33,875,761	41,693,244
AUB	(d)	MTug Fortis VIII, Assignment of receivables MTug Fortis IX, MTug Fortis X, Assignment of receivables	7 years	7.07%	31,915,151	39,007,630
AUB	(d)	MTug Fortis III and MTug	7 years	5.56%	20,664,670	30,212,255
BDO	(a.1)	Fortis V, Assignment of receivables MT Chelsea Denise II	2 years	5.50%	-	90,842,500
					10,406,899,037	10,401,785,496
					41,051,099	53,194,492
Net premium on loans payable					P 10,447,950,136	P 10,454,979,988

(a) Omnibus Loan and Security Agreement (OLSA) with BDO

a.1. PNX-Chelsea - 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 executed 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.

On March 24, 2020, PNX-Chelsea and BDO entered into another OLSA to refinance the outstanding loan balance of P103.8 million for another two years. The new loan is payable in eight equal quarterly principal installments, bears an interest rate of 5.5% per annum, and secured by a chattel mortgage on MT Chelsea Denise II with net carrying amounts of P439.5 million as of December 31, 2021 (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. The loan was settled in 2022.

a.2. Trans-Asia - Trans-Asia 1, 8 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. Principal and interest payments on these loans are made monthly. Additional loans were made from BDO amounting to P243.5 million and P166.0 million in 2016 and 2017, respectively, with an interest rate of 4.25% to 5.00% per annum. Principal payments are made monthly with a grace period of one year and interest on these loans is payable monthly in arrears.

In 2020, Trans-Asia and BDO amended the existing loan agreement, revising the interest payment schedules in which 40% of all unpaid interest as of July 30, 2020 were to be paid equally without interest on interest between August and December 2020 and the remaining 60% would be paid in equal monthly basis with interest on interest from January 2021 to June 2021.

On Sept 8, 2021, Trans-Asia and BDO agreed on the second amendment of the loan agreement wherein the deferred principal and principal due in the next nine months from June to July 2021 be added and paid in the December 2021 and January 2022 repayment schedules.

On June 20, 2022, Trans-Asia and BDO amended the existing loan agreements, revising the previously approved terms of the preceding loans wherein BDO extended the maturity dates of the loans for six years, inclusive of a grace period of one year reckoning at the beginning of 2022, provided a sculpted quarterly principal repayment, and reduced interest rates of 3.0% per annum for the first two years with a provision for a recapture rates towards the end of the loans.

The loan is secured by the same properties as mentioned in the initial bank loan with chattel mortgage of certain vessels amounting to P776.4 million and P811.6 million as of September 30, 2022 and December 31, 2021, respectively (see Note 9). The loan is also secured by a continuing suretyship by the chairman of the BOD of the company and a real estate property owned by Trans-asia. These loans do not contain any financial covenants.

(b) Term Loan Agreement (TLA) or OLSA with CBC

b.1. CSC - CSC's outstanding shares

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 21.9(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.

On October 1, 2020, the bank approved the CSC's request for the refinancing of outstanding loan obligations of CSC for a total of P1.9 billion, including unpaid interest. The principal payments begin on the 3rd anniversary with the following sculpted repayment schedule: year 3 - 5%; year 4 - 10%; year 5 - 20%; year 6 - 25%; and year 7 - 40%. The restructured loan is subject to annual interest rate of 6.75%.

The restructured loan is secured by the same properties as mentioned in the initial bank loan with chattel mortgage of certain vessels amounting to P1,651.9 million and P1,725.4 million as of September 30, 2022 and December 31, 2021, respectively. The loan is also secured by a continuing suretyship by the Company and parent company, and assignment of certain receivables amounting to P353.7 million and P515.5 million as of September 30, 2022 and December 31, 2021, respectively (see Note 5). The agreement requires CSC to maintain debt-to-equity ratio of not more than 3.00:1.00 and DSCR of not less than 1:00 in its interim consolidated financial statements.

b.2. Trans - Asia – MV Asia Philippines and MV Asia Pacific

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 13th 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 13th month of the drawdown. These loans do not contain any financial covenants.

Certain vessels with a net carrying amount of P141.4 million and P159.0 million as of September 30, 2022 and December 31, 2021, respectively, was used as collateral to secure the payment of these loans (see Note 9).

b.3. 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 September 30, 2022 and December 31, 2021, CLC has total drawdown amounting to P800.0 million from the term loan facility. The agreement requires CLC, in its interim consolidated financial statements, to maintain debt-to-equity ratio of not more than 3.00:1.00 and DSCR of not less than 1:25.

The land of the Company, classified under Investment properties in 2021, and Property and equipment in 2020, with net carrying amount of P1,271.4 million and P1,199.7 million as of September 30, 2022 and December 31, 2021, respectively, was used as a collateral to secure payment of this loan (see Notes 8 and 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 interim consolidated statements of financial position (see Notes 7 and 12).

(c) TLA with PBB

c.1. PNX - Chelsea - 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 do not include any financial covenants.

On June 24, 2022, PBB approved the restructuring of the outstanding loans and unpaid interests of PNX-Chelsea into a 8-Year term loan, inclusive of 2 years grace period on principal collection. The restructured loan bears an annual interest rate of 3% applicable for 2 years, collected quarterly in arrears, to be recaptured with a target rate of 7.00% per annum, with annual repricing based on bval plus a fixed interest rate beginning on the 3rd year.

The restructured loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totalling P827.2 million and P826.9 million, as of September 30, 2022 and December 31, 2021, respectively (see Note 9).

c.2. SFI – MV Eagle, MV Archer and MV Saturn

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 financial covenants.

On June 24, 2022, PBB approved the restructuring of the outstanding loans and unpaid interests of SFI into a 8-Year term loan, inclusive of 2 years grace period on principal collection. The restructured loan bears an annual interest rate of 3% applicable for 2 years, collected quarterly in arrears, to be recaptured with a target rate of 7.00% per annum, with annual repricing based on bval plus a fixed interest rate beginning on the 3rd year.

Certain vessels of Starlite with net carrying amounts of P1,224.6 million and P1,309.1 million as of September 30, 2022 and December 31, 2021, respectively, were used as collateral to secure the payment of these loans (see Note 9).

c.3. SPFI – MV Stella Del Mar

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 financial covenants.

On June 24, 2022, PBB approved the restructuring of the outstanding loans and unpaid interests of SPFI into a 8-Year term loan, inclusive of 2 years grace period on principal collection. The restructured loan bears an annual interest rate of 3% applicable for 2 years, collected quarterly in arrears, to be recaptured with a target rate of 7.00% per annum, with annual repricing based on bval plus a fixed interest rate beginning on the 3rd year.

The vessel of SPFI with net carrying amounts of P533.4 million and P535.7 million as of September 30, 2022 and December 31, 2021, respectively, was used as a collateral to secure the payment of this loan (see Note 9).

c.4. SGFI – MV Salve Regina

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 7.50% 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 financial covenant.

On June 24, 2022, PBB approved the restructuring of the outstanding loans and unpaid interests of SGFI into a 8-Year term loan, inclusive of 2 years grace period on principal collection. The restructured loan bears an annual interest rate of 3% applicable for 2 years, collected quarterly in arrears, to be recaptured with a target rate of 7.00% per annum, with annual repricing based on bval plus a fixed interest rate beginning on the 3rd year.

The vessel of SGFI with net carrying amounts of P749.3 million and P742.8 million as of September 30, 2022 and December 31, 2021 was used as a collateral to secure the payment of this loan (see Note 9).

c.5. CLC – MV Trans-asia 21

On May 2021, the Company entered into a loan facility with PBB amounting to \$3.5 million to finance the Company's equity due on MV Trans-asia 21. The loan is subject to annual interest rate of 10.0% and is payable on a quarterly basis up to the end of third year.

On August 12, 2022, PBB and the Company has amended its MOA in which the principal repayment will be on a staggered basis commencing at the date of amendment until 2023 with annual interest rate of 11.0%. The loan does not include any financial covenant.

The loan is secured by a deed of pledge of shares of stocks by Udenna and the Company with a net book value of P178.5 million and P142.8 million as of September 30, 2022 and December 31, 2021, respectively. [see Note 19.9(a)].

(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 P45.8 million and P57.1 million as of September 30, 2022 and December 31, 2021, 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 P240.1 million and P352.2 million as of September 30, 2022 and December 31, 2021, respectively, were used as collateral to secure the payment of these loans (see Note 9). The loans do not include any financial covenants.

(e) 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 repricing of 3 month PDST rate plus 3.3% spread 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.

On May 27, 2021, CTBC, MICBC, RBC and FCB has approved the one-year extension of principal due from 2021 to 2022 including the non-application of the required financial covenants during the extension period.

The loan is secured by Trans-Asia shares with a carrying value of P525.0 million, a corporate guarantee by the parent company and individual surety of the Company's Chairman of the BOD [see Note 19.9(a)].

(f) TLA with DBP

In addition to the debt relief arising from the enactment of RA 11469 and RA 11494, DBP, likewise, has an existing program called Rehabilitation Support Program on Severe Events (RESPONSE) in addressing the financial difficulty of its clients brought about by natural calamities such as but not limited to typhoons. This program grants borrowers six-month reprieve on loan payments, in which the following companies have deferred payments.

f.1. SFI – MV Pioneer and MV Reliance

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 P714.2 million and P819.9 million as of September 30, 2022 and December 31, 2021, 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.

f.2. PNX-Chelsea – MV San Pedro Calungsod, MV San Lorenzo Ruiz Uno and MV St. Nicholas of Myra

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 vessels of PNX-Chelsea with net carrying amounts of P611.4 million and P719.4 million as of September 30, 2022 and December 31, 2021, 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.

f.3. Trans-Asia – MV Trans-Asia 16, 17 and 18

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 debt-to-equity 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 P1,022.8 million and P1051.9 million as of September 30, 2022 and December 31, 2021, respectively, were used as collateral to secure the payment of these loans (see Note 9).

f.4. CSC – MT Chelsea Providence

On December 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.

On March 28, 2021, the bank approved the CSC's request for the refinancing of outstanding loan obligations of CSC for a total of P1.8 billion, including unpaid interest. The principal payments begin on the third anniversary with annual interest rate of 6.50%. No gain/loss on loan restructuring is recognized as there is no substantial modification of terms under PFRS 9.

Certain vessels of CSC and SGFI with net carrying amount of P2,776.4 million and P2,810.0 as of September 30, 2022 and December 31, 2021, respectively, was used as collateral to secure the payment of these loans (see Note 9). Certain trade receivables amounting to P30.3 million and P4.4 million as of September 30, 2022 and December 31, 2021, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 5).

f.5. 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, payable 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. Sariel and MV St. Camael.

Certain vessels of SFFC with net carrying amount of P393.1 million and P407.3 million as of September 30, 2022 and December 31, 2021, 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.

(g) 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 agreement requires Starlite to maintain debt-to-equity ratio of not more than 5.50:1.00 and current ratio of not less than 1.00.

The vessel of Starlite with net carrying amounts of P125.2 million and P117.6 million as of September 30, 2022 and December 31, 2021, respectively, was used as a collateral to secure the payment of this loan (see Note 9).

(h) TLA with 8H Capital - CDC

On July 2021, CDC entered into a loan agreement with 8H Capital amounting to \$2.0 million with a term of five years, inclusive of one-year grace period, payable to 16 equal quarterly installments to commence at the end of fifth quarter from the date of drawdown, with a prevailing interest rate of 9% per annum for the first year, and 12% per annum thereafter until the maturity date. The loan does not include any financial covenant.

Interest incurred on these loans is included as part of Finance costs under the Other Income (Charges) section of the interim consolidated statements of profit or loss (see Note 17.1). The related unpaid interest as of September 30, 2022 and December 31, 2021 is presented as part of Accrued expenses under the Trade and Other Payables account in the interim 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	
				September 30, 2022	December 31, 2021
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 7.50%	P 1,452,034,883	P 1,499,056,236
UCPB	MT Chelsea Intrepid				
	MT BMI Patricia	90 days	5.00% to 5.75%	848,310,600	862,325,000
PBB	Unsecured	180 days	9.00%	665,000,000	675,000,000
CBC	Trans-asia 2, Trans-Asia 3, Trans-Asia 5, Trans-Asia 12, Trans-Asia 15	60 days	6.00%	500,000,000	500,000,000
Landbank of the Philippines	Assignment of receivables	90 days	9.00%	500,000,000	500,000,000
Pentacapital	Assignment of receivables	360 days	6.00%	210,550,497	196,691,072
Union Bank of the Philippines	Continuing suretyship	360 days	4.50%	198,000,000	200,000,000
AUB	Unsecured	30 days	8.00%	-	20,324,093
BDO Unibank Inc	Trans-Asia 1	180 days	6.50%	-	47,500,000
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	-	23,825,323
				P 4,373,895,980	P 4,524,721,724

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 P650.1 million and P1,752.2 million as of September 30, 2022 and December 31, 2021, respectively (see Note 9). These loans do not include any financial covenants.

Interest incurred on these loans is presented as part of Finance costs under the Other Income (Charges) account in the interim consolidated statements of profit or loss (see Note 19.1). The related unpaid interest as of September 30, 2022 and December 31, 2021 is presented as part of Accrued expenses under the Trade and Other Payables account in the interim consolidated statements of financial position (see Note 13).

12.3 Mortgage Loans

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

	Security	Terms	Interest Rates	Outstanding Balance	
				September 30, 2022	December 31, 2021
BDO	Real Estate Mortgage	10 years	6.75%	P 163,090,822	P 163,090,822
Toyota Financials	Chattel Mortgage on Transportation Equipment	3 years	10.07%	16,394,542	19,572,225
BDO	Chattel Mortgage on Transportation Equipment	3 years	8.51%	5,785,277	7,416,294
Eastwest	Chattel Mortgage on Transportation Equipment	3 years	9.71%	637,649	779,162
AUB	Chattel Mortgage on Transportation Equipment	3 to 5 years	7.00% to 8.50%	328,377	1,024,718
RCBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	115,852	428,163
Chinabank Savings	Chattel Mortgage on Transportation Equipment	3 years	7% to 10.28%	-	297,189
				<u>P 186,352,519</u>	<u>P 192,608,573</u>

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 6.75% to 10.28% in both 2022 and 2021. Interest incurred on these loans are included as part of Finance costs under the Other Income (Charges) section of the interim consolidated statements of profit or loss (see Note 17.1). These loans do not contain any financial covenants.

These loans are secured by certain properties and transportation equipment with total carrying amount of P253.5 million and P247.6 million as of September 30, 2022 and December 31, 2021, 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 interim 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 interim consolidated statement of financial position:

	Number of rights-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	8	1 - 2 years	2 years	3	-
Lot	6	2 - 10 years	4 years	-	-
Offices	6	1 - 5 years	3 years	2	1
Vessel and vessel equipment	6	2 to 20 years	15 years	-	0

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:

	<u>Warehouses and related facilities</u>	<u>Lot</u>	<u>Offices</u>	<u>Vessel and vessel equipment</u>	<u>Total</u>
September 30, 2022					
Lease liabilities	P 39,386,363	P 84,078,968	P 31,758,935	P 2,665,794,011	P 2,821,018,277
Number of leases with an extension option that is not considered reasonably certain of exercise	3	-	2	-	5
Additional lease liabilities that would be incurred were it to become reasonably certain that extension option would be exercised	P 9,039,292	-	P 105,642,327	-	P 114,681,619
December 31, 2021					
Lease liabilities	P 41,193,984	P 84,078,968	P 59,593,420	P 2,722,252,640	P 2,907,119,012
Number of leases with an extension option that is not considered reasonably certain of exercise	3	-	2	-	5
Additional lease liabilities that would be incurred were it to become reasonably certain that extension option would be exercised	P 9,039,292	-	P 105,642,327	-	P 114,681,619

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 maturity analysis of lease liabilities as of September 30, 2022 and December 31, 2021 is as follows:

	<u>Within 1 year</u>	<u>1 to less than 2 years</u>	<u>2 to less than 3 years</u>	<u>3 to less than 4 years</u>	<u>4 to less than 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
September 30, 2022							
Lease payments	P 497,713,404	P 315,355,079	P 450,416,208	P 856,715,191	P 251,234,688	P 2,050,923,268	P 4,422,357,838
Finance charges	(179,533,951)	(265,693,952)	(198,783,185)	(179,974,445)	(138,762,538)	(638,591,490)	(1,601,339,561)
Net present value	<u>P 318,179,453</u>	<u>P 49,661,127</u>	<u>P 251,633,023</u>	<u>P 676,740,746</u>	<u>P 112,472,150</u>	<u>P 1,412,331,777</u>	<u>P 2,821,018,277</u>
December 31, 2021							
Lease payments	P 561,560,429	P 381,464,422	P 321,281,637	P 856,715,191	P 251,234,688	P 2,129,133,424	P 4,501,389,791
Finance charges	(226,559,612)	(211,599,508)	(198,783,185)	(179,974,445)	(138,762,538)	(638,591,490)	(1,594,270,778)
Net present value	<u>P 335,000,817</u>	<u>P 169,864,913</u>	<u>P 122,498,452</u>	<u>P 676,740,746</u>	<u>P 112,472,150</u>	<u>P 1,490,541,933</u>	<u>P 2,907,119,012</u>

As of September 30, 2022 and December 31, 2021, 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 P69.4 million, P72.0 million and P110.6 million in 2022, 2021 and 2020, respectively, and is presented as part of Rentals under Cost of Sales and Services and Other Operating Expenses in the interim consolidated statements of profit or loss (see Notes 16 and 17). As of September 30, 2022 and December 31, 2021, the Company's total commitment on these short-term leases amounted to P36.9 million.

13. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	<u>2022</u>	<u>2021</u>
Trade payables	19.2	P 5,698,117,154	P 5,677,632,885
Accrued expenses	12, 19.2	2,233,042,017	1,543,556,016
Subscription payable	10	781,249,998	781,249,998
Deferred output VAT		579,933,320	356,242,409
Non-trade payables	19.6	500,000,000	500,000,000
Government-related obligations		222,252,443	285,675,810
Output VAT		136,482,551	140,944,389
Provisions	22.3	610,389	707,213
Others		60,829,337	62,520,286
		<u>P10,212,517,209</u>	<u>P 9,348,529,006</u>

Subscription payable pertains to the amount of subscribed shares on the Group's investments in associate that remains unpaid as of September 30, 2022 and December 31, 2021 (see Note 10).

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

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

14. COST OF SALES AND SERVICES

The details of this account for each of the nine months ended September 30 are shown below.

	Notes	<u>2022</u>	<u>2021</u>	<u>2020</u>
Bunkering	7, 19.2	P 1,860,926,647	P 1,065,540,094	P 1,244,339,418
Depreciation and amortization	9	872,084,539	1,057,838,076	1,155,312,187
Outside services		403,165,115	151,736,619	168,016,070
Salaries and employee benefits	16.1	394,830,060	381,263,777	530,322,343
Insurance		158,991,275	214,224,728	155,913,675
Port expenses		135,826,256	318,590,135	118,796,362
Repairs and maintenance	7	130,125,467	108,820,360	153,790,402
Supplies	7	65,231,866	51,576,418	41,249,867
Rentals	19.3	52,903,266	66,754,927	33,933,784
Cost of inventories sold		49,551,832	36,001,714	34,448,251
Utilities and communication		23,639,233	18,319,681	16,239,279
Commission		20,530,039	25,629,801	5,901,926
Taxes and licenses		17,707,766	12,102,132	4,052,301
Charter hire fees		10,856,516	16,325,323	23,040,223
Transportation and travel		9,206,574	10,740,125	15,013,711
Professional fees		38,036	12,000	116,286
Miscellaneous		70,586,337	50,555,719	59,679,391
		<u>P 4,276,200,824</u>	<u>P 3,586,031,629</u>	<u>P 3,760,165,476</u>

15. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the nine months ended September 30, 2022, 2021 and 2020 are presented below.

	Notes	2022	2021	2020
Bunkering	7, 19.2	P 1,860,926,647	P 1,065,540,094	P 1,244,339,418
Depreciation and amortization	9, 11	934,313,658	1,144,607,682	1,239,798,652
Outside services		792,547,902	246,965,221	284,028,201
Salaries and employee benefits	16.1	603,111,411	591,931,445	805,576,872
Insurance		161,083,734	153,388,622	176,096,625
Repairs and maintenance	7	137,054,205	112,261,715	160,798,889
Port expenses		135,826,256	318,590,135	243,989,573
Taxes and licenses		100,544,136	99,501,731	73,595,527
Supplies	7	73,291,577	72,469,867	41,053,082
Rentals	12.4, 19.3, 22.2	69,393,005	71,960,887	110,643,929
Cost of inventories sold		49,551,832	36,001,714	34,448,251
Utilities and communication		37,543,994	36,939,983	32,358,742
Commission		22,410,168	16,454,808	23,318,001
Transportation and travel		21,387,723	21,962,261	16,592,478
Professional fees		14,806,183	15,529,889	20,674,965
Charter hire fees		10,856,516	25,629,801	5,901,926
Representation and entertainment		6,115,962	2,104,931	3,183,593
Expected credit losses on receivables		2,214,259	204,373,722	-
Advertising and promotions		1,778,960	826,691	626,158
Miscellaneous	19.9(b)	93,045,416	54,911,193	92,752,615
		P 5,127,803,544	P 4,291,952,392	P 4,609,777,497

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

	Note	2022	2021	2020
Cost of sales and services	14	P 4,276,200,824	P 3,586,031,629	P 3,760,165,476
Other operating expenses		849,388,461	501,547,041	849,612,021
Expected credit losses on receivables	5	2,214,259	204,373,722	-
		P 5,127,803,544	P 4,291,952,392	P 4,609,777,497

16. SALARIES AND EMPLOYEE BENEFITS

16.1 Salaries and Employee Benefits

The details of salaries and employee benefits for the nine months ended September 30, 2022, 2021 and 2020 are presented below.

	Notes	2022	2021	2020
Short-term employee benefits		P 586,699,301	P 569,957,429	P 787,923,784
Other employee benefits		16,412,110	21,974,016	17,653,088
	16	P 603,111,411	P 591,931,445	P 805,576,872

Other benefits include profit sharing, compensated absences, and other allowances. These expenses are classified in the interim consolidated statements of profit or loss as follows:

	Notes	2022	2021	2020
Cost of sales and services	14	P 394,830,060	P 381,263,777	P 530,322,343
Other operating expenses		<u>208,281,351</u>	<u>210,667,668</u>	<u>275,254,529</u>
	15	<u>P 603,111,411</u>	<u>P 591,931,445</u>	<u>P 805,576,872</u>

16.2 Post-employment Defined Benefit

(a) Characteristics of Post-employment Defined Benefit Plan

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

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

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

- (i) For regular employees who were hired before December 1, 2006
- more than two periods to five periods – 7.5 days per year of service
 - five periods and nine months to 10 periods – 15 days per year of service
 - ten periods and nine months to 15 periods – 22.5 days per year of service
 - 15 periods and nine months and above – 30 days per year of service
- (ii) For regular employees who were hired starting December 1, 2006
- Five periods and nine months to nine periods – 7.5 days per year of service
 - Nine periods and nine months to 15 periods – 15 days per year of service
 - 15 periods and five months to 20 periods – 22.5 days per year of service
 - 20 periods and nine months and above – 30 days per year of service

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

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

Actuarial valuations are made regularly to update the post-employment benefit expense and the amount of contributions.

(i) Post-employment Benefit Asset

The amounts of post-employment defined benefit asset of CSC and MI as of September 30, 2022 and December 31, 2021, which is recognized in the interim consolidated statements of financial position are determined as follows:

	<u>2022</u>	<u>2021</u>
Fair value of plan assets	P 1,800,436	P 1,800,436

The movements of the fair value of plan assets in 2022 and 2021 are presented below.

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 1,800,436	P 12,089,955
Reclassification during the year	-	(10,587,922)
Interest income	-	298,403
Balance at end of year	P 1,800,436	P 1,800,436

The composition of the fair value of plan assets as at September 30, 2022 and December 31, 2021 by category and risk characteristics is shown below.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	P 2,026	P 2,026
Debt and equity securities	1,794,704	1,794,704
Others	3,706	3,706
	P 1,800,436	P 1,800,436

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).

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 interim consolidated statements of financial position are determined as follows:

	<u>2022</u>	<u>2021</u>
Present value of the obligation	P 143,896,043	P 143,896,043
Fair value of plan assets	(63,879,806)	(63,879,806)
	P 80,016,237	P 80,016,237

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

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 143,896,043	P 171,529,490
Current service cost	-	26,358,885
Reclassification during the year	-	6,134,751
Actuarial loss (gains) due to changes in:		
Experience assumptions	-	(47,509,541)
Financial assumptions	-	(17,671,248)
Demographic assumptions	-	(3,874,107)
Benefits paid	-	(592,184)
Interest cost	-	<u>9,519,997</u>
Balance at end of year	<u>P 143,896,043</u>	<u>P 143,896,043</u>

The details of the fair value of plan assets in 2022 and 2021 are presented below.

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 63,879,806	P 57,743,149
Reclassification during the year	-	10,587,922
Benefits paid	-	(592,184)
Remeasurement loss	-	(8,891,831)
Interest income	-	<u>5,032,750</u>
Balance at end of year	<u>P 63,879,806</u>	<u>P 63,879,806</u>

The composition of the fair value of plan assets as at September 30, 2022 and December 31, 2021 by category and risk characteristics is shown below.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	P 255,840	P 255,840
Debt securities	62,858,599	62,858,599
Equity securities	565,000	565,000
Others	<u>200,367</u>	<u>200,367</u>
	<u>P 63,879,806</u>	<u>P 63,879,806</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).

(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 and in the succeeding page.

(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, 2021.

	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2021</u>			
Discount rate	+/- 1.0%	(P 16,486,637)	P 13,463,509
Salary growth rate	+/- 1.0%	12,251,556	(15,722,980)

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 interim 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 September 30, 2022 and December 31, 2021 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 September 30, 2022 and December 31, 2021, the plan is underfunded by P80.0 million. 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 maturity profile of undiscounted expected benefit payments from the plan within the next ten years from September 30, 2022 and December 31, 2021 follows:

	<u>2022</u>	<u>2021</u>
One to five years	P 74,650,406	P 74,650,406
More than five years but not more than ten years	<u>91,104,878</u>	<u>91,104,878</u>
	<u>P 165,755,284</u>	<u>P 165,755,284</u>

17. OTHER INCOME (CHARGES)

17.1 Finance Costs

The details of this account for the nine months ended September 30, 2022, 2021 and 2020 are shown below.

	<u>Notes</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Interest expense	12	P 908,339,118	P 1,069,538,113	P 986,068,417
Foreign currency exchange losses		47,390,857	13,542,800	(5,894,525)
Bank charges		<u>1,018,091</u>	<u>1,512,058</u>	<u>1,038,604</u>
		<u>P 956,748,066</u>	<u>P 1,084,592,971</u>	<u>P 981,212,496</u>

17.2 Finance Income

The breakdown of this account for the nine months ended September 30, 2022, 2021 and 2020 are shown below.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Interest income	P 21,322	P 57,265	P 211,989
Foreign currency exchange gains	<u>245,972</u>	<u>5,909,639</u>	<u>-</u>
	<u>P 267,294</u>	<u>P 5,966,904</u>	<u>P 211,989</u>

17.3 Other Income (Loss) - Net

Presented below are the details of other income (loss) for the nine months ended September 30, 2022, 2021 and 2020.

	Notes	<u>2022</u>	<u>2021</u>	<u>2020</u>
Pretermination of TC		P -	P 311,035,608	P -
Gain (Loss) on sale of property and equipment - net	9	-	(4,601,155)	50,502,168
Handling and trucking		-	-	162,512,294
Miscellaneous	6	(<u>21,132,248</u>)	<u>27,771,353</u>	<u>44,997,289</u>
		(<u>P 21,132,248</u>)	<u>P 334,205,806</u>	<u>P 258,011,751</u>

In 2021, PNX-Chelsea recognized a gain from the pre-termination of its time charter agreement with 2GO.

Miscellaneous includes gain on sale of scrap materials, excess customer charges over baggage, beddings and other services.

18. TAXES

18.1 Registration with the Board of Investments (BOI)

Starlite had registered MV Archer, MV Saturn, MV Eagle, MV Reliance and MV Pioneer with BOI 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 December 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 Starlite Phoenix (formerly 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.

In August 2020, Starlite registered MV Starlite Venus, which will commence in November 2020 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 income tax holiday (ITH). ITH incentives shall be limited only to the revenues generated by the registered activities.

18.2 Current and Deferred Taxes

The components of tax expense (income) as reported in the interim consolidated statements of profit and loss and other comprehensive income are shown below.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<i>Recognized in profit or loss:</i>			
Regular corporate income tax at 25% in 2022 and 2021 and 30% in 2020	P 17,217,198	P 1,828,996	P 10,312,762
Final tax at 20% and 7.5%	<u>2,645</u>	<u>3,213</u>	<u>21,386</u>
Deferred tax expense (income) relating to origination and reversal of temporary differences	17,219,843	1,832,209	10,334,148
	<u>-</u>	<u>-</u>	<u>21,061,929</u>
	<u>P 17,219,843</u>	<u>P 1,832,209</u>	<u>P 31,396,077</u>
<i>Recognized in other comprehensive income —</i>			
Deferred tax expense relating to origination and reversal	<u>P -</u>	<u>P -</u>	<u>P -</u>

The reconciliation of tax on pretax loss computed at the applicable statutory rate to tax income reported in the interim consolidated statements of profit or loss is as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Tax on pretax loss at 25% in 2022 and 2021 and 30% in 2020	(P 368,798,499)	(P 660,563,895)	(P 771,191,825)
Adjustments for income subjected to lower tax rates	(661)	(1,607)	(10,693)
Tax effects of:			
Unrecognized deferred tax assets on net operating loss carryover (NOLCO)	386,019,003	531,002,026	633,812,568
Nondeductible expenses	-	177,603,099	168,786,028
Nontaxable income	<u>-</u>	<u>(46,207,414)</u>	<u>-</u>
	<u>P 17,219,843</u>	<u>P 1,832,209</u>	<u>P 31,396,077</u>

The net deferred tax assets of the Company and certain subsidiaries as of September 30, 2022 and December 31, 2021 pertain to the following:

Impairment losses on trade and other receivables	P 112,286,976
Revaluation reserves on property and equipment	(28,896,923)
Post-employment benefit obligation	17,359,181
Impairment losses on property and equipment	12,131,075
Leases	11,452,201
Unrealized foreign exchange loss	3,243,861
Share based compensation	2,521,042
MCIT	<u>410,080</u>
	<u>P 130,507,493</u>

The net deferred tax liabilities of certain subsidiaries as of September 30, 2022 and December 31, 2021 are as follows:

Revaluation reserves on property and equipment	(P 329,582,947)
Impairment losses on trade and other receivables	152,693,864
Capitalized borrowing costs	(38,023,853)
Leases	(26,223,567)
Post-employment benefit obligation	2,644,878
Impairment losses on property and equipment	19,449,752
Share based compensation	369,307
Unamortized past service costs	163,672
Provisions	114,613
Impairment losses on long-term financial assets	-
Accrued expenses	-
Others	(549,645)
	(P 218,943,926)

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

Year	Original Amount	Applied in Current Period	Expired Balance	Remaining Balance	Valid Until
NOLCO:					
2021	P 3,042,075,680	p -	p -	P 3,042,075,680	2026
2020	2,607,824,522	-	-	2,607,824,522	2025
2019	426,533,137	-	-	426,533,137	2022
2018	461,300,595	-	461,300,595	-	2021
	P 6,537,733,934	p -	P 461,300,595	P 6,076,433,339	
MCIT:					
2021	P 1,359,577	P -	P -	P 1,359,577	2024
2020	4,140,586	-	-	4,140,586	2023
2019	2,102,988	-	-	2,102,988	2022
2018	942,908	-	942,908	-	2021
	P 8,546,059	p -	P 942,908	P 7,603,151	

The NOLCO incurred by entities within the Group can be claimed as deductions from their respective future taxable profits within five years after the year the tax loss was incurred. Specifically, the NOLCO incurred in 2021 and 2020 can be claimed as deduction within five years after the year it was incurred, pursuant to Section 4 (bbbb) of RA No. 11494 and as implemented through Revenue Regulations No. 25-2020.

The Group is subject to the MCIT, which is computed at 1% of gross income in 2022 and 2021 as defined under the tax regulations or RCIT, whichever is higher.

In 2022, 2021 and 2020, the Group opted to claim itemized deductions in computing for its income tax due.

18.3 Impact of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

On March 26, 2021, R.A. No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Group:

- (a) RCIT rate was reduced from 30% to 25% starting July 1, 2020;
- (b) MCIT rate was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- (c) the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

19. RELATED PARTY TRANSACTIONS

The Group's related parties include Udenna, related parties under common ownership, associates, the Group's key management personnel.

A summary of the Group's transactions with its related parties for the nine months ended September 30, 2022, 2021 and 2020 and the related outstanding balances as of September 30, 2022 and December 31, 2021 is presented below.

Related Party Category	Notes	Amounts of Transactions			Outstanding Balances	
		2022	2021	2020	September 30, 2022	December 31, 2021
Parent —						
Cash advances granted	19.4	(P 81,436,541)	P 6,474,431,342	P 157,599,433	P 7,325,268,359	P 7,406,704,900
Associate —						
Chartering of services rendered	19.1	-	-	79,242,900	-	-
Sale of Dito	10, 19.4	-	-	-	271,874,967	271,874,967
Related parties under common ownership:						
Chartering of services rendered	19.1	109,987,271	157,377,291	273,280,432	71,366,345	32,949,882
Fuel purchases	19.2	787,617,140	1,217,534,299	851,182,965	(2,675,996,738)	(2,743,065,055)
Acquisition of CSC's shares	19.6	-	-	-	(500,000,000)	(500,000,000)
Rental expense	19.3	1,504,479	1,817,124	80,955	(329,988)	(1,330,110)
Donation	19.9(b)	-	270,000	270,000	-	(360,000)
Cash advances granted	19.4	17,291,343	245,528,345	59,304,606	133,221,918	115,930,575
Cash advances obtained	19.4	71,198,734	140,384,270	(2,159,633,332)	(695,222,572)	(624,023,838)
Right-of-use assets	9, 19.7	(12,492,405)	(12,492,405)	(12,492,405)	30,536,991	43,029,396
Lease liabilities	12.4, 19.7	12,708,552	7,293,655	64,624,216	(30,816,244)	(43,524,796)

The Group's outstanding receivables with related parties were subjected to impairment testing using PFRS 9's ECL model (see Note 25.2).

Unless otherwise stated, the outstanding receivables and payables from and to related parties are unsecured, noninterest-bearing and are generally settled in cash upon demand or through offsetting arrangement with the related parties.

19.1 Charter Fees and Standby Charges

The Group entered into chartering agreements with PPPI, a related party under common ownership, and 2GO, an associate until 2020, 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 interim consolidated statements of profit or loss. The related outstanding receivable as of September 30, 2022 and December 31, 2021 is presented as part of Trade receivables under the Trade and Other Receivables account in the interim 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 September 30, 2022 and December 31, 2021 based on management's assessment.

19.2 Fuel Purchases

The Group purchases fuel and lubricants 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 interim consolidated statements of profit and loss (see Note 14) while the remaining fuel and lubricants inventory amounting to P96.2 million and P112.0 million as of September 30, 2022 and December 31, 2021, respectively, are included as part of the Inventories account in the interim consolidated statements of financial position (see Note 6). 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 September 30, 2022 and December 31, 2021 is presented as part of Trade payables and Accrued expenses under the Trade and Other Payables account in the interim consolidated statements of financial position (see Note 13).

19.3 Rentals

The Group entered into a one-year contract of lease covering vehicles with Valueleases, Inc., a related party under common ownership. Related expense is presented as part of Rentals under Cost of Sales and Services in the interim consolidated statements of profit or loss (see Notes 16 and 17). The outstanding security deposits arising from this transaction is presented as part of Security deposits under the Other Non-current Assets accounts in the interim consolidated statements of financial position (see Notes 11 and 22.2).

19.4 Advances to and from Related Parties

In the normal course of business, the Group grants and obtains unsecured, noninterest-bearing cash advances to and from its related parties mainly for working capital requirements and to bridge financing of vessel acquisitions pending draw down of related loans.

As of September 30, 2022 and December 31, 2021, the outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the interim 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 2022 and 2021 follows:

	Parent Company	Associate	Related Parties under common Ownership	Total
September 30, 2022				
Balance at beginning of year	P 7,406,704,900	P 271,874,967	P 115,930,575	P 7,794,510,442
Advances (Collections)	(81,436,542)	-	17,291,344	(64,145,198)
Balance at end of year	<u>P 7,325,268,358</u>	<u>P 271,874,967</u>	<u>P 133,221,919</u>	<u>P 7,730,365,244</u>
December 31, 2021				
Balance at beginning of year	P 980,378,702	P 271,874,967	P 148,341,141	P 1,400,594,810
Offsetting against sales proceeds	6,550,275,167	-	-	6,550,275,167
Collections	(123,948,969)	-	(32,410,566)	(156,359,535)
Balance at end of year	<u>P 7,406,704,900</u>	<u>P 271,874,967</u>	<u>P 115,930,575</u>	<u>P 7,794,510,442</u>

In 2021, the Group executed the sale of its investment in 2GO. A portion of the consideration was used to partially pay the loan of the parent company.

Based on management's assessment, no impairment loss is recognized in 2022 and 2021 related to the advances granted to related parties (see Note 25.2).

The movement in the Advances from Related Parties account in 2022 and 2021 follows:

	Note	2022	2021
Balance at beginning of year		P 624,023,838	P 587,784,015
Net advances received		<u>71,198,734</u>	<u>36,239,823</u>
Balance at end of year		<u>P 695,222,572</u>	<u>P 624,023,838</u>

19.5 Transactions with Post-employment Benefit Plan

The Group's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in cash and cash equivalents, equity and debt securities, with fair value totaling P65.7 million as of September 30, 2022 and December 31, 2021, respectively. As of September 30, 2022 and December 31, 2021, the Group's retirement funds do not include any investments in any debt or equity securities issued by the Group or any of its related parties.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 16.2.

19.6 Acquisition of CSC and SFFC 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 interim 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 interim consolidated statements of financial position (see Note 19.3). As of September 30, 2022 and December 31, 2021, the outstanding liability from this transaction amounting to P500.0 million is presented as part of Non-trade payables under the Trade and Other Payables account in the interim consolidated statements of financial position (see Note 13).

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 fair values 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 interim consolidated statement of financial position (see Note 24). The outstanding balance bears an effective interest of 6.50% per annum which was paid in 2021.

19.7 Leases

Under PFRS 16, the Company recognized right-of use assets and lease liabilities related to lease of a certain office space from a related party under common ownership amounting to P39.4 million and P43.0 million, and P38.9 million and P43.5 million, respectively, in the statements of financial position (see Notes 9 and 12.4). The total amortization on the right-of-use asset is presented as part of Depreciation and amortization under Other Operating Expenses in the interim consolidated statements of profit or loss (see Note 15). Interest expense arising from the lease liabilities is recognized as part of Finance costs under Other Income (Charges) in the interim consolidated statements of profit or loss (see Note 17.1).

19.8 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 interim consolidated statements of profit or loss (see Note 15).

19.9 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). Certain interest-bearing loans of Udenna were also secured by a corporate guarantee of the Company through a continuing surety agreement with the respective banks.
- (b) The Group granted donations amounting to P0.2 million in 2021 and 2020 (nil in 2022), 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 interim consolidated statements of profit and loss (see Note 15). The outstanding balance is presented as part of Trade and other payables account in the interim consolidated statements of financial position.

20. EQUITY

20.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2022	2021	2022	2021
Authorized - P1 par value				
Common shares	3,490,000,000	1,990,000,000	P3,490,000,000	P1,990,000,000
Preferred shares	10,000,000	10,000,000	10,000,000	10,000,000
Total	3,500,000,000	2,000,000,000	P3,500,000,000	P2,000,000,000
Issued and outstanding				
Balance at beginning of period, common	1,821,977,615	1,821,977,615	P1,821,977,615	P1,821,977,615
Subscription of shares during the period	375,000,000	-	375,000,000	-
Less: Subscription receivables	(281,250,000)	-	(281,250,000)	-
	1,915,727,615	1,821,977,615	1,915,727,615	1,821,977,615
Issuance and outstanding, preferred	500,000	-	500,000	-
Balance at end of period	1,916,227,615	1,821,977,615	P1,916,227,615	P1,821,977,615

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 September 30, 2022 and December 31, 2021, the Company's listed shares closed at P1.56 and P1.62 per share, respectively.

On October 6, 2020, the Shareholders ratified the BOD's approval of the issuance of 500,000 Preferred Shares via private placement to Global Kingdom Investments Limited at the subscription price of P1,000 per share, subject to certain terms and conditions. The par value of the Preferred Shares is P1.0 per share.

On the same date, the Shareholders also ratified the BOD's approval of the increase in the authorized capital stock of the Company to P3,500,000,000. The increase of 1,500,000,000 shares, consists of all common shares. Udenna will subscribe to 375,000,000 common shares, which is 25% of the increase in common shares, at the price of P3.26 per share with reference to the 90-day volume weighted average price (VWAP). The par value of the common shares is P1.0 per share.

Receipt of capital infusion from Global Kingdom Investments Limited amounting to P414.8 million and from Udenna amounting to P305.6 million, totaling to P805.6 million was presented as Deposits on Future Stock Subscriptions under Equity section as of December 31, 2021 and was reclassified as part of Capital Stock and Additional Paid-in Capital in 2022 upon approval of the increase in the authorized capital stock of SEC on April 4, 2022.

In 2022, Global Kingdom has fully paid its subscriptions to preferred shares and the Company subsequently issued the preferred shares. The preferred shares are non-voting, redeemable at the option of the issuer at subscription price and earn cumulative cash dividend at a rate of 8% per annum payable upon BOD's declaration and approval.

The subscription of Udenna diluted the public ownership of the Company from 30% to 25% as of September 30, 2022.

20.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the interim consolidated statements of changes in equity at their aggregate amount under the Revaluation Reserves account are shown below.

	Revaluation of Property and Equipment (see Note 9)	Actuarial Gain or Loss on PBO (see Note 16.2)	Cumulative Translation Adjustments	Total
Balance as of January 1, 2022	P 968,152,254	P 80,458,336	P 2,300,473	P 1,050,911,063
Transfer to retained earnings - Depreciation of revalued vessels	(14,206,666)	-	-	(14,206,666)
Balance at September 30, 2022	<u>P 953,945,588</u>	<u>P 80,458,336</u>	<u>P 2,300,473</u>	<u>P 1,036,704,397</u>
Balance as of January 1, 2021	P 1,168,028,791	P 32,727,175	P 681,953	P 1,201,437,920
Revaluation decrement	(97,809,298)	-	-	(97,809,298)
Remeasurements of post-employment benefit obligation	-	60,163,065	-	60,163,065
Currency exchange differences on translating financial statements of foreign operations	-	-	1,618,520	1,618,520
Other comprehensive income	(97,809,298)	60,163,065	1,618,520	(36,027,713)
Tax income	54,406,669	(12,431,905)	-	41,974,764
Other comprehensive income after tax	(43,402,629)	47,731,160	1,618,520	5,947,051
Transfer to retained earnings - Depreciation of revalued vessels	(156,473,908)	-	-	(156,473,908)
Balance at December 31, 2021	<u>P 968,152,254</u>	<u>P 80,458,336</u>	<u>P 2,300,473</u>	<u>P 1,050,911,063</u>

20.3 Other Reserves

Other reserves amounting to P1.0 billion pertain to the excess of the net identifiable assets of CSC amounting to 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 19.6). Under this method, the assets and liabilities of the combining entities are reflected in the interim consolidated financial statements at their carrying amounts. No adjustments are made to reflect their fair values, or recognize new assets and liabilities.

20.4 Non-controlling Interest

The balance as at September 30, 2022 and December 31, 2021 represents preferred shares subscription of certain individuals in Trans-Asia. These shares are non-voting and redeemable at the option of Trans-Asia.

20.5 Employee Stock Option Plan

On February 13, 2019, the BOD of the Company approved an Employee Stock Option Plan (the ESOP) covering all regular employees with at least one year of service from the date of grant. This was subsequently ratified by stockholders holding at least two-thirds of the outstanding capital stock on March 15, 2019. The objective of the ESOP is to recognize the loyalty, dedication and exemplary performance of the employees of the Company, thereby encouraging long-term commitment to the Company.

Under the ESOP, the Company shall initially reserve for exercise of stock options up to 56.3 million common shares of the Company's outstanding shares to be issued, in whole or in part, out of the authorized but unissued shares, 66.67% of which were granted to existing employees as of the initial offering date (IOD) while the remaining 33.33% is reserved for employees hired after the IOD. Stock options may be granted within five years from the adoption of the ESOP and may be exercised within 10 years from the date of grant. The exercise price shall be based on the volume weighted average price of the Company 30 days prior to the IOD. The options shall vest for a period of one to five years from the initial offering date. The Company shall receive cash for the stock options.

As of September 30, 2022 and December 31, 2021, 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 been exercised as at September 30, 2022 and December 31, 2021.

The fair value of the option granted was estimated using binomial option pricing model that takes into account factors specific to the ESOP. The principal assumptions used in the valuation are shown below.

Grant date	:	May 15, 2019
Vesting period ends	:	May 15, 2024
Option life	:	Five years
Share price at grant date	:	P6.05
Exercise price at grant date	:	P6.28
Average fair value at grant date	:	P3.16
Average standard deviation of share price returns	:	51.28%
Average risk-free investment rates	:	6.14%

The underlying expected volatility was determined by reference to historical date of the Company's shares over a period of time consistent with the option life.

21. LOSS PER SHARE

Basic and diluted loss per share loss attributable to the Company's stockholders are computed as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Net loss	(P 1,492,413,838)	(P 2,203,711,860)	(P 2,602,035,495)
Divided by weighted average shares outstanding	<u>1,874,338,726</u>	<u>1,821,977,615</u>	<u>1,821,977,615</u>
Loss per share – basic and diluted	(P <u>0.796</u>)	(P <u>1.210</u>)	(P <u>1.428</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 September 30, 2022 and December 31, 2021. There were no outstanding convertible preferred shares and bonds or other stock equivalents as of September 30, 2022 and December 31, 2021; hence, diluted earnings per share is equal to the basic earnings per share.

22. COMMITMENTS AND CONTINGENCIES

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

22.1 Charter Agreements

The Group has existing commitments to charterers under TC, CVC, and BB agreements, which ranges from two to five years, for the use of its vessels in transporting oil products for a fixed period. Also associated with these charter agreements, is the obligation to keep the Group's vessels in good working condition and compliant with all the shipping regulations as required by the Maritime Industry Authority.

22.2 Operating Lease Commitments – Group as Lessor

The Group entered into BB agreements, which qualifies as a lease. Income recognized under BB agreements amounted to P76.6 million, P64.5 million and P57.1 million in 2022, 2021 and 2020, respectively. These are presented as part of Charter fees under Revenues in the interim consolidated statements of profit or loss (see Note 24.5). Commitments relating to these agreements amounted to P80.3 million and P99.0 million as of September 30, 2022 and December 31, 2021, respectively.

To manage its risks over these operating leases, the Group's risk management strategy for the rights it retains in underlying assets, include buy-back agreements and residual value guarantees. There were no income recognized from variable lease payments on operating leases in 2022 and 2021.

22.3 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 interim 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 interim 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 Provisions under the Trade and Other Payables account in the interim consolidated statements of financial position (see Note 13).

22.4 Unused Lines of Credit

As of September 30, 2022 and December 31, 2021, the Group has unused lines of credit amounting to P2.5 million.

22.5 Warehouse Construction

On December 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 interim consolidated statement of financial position (see Note 11). Total capital expenditure amounts to P232.6 million as of September 30, 2022 and December 31, 2021. The construction was put temporarily on hold due to effects of the pandemic.

22.6 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 interim 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 interim consolidated financial statements.

23. GOODWILL

Goodwill recognized in the interim consolidated financial statements primarily comprises the value of expected synergies from the acquisition of these subsidiaries as part of the Group's expansion program and is derived by deducting the fair values of the net assets acquired as of the date of acquisition from the amount of total consideration paid.

The gross carrying amount and accumulated impairment loss of goodwill as of September 30, 2022 and December 31, 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Cost	P 1,848,378,146	P1,848,378,146
Accumulated impairment loss	(10,375,700)	(10,375,700)
Net carrying amount	<u>P 1,838,002,446</u>	<u>P 1,838,002,446</u>

The movements of this account as of September 30, 2022 and December 31, 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P1,838,002,446	P 1,848,378,146
Impairment during the year	<u>-</u>	<u>(10,375,700)</u>
Balance at end of year	<u>P 1,838,002,446</u>	<u>P1,838,002,446</u>

On May 11, 2020, the Company acquired 100% ownership interest of Preferred C shares of KGLI-NM for a total consideration of P0.2 million. KGLI-NM, in which the Group holds 80% economic interest and 39.71% voting interest, through UIBV, was recognized as an associate until the acquisition. After the acquisition, the effective voting rights of the Group over KGLI-NM increased from 39.71% in 2019 to 90.07% in 2020. Management assessed that such increase in voting interest resulted in control over KGLI-NM; hence, the acquisition was considered a business combination achieved in stages.

Subsequent to the acquisition, the Group's investment in 2GO, through KGLI-NM, was reclassified as a non-current asset held for sale, as the Group has planned to dispose of the investment rather than continuing its business operations. The investment in 2Go was assessed by the Group to qualify as investment acquired in view of resale; hence, is required to be measured at fair value less costs to sell, based on the requirements of *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations*. Fair value is derived from the agreed selling price for the sale of the investment. Management also assessed that the goodwill recognized by the Group when it acquired UIBV, amounting to P3.9 billion, is directly attributable to the investment in 2GO and is part of the disposal group; hence, was also reclassified as non-current asset held for sale.

The fair values of the identifiable assets acquired and liabilities assumed from these subsidiaries as at the date of acquisition and the total consideration used for the computation of goodwill or gain on bargain purchase are presented below.

Consideration made:

Consideration transferred on additional acquisition	P	219,609
Acquisition-date fair value of previously-held interest		4,858,123,040
Amount of NCI		<u>30,363,269</u>
		<u>4,888,705,918</u>

Fair value of net assets acquired:

Other assets		5,032,596
Investment in an associate (2Go)		7,306,294,365
Redeemable preference shares	(	1,230,436,441)
Other liabilities	(<u>7,675,122)</u>
		<u>6,073,215,398</u>

Gain on bargain purchase	P	<u>1,184,509,480</u>
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NCI was computed using the proportionate share in the recognized amounts of the acquiree's identifiable net assets. There were no contingent consideration arising from the foregoing transaction. There were also no acquired trade and other receivables. Also, acquisition-related costs were deemed immaterial in this transaction.

The acquisition resulted in gain on bargain purchase due to the significant valuation of the investment in associate, which is valued at fair value less costs to sell as it qualifies as an investment acquired in view of resale (see Note 11), compared to the consideration transferred for the transaction which is at the original par value of the shares acquired. Moreover, the transaction is intended to be part of the initial acquisition of UIBV by the Group but was only finalized this year.

As a result of the step acquisition, the Group also recognized a loss on the remeasurement of the acquisition-date fair value of the previously-held interest against the carrying value of the investment, including attributable goodwill (see Note 10), as follows:

Acquisition-date fair value of previously-held interest	P	4,858,123,040
Carrying value of:		
Previous investment in associate	(	1,274,038,809)
Goodwill from acquisition of UIBV in prior years	(	<u>3,917,431,543</u>)
Loss on remeasurement	(P	<u>333,347,312</u>)

Goodwill recognized by the Group are significantly allocated to the following segments:

	<u>2022</u>	<u>2021</u>
Roll-on/roll-off passenger	P 1,295,633,122	P 1,295,633,122
Distribution and warehousing	478,499,319	478,499,319
Tankering	<u>63,870,005</u>	<u>63,870,005</u>
	<u>P 1,838,002,446</u>	<u>P 1,838,002,446</u>

Goodwill is subject to annual impairment testing as required under PAS 36, *Impairment of Assets*. In 2022 and 2021, the recoverable amounts of the cash-generating units were determined based on value-in-use calculations, which require use of various assumptions.

In 2021, the Group determined that the goodwill arising from the acquisition of BMI is no longer recoverable; hence, an impairment amounting to P10.4 million was recognized and is presented as Impairment loss on goodwill in the 2021 interim consolidated statement of profit or loss.

Management's impairment analysis for goodwill were based on budgets approved by management covering a five-year period, which were based on expectation of future outcomes taking into consideration past experience for five years, adjusted for anticipated revenue growth and recalibrated to incorporate COVID-19 impact on projections. The growth rates also reflect the long-term growth rates in the Philippines for the years presented.

	<u>2021</u>		<u>2020</u>	
	Average Discount Rate	Terminal Growth Rate	Average Discount Rate	Terminal Growth Rate
Roll-on/roll-off passenger	5.71%	3.70%	5.73%	3.70%
Distribution and warehousing	5.73%	3.70%	5.88%	3.70%
Tankering	9.31%	3.70%	8.13%	3.70%

On the other hand, in 2019, the Group 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 until December 31, 2019. In 2020, such goodwill was reclassified as part of Non-current Asset Held for Sale, in connection with the sale of its investment in 2Go, as management assessed that the goodwill is attributable to the value of the 2Go investment and is considered part of such disposal group. The stake in 2Go was sold in 2021.

Based on these analyses, management has assessed that no further impairment of goodwill is required to be recognized as of September 30, 2022 and December 31, 2021. Management also assessed that a reasonably possible change of +/- 1% on the Group's cost of equity and terminal growth rate would not cause the carrying values of goodwill arising from the Group's acquisitions to materially exceed their recoverable amounts.

24. SEGMENT INFORMATION

24.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

- (a) Tankering services is involved in the conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind;
- (b) Tugboats services is involved in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors and other waterways between the various ports of the Philippines;
- (c) Roll-on/roll of passenger shipping services is involved in the transport of passengers and cargoes within Philippine territorial waters and/or high seas;
- (d) Distribution and warehousing services is involved in the logistics services such as but not limited to cargo freight forwarding (air, land and sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crating, etc.;
- (e) Ship management and crewing services is involved in the business of ship management and in providing full and partial crewing for domestic and foreign vessels; and,
- (f) Investing and other activities include holding companies.

Segment accounting policies are the same as the policies described in Note 2.4.

24.2 Segment Assets and Segment Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

24.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation and combination in 2022, 2021 and 2020.

24.4 Analysis of Segment Information

The tables below and in the succeeding pages present revenue and profit information regarding business segments for the nine months ended September 30, 2022, 2021 and 2020 and assets and liabilities information regarding segments as at September 30, 2022 and December 31, 2021.

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Total
September 30, 2022							
SEGMENT RESULTS							
Sales to external customers	P -	P 410,031,981	P 306,741,796	P 3,511,695,142	P 401,753,650	P -	P 4,630,222,569
Intersegment sales	268,892,820	-	29,976,956	234,900,000	-	188,749,620	722,519,396
Total revenues	268,892,820	410,031,981	336,718,752	3,746,595,142	401,753,650	188,749,620	5,352,741,965
Cost of sales and services	-	564,120,121	241,409,298	3,483,047,582	295,570,181	220,571,952	4,804,719,134
Other operating expenses	178,033,741	75,347,518	35,838,435	694,089,066	80,471,612	54,736,278	1,118,516,650
Expected credit losses on receivables	-	-	-	218,149	1,996,110	-	2,214,259
Finance costs	148,708,864	381,230,663	9,952,333	408,520,033	2,472,915	33,763,258	984,648,066
Finance income	(27,903,218)	(6,502)	(1,401)	(207,294)	(47,015)	(1,864)	(28,167,294)
Other loss (income)	(3,610,310)	7,719,935	(2,761)	10,978,507	6,948,655	(879,023)	21,155,003
Segment operating profit (loss)	(P 26,336,257)	(P 618,379,754)	P 49,522,848	(P 850,050,901)	P 14,341,192	(P 119,440,981)	(P 1,550,343,853)
SEGMENT ASSETS AND LIABILITIES							
Total assets	P 36,394,816,403	P 10,596,995,886	P 974,925,240	P 15,343,219,193	P 757,158,763	P 752,568,618	P 64,819,684,103
Total liabilities	P 20,264,663,279	P 10,105,518,070	P 371,642,013	P 17,469,206,064	P 490,825,351	P 531,352,346	P 49,233,207,123
September 30, 2021							
SEGMENT RESULTS							
Sales to external customers	P -	P 438,006,378	P 233,685,633	P 2,274,071,187	P 326,715,420	-	P 3,272,478,618
Intersegment sales	185,664,654	-	30,162,780	66,699,801	-	314,162,933	596,690,168
Total revenues	185,664,654	438,006,378	263,848,413	2,340,770,988	326,715,420	314,162,933	3,869,168,786
Cost of sales and services	-	669,316,701	240,071,394	2,601,231,548	246,702,702	224,534,372	3,981,856,717
Other operating expenses	140,933,978	77,283,115	31,649,317	332,726,994	111,267,990	42,090,975	735,952,368
Expected credit losses on receivables	-	155,633,050	-	38,691,452	10,049,220	-	204,373,722
Finance costs	116,289,237	444,643,226	10,544,216	508,902,329	3,446,707	767,256	1,084,592,971
Share in net loss of associates	592,010,329	-	-	-	-	-	592,010,329
Finance income	212,331	(19,939)	(2,463)	(6,145,404)	(11,012)	(417)	(5,966,904)
Other loss (income)	(5,093,511)	(311,035,608)	-	(17,329,918)	(95,869)	(650,900)	(334,205,806)
Segment operating profit (loss)	(P 658,687,710)	(P 597,814,167)	(P 18,414,050)	(P 1,117,306,013)	(P 44,644,318)	P 47,421,647	(P 2,389,444,611)
December 31, 2021							
SEGMENT ASSETS AND LIABILITIES							
Total assets	P 36,187,705,371	P 10,827,120,732	P 966,704,542	P 16,757,139,054	P 705,165,916	P 705,078,605	P 66,148,914,220
Total liabilities	P 20,835,523,934	P 9,707,857,143	P 422,694,286	P 17,748,930,010	P 465,076,746	P 452,824,723	P 49,632,906,842

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenues			
Total segment revenues	P 5,352,741,965	P 3,869,168,786	P 4,003,815,106
Elimination of intersegment revenues	(<u>722,519,396</u>)	(<u>596,690,168</u>)	(<u>679,068,179</u>)
Reported as profit or loss	P 4,630,222,569	P 3,272,478,618	P 3,324,746,927
Profit or loss			
Segment operating profit (loss)	(P 1,550,343,853)	(P 2,389,444,611)	(P 2,570,639,418)
Other unallocated expense	<u>75,149,858</u>	<u>187,564,960</u>	<u>-</u>
Profit before tax as reported in profit or loss	(<u>P 1,475,193,995</u>)	(<u>P 2,201,879,651</u>)	(<u>P 2,570,639,418</u>)
Assets			
Segment Assets	P 64,819,684,103	P 66,148,914,220	
Elimination of intercompany accounts	(<u>31,359,693,480</u>)	(<u>32,026,446,455</u>)	
Total assets as reported in the consolidated statement of financial position	<u>P 33,459,990,623</u>	<u>P 34,122,467,765</u>	
Liabilities			
Segment Liabilities	49,233,207,123	49,632,906,842	
Elimination of intercompany accounts	(<u>20,016,261,197</u>)	(<u>21,160,697,612</u>)	
Total liabilities as reported in the consolidated statement of financial position	<u>P 29,216,945,926</u>	<u>P 28,472,209,230</u>	

24.5 Disaggregation of Revenues from Contracts with Customers

The disaggregation of revenues based on the timing of satisfaction of performance obligations for the nine months ended September 30, 2022, 2021 and 2020 is presented below.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenues recognized over time:			
Freight	P 2,441,096,153	P 2,035,152,005	P 1,285,836,310
Charter fees	505,961,726	445,907,023	900,623,936
Other service revenues	407,487,918	326,839,848	357,579,999
Tugboat fees	305,025,278	238,318,704	262,282,982
Passage	<u>887,480,928</u>	<u>179,910,836</u>	<u>451,612,303</u>
	4,547,052,003	3,226,128,416	3,257,935,530
Revenues recognized at a point in time -			
Sale of goods	<u>83,170,566</u>	<u>46,350,202</u>	<u>66,811,397</u>
Total revenues	<u>P 4,630,222,569</u>	<u>P 3,272,478,618</u>	<u>P 3,324,746,927</u>

25. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to its financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 26. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its parent Company, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Group is exposed to are described below.

25.1 Market Risks

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's cash, trade and other receivables and interest-bearing loans, which are denominated in U.S. dollars.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

U.S. dollar denominated financial assets and financial liabilities, translated into Philippine pesos at the September 30, 2022 and December 31, 2021 closing rates follow:

	<u>2022</u>	<u>2021</u>
Financial assets	P 2,677,428	P 855,273
Financial liabilities	(<u>310,549,250</u>)	<u>279,257,000</u>
Net exposure	(<u>P 307,871,822</u>)	(<u>P 278,401,727</u>)

If the Philippine peso had strengthened against the U.S. dollar, loss before tax in 2021 and 2020 would have decreased by P34.8 million and P31.5 million, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have increased loss before tax in 2022 and 2021, respectively, by the same amount. This sensitivity of the net result for the period assumes a +/-11.30% change of the Philippine peso/U.S. dollar exchange rate for the periods ended September 30, 2022 and December 31, 2021, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in 12 months for 2022 and 2021 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 September 30, 2022 and December 31, 2021, 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 +/- 1.43% in 2022 and 2021, respectively. Bank loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.11% and +/- 0.10% in 2022 and 2021, 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.

25.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example, by granting advances and rendering services to customers and related parties and by placing deposits with banks.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the interim consolidated statements of financial position or in the detailed analysis provided in the notes to the interim consolidated financial statements, as summarized below.

	Notes	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	4	P 208,743,605	P 269,690,887
Trade and other receivables – net (excluding advances to officers and employees)	5	839,426,665	1,035,309,743
Restricted cash	7, 11	6,578,382	6,578,380
Security deposits	11	71,169,949	88,502,533
Advances to related parties	19.4	<u>7,730,365,244</u>	<u>7,794,510,442</u>
		<u>P10,360,253,828</u>	<u>P 9,194,591,987</u>

The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used and credit verification procedures are performed. The Group's policy is to deal only with creditworthy counterparties.

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 September 30, 2022 and December 31, 2021, 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 September 30, 2022 and December 31, 2021 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	Total
September 30, 2022					
Expected loss rate	0.00%	8.68%	164.17%	67.14%	
Gross carrying amount - trade receivables	145,256,405	160,359,812	44,643,532	1,452,025,760	1,802,285,509
Loss allowance	-	13,925,435	73,289,317	974,922,865	1,062,137,617
December 31, 2021					
Expected loss rate	0.00%	14.25%	24.26%	77.23%	
Gross carrying amount - trade receivables	433,876,040	82,155,646	302,124,712	1,262,369,763	2,080,526,161
Loss allowance	-	11,711,177	73,289,317	974,922,865	1,059,923,359

The Group also considers the existence of financial liabilities, which may be offset against the outstanding trade receivables with the same counterparty. Portion of the financial assets past due for more than three months in both years pertain 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 (see Notes 19.1 and 19.2).

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.

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. The Group also considers possible recovery strategies and the expected manner in which those will be realized and cash would be available for payment of the advances. Management assessed that the outstanding advances from related parties as of September 30, 2022 and December 31, 2021 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.

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.

25.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for short-term and long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Funding for short-term and long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at September 30, 2022, 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 4,460,698,081	P 3,416,286,751	P 10,312,468,714	P 4,422,711,146
Trade and other payables (except for government-related obligations)	13	6,198,117,154	-	-	-
Advances from related parties	19.4	347,611,286	347,611,286	-	-
		P 11,006,426,521	P 3,763,898,037	P 10,312,468,714	P 4,422,711,146

As at December 31, 2021, 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 4,385,292,957	P 1,826,149,642	P 9,952,673,133	P 3,053,531,104
Trade and other payables (except for government-related obligations)	13	7,721,188,901	-	-	-
Advances from related parties	19.4	312,011,919	312,011,920	-	-
		P 12,418,493,777	P 2,138,161,562	P 9,952,673,133	P 3,053,531,104

These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

26. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

26.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the interim consolidated statements of financial position are shown in the succeeding page.

	Notes	September 30, 2022		December 31, 2021	
		Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets —					
<i>At amortized cost:</i>					
Cash and cash equivalents	4	P 208,743,605	P 208,743,605	P 269,690,887	P 269,690,887
Trade and other receivables - net	5	839,426,665	839,426,665	1,035,309,743	1,035,309,743
Restricted cash	8, 11	6,578,382	6,578,382	6,578,382	6,578,382
Security deposits	8, 11	71,169,949	71,169,949	88,502,533	88,502,533
Advances to related parties	19.4	7,730,365,244	7,730,365,244	7,794,510,442	7,794,510,442
		P 10,360,253,828	P 10,360,253,828	P 9,194,591,987	P 9,194,591,987
Financial Liabilities —					
<i>At amortized cost:</i>					
Trade and other payables	13	P 7,931,159,171	P 7,931,159,171	P 7,721,188,901	P 7,721,188,901
Interest-bearing loans	12	17,829,216,912	17,829,216,912	18,079,429,297	18,079,429,297
Advances from related parties	19.4	695,222,572	695,222,572	624,023,838	624,023,838
		P 26,455,598,655	P 26,455,598,655	P 26,424,642,036	P 26,424,642,036

See Notes 2.5 and 2.11 for the description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 25.

26.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2021 and 2020 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 P7,560.4 million and P7,555.6 million as of September 30, 2022 and December 31, 2021, respectively, may be offset against the outstanding balances of trade and other payables and cash advances obtained from related parties totaling P3,902.1 million and P3,972.9 million as of September 30, 2022 and December 31, 2021, respectively.

In 2021, the Group executed the sale of its investment in 2GO. A portion of the consideration was used to partially pay the loan of the parent company (see Note 19.4).

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). None of these certain receivables were set off against the related interest-bearing loans in both years.

Certain cash balances are also restricted for use to secure line of credits with banks (see Notes 7 and 11).

27. FAIR VALUE MEASUREMENTS AND DISCLOSURES

27.1 *Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

27.2 *Financial Instruments Measured at Fair Value*

The Group has no financial instruments measured at fair value as of September 30, 2022 and December 31, 2021.

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 September 30, 2022 and December 31, 2021, which are not measured at fair value in the interim consolidated statements of financial position but for which fair value is disclosed.

		September 30, 2022			
		Level 1	Level 2	Level 3	Total
Financial Assets:					
<i>At amortized cost:</i>					
Cash and cash equivalents	P	208,743,605	p -	P -	P 208,743,605
Trade and other receivables - net		-	-	839,426,665	839,426,665
Restricted cash		6,578,382	-	-	6,578,382
Security deposits		-	-	71,169,949	71,169,949
Advances to related parties		-	-	7,730,365,244	7,730,365,244
	P	215,321,987	P -	P 8,640,961,858	P 8,856,283,845
Financial Liabilities —					
<i>At amortized cost:</i>					
Trade and other payables	P	-	p -	P 7,931,159,171	P 7,931,159,171
Interest-bearing loans		-	-	17,829,216,912	17,829,216,912
Advances from related parties		-	-	695,222,572	695,222,572
	P	-	P -	P 26,455,598,655	P 26,455,598,655
		December 31, 2021			
		Level 1	Level 2	Level 3	Total
Financial Assets:					
<i>At amortized cost:</i>					
Cash and cash equivalents	P	269,690,887	P -	P -	P 269,690,887
Trade and other receivables - net		-	-	1,035,309,743	1,035,309,743
Restricted cash		6,578,382	-	-	6,578,382
Security deposits		-	-	88,502,533	88,502,533
Advances to related parties		-	-	7,794,510,442	7,794,510,442
	P	276,269,269	P -	P 8,918,322,718	P 9,194,591,987
Financial Liabilities:					
<i>At amortized cost:</i>					
Trade and other payables	P	-	P -	P 7,721,188,901	P 7,721,188,901
Interest-bearing loans		-	-	18,079,429,297	18,079,429,297
Advances from related parties		-	-	624,023,838	624,023,838
	P	-	P -	P 26,424,642,036	P 26,424,642,036

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 generally determined based on the appraisal reports of 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 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 and major repairs or part replacements 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.

For certain vessels of the Group, management changed the valuation technique used in 2020 from cost approach to income approach. Such change was done to present fair value that is more representative of the current circumstances, as the last appraisal reports for these vessels were obtained in 2016 and 2015. Information previously used to conduct the appraisal (i.e., access to the vessel by the independent appraiser) are not available; hence, a change from the cost approach to the income approach is necessary.

The fair values of these vessels were estimated using an income approach which utilizes the estimated income stream, net of projected operating costs, using a discount rate computed using capital asset pricing model. The estimated income stream takes into account the current contractual cash flows from the vessels including increase in rates and expectations of continued use of the vessels over the remaining economic life, and expected value of the vessels at the end of the remaining economic life of the vessels. The most significant inputs are the estimated cash flows, which were estimated to have escalation rates of 4% every five years and the discount rate used of 8.31%. The overall valuation are sensitive to changes in these valuations.

The fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with adjustments on the price for the differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. On the other hand, if the observable recent prices of the reference properties were not adjusted, the fair value is included in Level 2. The most significant input into this valuation approach is the price per square meter of the land; hence, the higher the price per square meter, the higher the fair value. For the construction-in-progress, management considers that the carrying amount of the investment property approximates its fair value as the capitalized costs pertain to recent transactions incurred for the on-going construction.

As at September 30, 2022 and December 31, 2021, the fair value of the land classified under investment properties amounted to P1,520.1 million as determined by reference to current prices for similar properties in the same location and condition. Accordingly, the Company's investment properties as at September 30, 2022 and December 31, 2021 is not impaired.

The valuation of these non-financial assets are determined to be Level 3. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2022 and 2021.

28. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented in the interim consolidated statements of financial position. Capital for the reporting periods under review is summarized as follows:

	<u>2022</u>	<u>2021</u>
Total liabilities	P 29,216,945,926	P 28,472,209,230
Total equity	<u>4,243,044,697</u>	<u>5,650,258,535</u>
Debt-to-equity ratio	<u>6.89 : 1.00</u>	<u>5.04 : 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 (see Note 13).

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 issue new shares or sell assets to reduce debt.

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion summarizes the significant factors affecting the consolidated operating results and financial condition of Chelsea Logistics and Infrastructure Holdings Corp. and its Subsidiaries (CLIHC or the Group) as of and for the period ending September 30, 2022 and 2021. The following discussions should be read in conjunction with the attached unaudited consolidated financial statements of the Group as of September 30, 2022 and 2021.

Comparable discussion on Material Changes in Results of Operations for the period ending September 30, 2022 and 2021.

Amounts in millions	For the Nine Months Ending September 30					
	2022	%/Rev	2021	%/Rev	% Change	
Revenues	₱ 4,630	100%	₱ 3,272	100%	41%	
Cost of sales and services	4,276	92%	3,586	110%	19%	
Gross profit (loss)	354	8%	(314)	(10%)	(213%)	
Other operating expenses	849	18%	502	15%	69%	
Provision for estimated credit losses	2	0%	204	6%	(99%)	
Operating loss	(498)	(11%)	(1,019)	(31%)	(51%)	
Finance cost, net	(957)	(21%)	(1,085)	(33%)	(12%)	
Share in net loss of an associate	0	0%	(592)	(18%)	(100%)	
Gain on sale of an asset held for sale	0	0%	154	5%	(100%)	
Other charges (income), net	(21)	(0%)	340	10%	(106%)	
Loss before tax	(1,475)	(32%)	(2,202)	(67%)	(33%)	
Tax expense	17	0%	2	0%	840%	
Net loss after tax	(₱ 1,492)	(32%)	(₱ 2,204)	(67%)	(32%)	
Add (Deduct):						
Tax expense	17	0%	2	0%	840%	
Depreciation and amortization	934	20%	1,145	35%	-18%	
Interest expense	908	20%	1,065	33%	-15%	
Share in net loss (income) of an associate	-	0%	592	18%	-100%	
Provision for expected credit losses	2	0%	204	6%	100%	
Interest income	-	0%	(0)	0%	-63%	
EBITDA	₱ 370	8%	₱ 804	25%	-54%	

Chelsea Logistics and Infrastructure Holdings Corp. and its Subsidiaries (CLIHC or the “Group”) generated consolidated revenues of ₱4,630 Million for the nine-month period ending September 30, 2022, a 41% upsurge from ₱3,272 Million posted in the same period last year. The growth was driven by the easing of pandemic-related protocols which increased the movement of goods and passenger volume during the period. Passage revenue was up more than 6x to ₱887 Million from ₱180 Million in 2021. Likewise, passage-related Sales of Goods rose by 92% to ₱89 Million in 2022. Freight revenue grew to ₱2,441 Million for a 20% increase year on year. Logistics segment’s revenue was ₱402 Million, a 23% increase from 2021, coming mostly from the upturn in revenues of its warehousing, distribution and trucking segments, and from E-commerce, its new business line. Tugboat Service revenue went up to ₱305 Million from ₱238 Million in 2021 with the increase in the number of vessel movements notably in its Davao operations and also with the implementation of rate increases. Tankering revenue was ₱506 Million in 2022, a 13% increase of ₱60 Million from 2021. The shipping segment implemented rate increases to partially cover the increasing cost of fuel.

Bunkering cost was ₱1,861 Million or 75% higher than last year's ₱1,066 Million due to increasing fuel prices in the current year and an increase in the number of sailings. Consequently, Cost of Sales and Services escalated to ₱4,276 Million in 2022 from ₱3,586 Million in 2021.

Gross Profit as a percentage of Revenues increased to 8% in 2022 with significant growth in the topline, reversing the negative margin of 10% in prior year. The increase in the load factors of ships significantly contributed to this improvement.

Consolidated Other Operating costs were ₱849 Million for the period, a 69% increase year over year, which was substantially due to higher Outside Services costs.

The Group thoroughly considered and set aside the expected credit loss this period of ₱2 Million in addition to ₱204 Million provided in 2021, to uplift coverage as well as to closely monitor asset quality.

Investment cost in Dito Holdings Corp., an associate as of December 31, 2021 is at NIL hence no share in net loss was taken up this period.

In 2021, the Group recognized a ₱154 Million gain on sale of investment in stocks in 2Go Group and ₱313 Million gain in the pre-termination of a Time Charter contract lodged in Other Charges (Income).

Overall, it was a recovery period from the COVID-19 crisis, reducing incurred Consolidated Net Loss to ₱1,492 Million in 2022 from ₱2,204 Million in 2021. This is a 32% improvement in performance from the same period last year. This translates to a ₱0.796 loss per basic and diluted share, an improvement from ₱1.210 loss in the same period in 2021.

The Group posted adjusted EBITDA of ₱370 Million, a 54% reduction from ₱804 Million in 2021, substantially due to the one-off gain on sale of an asset held for sale and the contract pre-termination recorded in 2021.

Financial Condition

September 30, 2022 versus December 31, 2021

<i>Amounts in millions</i>	Unaudited September 30, 2022			Audited December 31, 2021		
	₱	% /Total	₱	% /Total	% Change	
Current Assets	10,843	32%	11,038	32%	(2%)	
Non-Current Assets	22,617	68%	23,084	68%	(2%)	
Total Assets	₱ 33,460	100%	₱ 34,122	100%	(2%)	
Current Liabilities	17,335	52%	16,135	47%	7%	
Non-Current Liabilities	11,882	36%	12,337	36%	(4%)	
Total Liabilities	₱ 29,217	87%	₱ 28,472	83%	3%	
Total Equity	₱ 4,243	13%	₱ 5,650	17%	(25%)	
Total Liabilities and Equity	₱ 33,460	100%	₱ 34,122	100%	(2%)	

The Group's Financial Condition during both periods is almost the same. However, the total Equity of the Group decreased by 25% to ₱4,243 Million against the ₱5,650 Million last year. This was due to additional losses this year amounting to ₱1,492 Million which were however offset by additional equity on the collection of subscription receivable from the parent company. This resulted to a decrease in Book Value per Share to ₱2.21 in 2022 from ₱3.10 in December 31, 2021.

Comparable discussion on Material Changes in Results of Operations for the nine months ending September 30, 2021 and 2020.

<i>Amounts in millions</i>	For the Nine Months Ending September 30				
		2021		2020	% Change
Revenues	P	3,272	P	3,325	-2%
Cost of sales and services		3,586		3,760	-5%
Gross Profit (Loss)	(	314	(	435	-28%
Other Operating Expenses		502		850	-41%
Provision for Estimated Credit Losses		204		-	100%
Operating Profit (Loss)	(	1,019	(	1,285	-21%
Other Charges - Net	(	1,182	(	1,286	-8%
Profit (Loss) Before Tax	(	2,202	(	2,571	-14%
Tax Expense (Income)		2		31	-94%
Net Profit (Loss)	(P	2,204	(P	2,602	-15%
Add Back:					
Tax Expense (Income)		2		31	-94%
Depreciation and Amortization		1,145		1,240	-8%
Interest Expense		1,065		986	8%
Share in Net Loss (Income) of an Associate		592		563	5%
Interest Income	(	0	(	0	-73%
Provision for expected credit losses		204		-	100%
EBITDA	P	804	P	218	269%

Consolidated Revenues of the Group was ₱3,272M for the nine-month period, lower by 2% compared to the same period last year, which is due to decline in revenues in the tanker, passenger and tugboat segments but mitigated by the increase in revenue of freight and logistics segments during the current period.

Travel restrictions are imposed by local governments and varies per LGU. The second and third declaration of Enhanced Community Quarantine (ECQ) in NCR and other major cities in the country in March and August 2021, significantly affected the Group's passenger business with stricter travel requirements imposed during that period. Passenger volume significantly declined from last year with passenger revenue reduced by 60% from last year. Likewise, movement of petroleum products slowed down during the year coupled with issues on vessel availability resulted to lower tanker revenue by 50% compared to 2020.

The continued growth in Freight and logistics segments brought about by the improvement in the movement of goods, posted 58% and 32% increase in revenues respectively, tempered the decline in the Group's consolidated revenues.

However, the Group recorded a gross loss of ₱314M in 2021 which is lower by 28% compared to ₱435M posted in 2020. A number of the ships were placed on intentional lay-up due to low demand, while other vessels were on extended drydocking. Operating passenger vessels were running at a low load factor with a maximum of 50% capacity in compliance to travel protocols. Due to underutilization of the ships, direct fixed costs such as but not limited to depreciation and amortization, insurance, bunker fuel, salaries and wages, and repairs and maintenance costs, put margin pressures on the Group's consolidated performance that resulted to a Gross Loss during the period. Total cost of services and goods amounted to ₱3,586M in 2021, 5% lower versus ₱3,760M in 2020.

Other Operating Expenses was ₱502M for 2021, a reduction of 41% as against same period in 2020. The Group continues to manage and reduce its costs. As the result of manpower streamlining in the second half of 2020, salaries and wages decreased by 23% to ₱211M in 2021. Rent expense, outside services, office supplies, professional fees, and repairs and maintenance costs were reduced by 71%, 74%, 20%, 25% and 51%, respectively in line with the cost containment measures implemented throughout the Group.

Assessment for estimated credit losses resulted to a ₱204M provision of the Group during the year.

These gave rise to a net operating loss of ₱1,019M in 2021, an improvement from ₱1,285M in 2020.

Interest costs increased by 8% to ₱1,065M in the current period largely due to loan restructuring. The Group also took up higher share in net losses of an associate amounting to ₱592M, 5% higher as against ₱563M in prior period.

In the current year, the Group recognized a ₱320M other income from the pre-termination of a co-loading contract with a customer in the first quarter and ₱154M gain on sale of investment in stocks in 2GO Group.

Net loss after tax was ₱2,204M in 2021, a 15% improvement compared to ₱2,602M in 2020. Resulting to a loss per share (basic and diluted) of ₱1.21 in 2021 and ₱1.43 in 2020.

EBITDA was ₱804M compared to ₱218M for the same period last year and a consolidated EBITDA margin of 25% in the current period, this is higher versus 7% in previous period.

Financial Condition

September 30, 2021 versus December 31, 2020

<i>Amounts in millions</i>	September 30, 2021		December 31, 2020		% Change
Current Assets	P	12,708	P	4,988	155%
Non-Current Assets		25,219		32,366	-22%
Total Assets	P	37,927	P	37,355	2%
Current Liabilities	P	17,487	P	16,761	4%
Non-Current Liabilities		13,101		11,108	18%
Total Liabilities	P	30,587	P	27,869	10%
Total Equity	P	7,340	P	9,486	-23%

The Group's total assets amounted to ₱37,927M as at September 30, 2021, a slight increase by 2% from ₱37,355M as at December 31, 2020. Current assets improved by 1.5 times from ₱4,988M in December to ₱12,708M in September due to increase in advances to related parties by ₱6,533M from investment disposal proceeds of 2GO Group shares advanced against certain loans of the parent company related to the investment. While the second tranche of the 2GO Group divestment amounting to ₱874M is still in the receivable account.

Non-current assets were reduced by the share in net losses of an associate which amounts to ₱592M during the current year, while the decrease in assets held for sale was related to 2GO Group share divestment and sale of certain vessels of Trans-Asia Shipping Lines, Inc. in 2021.

Total Liabilities went up to ₱30,587 M in September 2021, 10% higher versus ₱27,869M in December 2020 due to restructuring of bank loans of the Group including the Lease liability set up for the acquisition of Trans-Asia 21 amounting to ₱1.2B.

Total Equity of the Group decreased by 23% to ₱7,340M in September from ₱9,486M in December due to the negative operating results during the period.

Comparable discussion on Material Changes in Results of Operations for the Nine Months Ended September 30, 2020 vs. September 30, 2019.

<i>Amounts in millions</i>	YTD 2020		YTD 2019		% Change
Revenues	P	3,325	P	5,154	-35%
Cost of sales and services		3,760		3,433	10%
Gros Profit	(	435)		1,721	-125%
Other Operating Expenses		850		760	12%
Operating Profit	(	1,285)		961	-234%
Other Charges - Net	(	1,286 )	(	1,035)	24%
Profit (Loss) Before Tax	(	2,571 )	(	73)	3409%
Tax Expense (Income)		31	(	93)	-134%
Net Profit (Loss)	(P	2,602)	P	20	-13142%
Add Back:					
Tax Expense (Income)		31	(	93)	-134%
Depreciation and Amortization		1,240		915	36%
Interest Expense		986		851	16%
Share in Net Loss (Income) of an Associate		563		385	46%
Less: Interest Income	(	0)		3	-107%
EBITDA	P	218	P	2,080	-90%

Chelsea Logistics and Infrastructure Holdings Corp. and subsidiaries (CLC or the Group) posted a Net Loss of ₱2,602M for the nine months ended September 30, 2020 as compared to Net Profit of ₱20M during the same period in 2019.

Similarly, EBITDA significantly declined by 90% from ₱2,080M in 2019 to only ₱218M in 2020. The significant downturn in the Company's profitability is attributed to the Community Quarantine measures imposed by the Philippine Government starting March 15, 2020 which restricted the travel of people via land, sea and air transport and allowed only the delivery of essential goods. Freight and logistics businesses were also greatly affected during the past months as the quarantine measures shifted air and land transport of cargoes to sea and trucking services. Although the Philippine Government is slowly lifting the travel restrictions, the Group's operations have not yet returned to pre-COVID 19 pandemic.

Based on the comparison of the actual performance during the first nine (9) months of 2020 against the same period in 2019, the Group's revenues declined by ₱1,829M or 35% to ₱3,325M from ₱5,154M. Most segments of the Group's businesses showed a slowdown in revenue generation as a result of the Community Quarantines measures imposed by the Philippine Government starting March 15, 2020, which restricted the travel of people via land, sea and air transport and allowed only the delivery of essential goods.

Tankering revenues went down from ₱1,583M to only ₱901M as a result of less movement in petroleum products for the Company's base customers, which include those from the petroleum

industry, airline industry, power and other businesses affected by the pandemic. Similarly, revenues from freight segment reduced by 24% from ₱1,692M for the first nine (9) months of 2019 to ₱1,286M during the same period in 2020 as movement of goods were limited to delivery of essential goods. Passage, the segment of business most affected by the community quarantine, dropped by 59% from ₱1,095M in 2019 to only ₱452 M during the same period in 2020, which include ₱161M from the Supercat Fast Ferry Corporation in 2020. For stand-alone second quarter of 2020, passage revenue is down 73% compared to the same quarter in 2019. Historically, for the shipping industry, the second quarter of a year is the strongest as this coincides with the summer vacation and holiday travel is at its highest, boosting both domestic and local tourism. In 2020, this peak tourist season did not happen and, in fact, even regular travels of business commuters were affected.

Tugboat revenues slightly increased by 4% for the nine (9) months ended September 30, 2020 from ₱253M to ₱262M while the Group's logistics business posted same level of revenues for the first nine (9) months of 2020 and 2019.

Costs and Expenses

While most of the Company's vessels were placed on laid-up status during the community quarantine, Cost of Sales and Services increased by 10% from ₱3,433M in 2019 to ₱3,760M during the current period. This is due to the nature of costs, which are mostly fixed such as Depreciation and Amortization, Insurance and Crew Salaries and Employee Benefits. Depreciation and Amortization and Insurance actually increased by ₱280M and ₱45M, respectively, as a result of additional vessel deployments for the period. Crew salaries and Employee Benefits, on the other hand, were managed through flexible working arrangements and workforce rationalization. In addition, included in the Costs of Sales and Services are the full costs of Supercat as a result of its consolidation since October 9, 2019, which was not part of the costs in the same period of the previous year.

Other Operating Expenses increased from ₱760M to ₱850M due to increases in Salaries and Employee Benefits and Outside Services resulting from the Group's continued expansion. Starting October 2019, the Group added Supercat, and therefore, its expenses which were not part of the operating expenses in the first half 2019, were included in full to the costs in 2020.

Net Profit

The Group's Net Loss for the nine (9) months ended September 30, 2020 amounted to ₱2,602M as compared to a net profit of ₱20M for the same period in 2019. The decline in the Group Net Profit was primarily attributable to the limitation on the part of the Company to generate revenues particularly during the last two quarters, as a result of the Community Quarantine imposed by the Philippine Government as part of its response to the COVID-19 pandemic. Unfortunately, the imposition of the Community Quarantine happened during the peak season of the Philippine shipping industry.

The increase in finance costs amounting from ₱851M to ₱986M pertain to interest expenses related to new loans obtained to finance vessels, which were acquired in 2019 while share in the Company's net loss in associates increased from ₱385M to ₱563M.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

The Group was still able to post a positive EBITDA of ₱218M for nine (9) months period ended September 30, 2020. Though this is a 90% decline compared to the same period of last year, which

recorded ₱2,080M. The efforts of the Group to operate on a cash positive mode were done thru the implementation of various efficiency factors and cost-savings strategies.

Financial Condition

September 30, 2020 versus December 31, 2019

<i>Amounts in millions</i>		Sept-20		Dec-19	% Change
Current Assets	P	5,558	P	5,055	10%
Non-Current Assets		35,174		35,950	-2%
Total Assets	P	40,732	P	41,004	-1%
Current Liabilities	P	20,360	P	18,077	13%
Non-Current Liabilities		10,521		10,473	0%
Total Liabilities	P	30,881	P	28,551	8%
Total Equity	P	9,852	P	12,454	-21%

Total resources of the Group slightly decreased to ₱40,732M as of September 30, 2020 from ₱41,004M as of December 31, 2019.

Cash and cash equivalents dropped by 63% from ₱375M as of December 31, 2019 to ₱137M as of September 30, 2020 as a result of negative cash flows from operations attributable to the Community Quarantine imposed on the second half of March 2020, which historically is the start of the peak season for the Group's operations.

Trade and Other Receivables increased by 13% from ₱2,226M as of December 31, 2019 to ₱2,516M as of September 30, 2020 primarily due to timing of collections from customers.

Advances to related parties rose from ₱814M as of December 31, 2019 to ₱1,031M as of September 30, 2020 as a result of advances to related parties for working capital requirements and other purposes. These advances are expected to be settled in cash or through offsetting arrangements with the related parties.

Property and Equipment dropped from ₱22,915M as of December 31, 2019 to ₱21,491M as a result of depreciation and amortization charges during the first nine months of 2020.

Investments in an associate and a joint venture increased from ₱6,416M as of December 31, 2019 to ₱6,459M as of September 30, 2020 while Goodwill similarly increased from ₱5,713M as of December 31, 2019 to ₱6,342M as of September 30, 2020. This was caused by the step-up acquisition in KGLI-NM Holdings, Inc. and subsequent consolidation of the books of accounts of the same as of and for the period ended September 30, 2019.

Trade and other payables increased by ₱1,013M from ₱10,760M as of December 31, 2019 to ₱11,773M as of September 30, 2020. The increase in Trade and other payables was primarily due to timing of payment of trade payables. Of this amount, ₱4,355M as of September 30, 2020 and December 31, 2019 pertain to subscription payable relating to the Company's investments in DITO Telecommunity Corporation and DITO Holdings Corp.

Interest-bearing loans decreased from ₱16,307M as of December 31, 2019 to ₱16,091M as of September 30, 2020 as a result of repayments on maturing obligations. Redeemable preferred shares

represent preferred shares issued by KGLI-NM Holdings, Inc. in previous years and were only consolidated in the Group's consolidated financial statements starting 2020.

The deposit for future stock subscription refers to cash received from a certain investor which shall be converted to equity upon necessary filing and approval of the Philippine Securities and Exchange Commission.

With the ₱2,602M Net Loss of the Company for the period ended September 30, 2020, the Company's equity consequently declined.

Key Performance Indicators and Relevant Ratios

The Group's key performance indicators and relevant ratios and how they are computed are listed below.

	Sep 22	Dec 21	Sep 21	Dec 20
Current ratio	0.63	0.68	0.73	0.3
Debt-to-equity ratio	6.89	5.04	4.17	2.94
Book value per share	2.21	3.1	4.03	5.21
EBITDA margin	8%	(0.69%)	25%	4%
Return on equity	(35%)	(69%)	(30%)	(35%)
Loss per share	(₱0.79)	(₱2.14)	(₱1.21)	(₱1.82)

These key indicators were chosen to provide Management with a measure of the Group's financial strength (Current Ratio and Debt to Equity) and the Group's ability to maximize the value of its stockholders' investment in the Group (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise, these ratios are used to compare the Group's performance with similar companies.

Known Trends or Demands, Commitments, Events or Uncertainties that will impact Liquidity

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will materially affect its liquidity.

Events that will trigger Direct or Contingent Financial Obligation that is material to the Company, including any default or acceleration of an obligation

The Company is not aware of other events that will materially trigger a direct or contingent financial obligation.

Material Off-Balance Sheet Transactions, Arrangements, Obligations (including contingent obligations), and Other Relationships of the Company with Unconsolidated Entities or Other Persons Created during the Reporting Period

The Company has no material off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons created during the period that is not included in the Financial Statements.

Material Commitments for Capital Expenditures, the General Purpose of the Commitment and Expected Sources of Funds

As discussed in Note 24.6 to the financial statements, the Company signed a shipbuilding agreement for the delivery of a bed/seat Ro-Ro type passenger ferry ship presently identified as Builder's No. F-1351 for delivery in June 2021

Known Trends, Events or Uncertainties that will impact Sales / Revenues / Income from Continuing Operations

The Company is not aware of any known trends, events or uncertainties that will impact its sales and/or income from continuing operations.

Significant Elements of Income or Loss that Did Not Arise from Continuing Operations

On March 27, 2021, the President of the Republic of the Philippines declared the imposition of Enhanced Community Quarantine (ECQ) which restricted all land, air and sea transport to and from Luzon. Several local government units in Visayas and Mindanao also followed with their respective Executive Orders restricting all forms and transport. These pronouncements resulted in a significant slowdown in the Group's operations while continuously incurring costs while the vessels are on laid-up status.

Seasonal Aspects that had Material Effect on the Financial Condition or Results of Operations

The RoPax segment transports passengers and cargoes within Philippine territorial waters and/or on the high seas. Due to the seasonal nature of this segment, higher passage revenues and operating profits are usually experienced in the summer months of the year (March, April and May), school holidays (October and November) and Christmas holidays (December and January) rather than in the other months of the year. Freight revenues, on the other hand, are higher at the last quarter of the year rather than in the early months. This scenario, however did not hold true for 2020 because of the ECQ declared in the various cities and provinces where the Group operates, starting second half of March 2020.

The seasons of the year have no or little effect on the operations of the tanker and tugboat segments.

PART II OTHER INFORMATION

On 15 January 2020, Chelsea Logistics and Infrastructure Holdings Corp. launched a brand-new RoRo passenger vessel (Hull No. S-1191) at Kegoya Dock Co. Ltd.'s Japan shipyard. This vessel, named MV Starlite Venus, which measures 97.78 meter in length and with a carrying capacity of 740 passengers, 22 buses, and six trucks, was delivered in 3 August 2020; and started trading in November 2020.

On 10 July 2020, the Board of Directors approved the issuance of 500,000 Preferred Shares via private placement to Global Kingdom Investments Limited at the subscription price of ₱1,000.00 per share, subject to the terms and conditions specified by the Directors. The par value of the Preferred Shares is One Peso (₱1.00) per share.

On the same date, the Board of Directors also approved the increase in the authorized capital stock of the Corporation to ₱3,500,000,000.00. The increase of 1,500,000,000 shares, consists of all Common shares. Udenna Corporation will subscribe to 375,000,000 Common Shares, which is 25% of the increase in Common shares, at the price of ₱3.26 per share with reference to the 90-day VWAP. The par value of the Common shares is One Peso (₱1.00) per share.

On October 6, 2020, the Shareholders ratified the Board of Directors approval of the issuance of 500,000 Preferred shares via private placement to Global Kingdom Investments Limited at the subscription price of ₱1,000.00 per share, subject to the terms and conditions specified by the Directors. The par value of the Preferred shares is One Peso (₱1.00) per share.

On the same date, the Shareholders also ratified the Board of Directors approval of the increase in the authorized capital stock of the Corporation to ₱3,500,000,000.00. The increase of 1,500,000,000 shares, consists of all Common shares. Udenna Corporation will subscribe to 375,000,000 Common shares, which is 25% of the increase in Common shares, at the price of ₱3.26 per share with reference to the 90-day VWAP. The par value of the Common Shares is One Peso (₱1.00) per share.

The application for increase in Authorized Capital Stock remain pending with the Securities and Exchange Commission (SEC).

On 11 November 2020, Chelsea Logistics and Infrastructure Holdings Corp. executed the Deed of Assignment for the sale by the Corporation of its 40,833,332 Common shares and 22,916,666 Preferred shares of Dito Telecommunity Corporation (DTC) to Dito Holdings Corporation (DHC).

At the time Chelsea approved and executed the transfer of its shares in DTC to DHC, Chelsea owned 42% of DHC. However, after the execution of the transfer of its shares in DTC, Udenna Communications Media and Entertainment Holdings Corp. (UCME), executed a subscription agreement for a subscription of 7,379,166,900 Common shares in DHC. This additional subscription by UCME decreased the shareholdings of Chelsea in DHC from 42% to 11%, and the indirect ownership of Chelsea in DTC is now 6.6%.

On 15 November 2020, Chelsea Logistics and Infrastructure Holdings Corp. launched another brand-new RoRo passenger vessel (Hull No. F-1351) at Fukuoka Shipbuilding Co., Ltd.'s Japan shipyard. This newest passenger ferry ship can carry a total of 1,085 passengers, 24 buses, and 11 trucks. MV Trans-Asia 21 which measures 123-meter in length and with a GRT of approximately 8,800 tons, and will be delivered on 11 May 2021.

On 27 March 2021, the Philippine Government imposed an Enhanced Community Quarantine which restricted the travel of people via sea transport but allowed delivery of cargo including petroleum products to continue trading activities. On passenger transport, travel to and from the NCR and other provinces, cities and municipalities have been restricted and this greatly impacted the revenues of our passage vessels. Our passenger shipping business comprised 20% of our revenues in 2019.

On 26 April 2021, KGLI-NM executed the sale of 86,116,844 2GO shares as part of the full disposal of the Group's investment in 2GO.

On 11 May 2021, Trans Asia received delivery of Trans Asia 21 from Fukuoka shipyard. On July 17, the vessel was blessed and set sail from Cebu to Cagayan de Oro.

On 3 June 2021, Chelsea Logistics and Infrastructure Holdings Corp. completed the sale of 550,558,388 Common shares of the 2GO Group, Inc. (2GO) to SM Investments Corporation, and of 230,563,877 Common shares of 2GO to Trident Investments Holdings Pte. Ltd., representing an aggregate of approximately 31.73% of 2GO's total issued and outstanding capital stock, comprising Chelsea Logistic's entire effective interest in 2GO.

The sale was done by KGLI-NM Holdings, Inc., a 90% owned subsidiary of Chelsea Logistics at ₱8.50 per share. The sale was transacted via special block sales through the Philippine Stock Exchange.

From the time of the approval of the Employee Share Option Plan (ESOP) by the Directors on March 14, 2019 and by the Stockholders of the Corporation on March 15, 2019 to date, no stock options have been exercised. In addition, supervening events have taken place which make it necessary to amend the said Plan in order for its objectives to be achieved. The ESOP Committee has recommended the amendment of the ESOP particularly the provisions on the Subscription Price and the Exercise Date.

The Subscription Price will be revised from the initial Offer Price of ₱6.28 to the average of the (a) volume weighted average market price (VWAP) for the thirty (30) days trading days on the Philippine Stock Exchange (PSE) immediately prior to the approval of the Board of Directors of this Amended ESOP, and (b) the initial Subscription Price of ₱6.28 under the original ESOP. The Exercise Date will be revised to 18 March 2023.

As of December 31, 2021 and 2020, 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, and 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 been exercised as at December 31, 2021 and 2020.

A total of ₱5.9 million and ₱16.9 million is recognized for the years ended December 31, 2021 and 2020, respectively, and is included as part of Salaries and employee benefits in the 2021 and 2020 consolidated statements of profit or loss and is credited to Share Options Outstanding in the Equity section of the consolidated statements of financial position. The outstanding share options as of December 31, 2021 and 2020 totaling to ₱4.6 million options and ₱20 million options, respectively.

As of December 31, 2021, none of these options have been exercised.

Receipt of capital infusion from Global Kingdom Investments Limited amounting to ₱414.8 million and from Udenna amounting to ₱305.6 million, totaling to ₱720.4 million was presented as Deposits on Future Stock Subscriptions under Equity section, pending approval of SEC of the amendments as of December 31, 2021. The application was presented for filing electronically with SEC on December 2, 2020 and was filed with and received by the SEC on January 25, 2021.

On April 4, 2022 SEC approved the Company's application for the increase in the authorized capital stock in which the Company subsequently reclassified its Deposit for Future Stock Subscription to Capital Stock and Additional Paid-in Capital. The approval resulted to Udenna Corporation's increase in effective ownership in the Company from 70% in 2021 to 75% in 2022.

On July 16, 2022, Trans-Asia 1, a non-trading vessel of Trans-Asia Shipping Lines, Inc. caught fire while aground in Punta Engaño, Mactan, Cebu. Cost of damage has yet to be determined.

On August 26, 2022, MV Asia Philippines captured fire while vessel was waiting for berthing at anchorage. Fire broke out at Promenade Deck inside the dining area. There were no casualties and rolling cargo on board were not affected. Cost of damage has yet to be determined.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHELSEA LOGISTICS AND INFRASTRUCTURE HOLDINGS CORP.

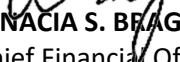
By:



DENNIS A. UY
Chairman of the Board



CHRYSS ALFONSUS V. DAMUY
President and CEO



IGNACIA S. BRAGA IV
Chief Financial Officer

Signed this 11th day of November 2022