COVER SHEET

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S.E.C. Registration Number

LORENZO SHIPPING
CORPORATION

(Company's Full Name)

20TH FLOOR, TIMES PLAZA BLDG.,
UNITED NATIONS AVENUE,
ERMITA, MANILA

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

AGNES N. DOMINGO

Contact Person

8527-5555

Company Telephone Number

0 6 3 0 2 0 2 0

Month Day Year

Fiscal Year

1 7 Q

FORM TYPE

0 9 0 8 2 0 2 0

Month Day Year

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total no. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = please use **black ink** for scanning purposes

SEC Number 48909

FILE Number

LORENZO SHIPPING CORPORATION

(Registrant's Full Name)

20TH FLOOR, TIMES PLAZA BUILDING
UNITED NATIONS AVENUE, ERMITA, MANILA

(Registrant's Address)

(632) 8527-5555

Telephone Numbers

June 30, 2020

(Quarter Ending)

QUARTERLY INTERIM FINANCIAL STATEMENTS (SEC FORM 17-Q)

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **30 June 2020**

2. Commission Identification Number: **48909**

3. BIR Tax Identification Number: **000-628-958**

4. Exact name of registrant as specified in its charter:

   Lorenzo Shipping Corporation

5. Province, country or other jurisdiction of incorporation or organization:

   Manila, Philippines

6. Industry classification code: (SEC Use Only)

7. Address of registrant's principal office: Postal code: 1006

   20th Floor, Times Plaza Building, United Nations Avenue, Ermita, Manila

8. Registrant's telephone number including area code:

   (632) 527-5555

9. Former name, former address and former fiscal year, if changed since last report:

   N/A

10. Securities registered pursuant to SRC Rule 68.1

Title of Each Class	Number of Shares Issued and outstanding
Common Stock	554,642,251
Preferred Stock	

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

    Yes **[x]** No [ ]

12. Indicate by check mark whether the registrant:

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

    Yes **[x]** No [ ]

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

Financial Statements and if applicable, Pro-Forma Financial Statements meeting the requirements of SRC Rule 68.1. Form and Content of Financial Statements, shall be furnished as specified therein.

Please refer to attached Exhibit 1

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Please refer to Exhibit 2
Please refer to Exhibit 2.1

SIGNATORIES

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

Lorenzo Shipping Corporation
by:

REYNOLD JOHN B. MADAMBA	**AGNES N. DOMINGO**
President	VP - Finance
Date.....................	Date.....................

Exhibit 1

Financial Statements

LORENZO SHIPPING CORPORATION
Balance Sheets
June 30, 2020 and December 31, 2019
(Currency Expressed in Philippine Peso)

	Unaudited June 30 2020	Audited December 31 2019
ASSETS		
CURRENT ASSETS		
Cash	105,539,562	204,913,480
Trade and other receivables - net	1,354,994,162	1,052,939,990
Inventories - at costs	32,878,856	32,878,856
Prepayments and other current assets	58,004,206	37,832,308
TOTAL CURRENT ASSETS	1,551,416,785	1,328,564,634
NON-CURRENT ASSETS		
Property and equipment, net	1,469,650,128	1,559,045,760
Miscellaneous deposits and others	415,113,095	409,669,749
TOTAL NON-CURRENT ASSETS	1,884,763,223	1,968,715,509
TOTAL ASSETS	**3,436,180,009**	**3,297,280,143**
LIABILITIES		
CURRENT LIABILTIES		
Accounts Payable and Accrued Expenses	2,004,476,002	1,611,797,747
Short-term borrowings	353,670,400	587,970,400
Current portion of lease liabilities	76,369,856	113,407,523
Current portion of Long-Term Debts	56,850,794	121,133,268
TOTAL CURRENT LIABILITIES	2,491,367,052	2,434,308,938
NON-CURRENT LIABILITIES		
Long-Term Debts, Net of current portion	351,982,310	193,459,026
Lease Liabilities, Net of current portion	101,034,679	101,034,679
Pension obligation	60,560,347	61,807,554
Deferred income tax asset	22,431,195	22,431,195
TOTAL NON-CURRENT LIABILITIES	536,008,531	378,732,454
TOTAL LIABILITIES	**3,027,375,584**	**2,813,041,392**
STOCKHOLDERS' EQUITY		
EQUITY		
Common Shares	555,652,251	555,652,251
Additional paid-in capital	459,791,492	459,791,492
Revaluation increment on land	50,210,555	50,210,555
Treasury Shares	(3,125,850)	(3,125,850)
Actuarial Gain (Loss) on Pension Liability	(26,921,275)	(26,921,275)
Retained Earnings (Deficit)	(626,802,749)	(551,368,422)
TOTAL EQUITY	**408,804,424**	**484,238,751**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**3,436,180,008**	**3,297,280,143**

LORENZO SHIPPING CORPORATION
Unaudited Statements of Income (Loss)
June 30, 2019 and June 30, 2020
(Currency Expressed in Philippine Peso)

	2nd Quarter		For six months ending	
	2020	**2019**	**2020**	**2019**
REVENUES				
Freight	606,197,320	715,722,014	1,339,387,754	1,450,685,448
DIRECT COSTS				
Cost of services	546,500,258	705,928,273	1,203,771,283	1,387,286,024
Terminal expenses	60,875,212	74,215,665	126,768,541	126,698,154
Total	607,375,470	780,143,938	1,330,539,824	1,513,984,178
GROSS PROFIT	(1,178,151)	(64,421,923)	8,847,929	(63,298,730)
GENERAL AND ADMINISTRATIVE EXPENSES	(24,331,643)	(29,248,844)	(54,244,491)	(84,769,755)
FINANCE COSTS, net	(12,861,141)	(22,996,034)	(30,667,617)	(45,276,587)
OTHER INCOME (CHARGES), net	(4,368,546)	5,070,792	629,854	19,828,902
INCOME BEFORE INCOME TAX	(42,739,481)	(111,596,009)	(75,434,325)	(173,516,171)
PROVISION FOR INCOME TAX				
	(42,739,481)	**(111,596,009)**	**(75,434,325)**	**(173,516,171)**
EARNING (LOSS) PER SHARE				
Basic/Diluted	**(0.08)**	**(0.20)**	**(0.14)**	**(0.31)**

LORENZO SHIPPING CORPORATION
Unaudited Statements of Comprehensive Income (Loss)
June 30, 2019 and June 30, 2020
(Currency Expressed in Philippine Peso)

	2020	**2019**	**2020**	**2019**
	Apr - Jun	**Apr - Jun**	**Jan- Jun**	**Jan- Jun**
NET INCOME (LOSS)	(42,739,481)	(111,596,009)	(75,434,325)	(173,516,171)
OTHER COMPREHENSIVE INCOME	-		-	
TOTAL COMPREHENSIVE INCOME (LOSS)	**(42,739,481)**	**(111,596,009)**	**(75,434,325)**	**(173,516,171)**

Unaudited Statements of Changes in Equity
June 30, 2020 and June 30, 2019
(Currency Expressed in Philippine Peso)

	Capital Stock	Additional Paid-in Capital	Treasury Shares	Actuarial Losses on Defined Benefit Plan	Revaluation Increment on land	Unappropriated Retained Earnings (Deficit)	Total
Balances at December 31, 2019	555,652,251	459,791,492	(3,125,850)	(26,921,275)	50,210,555	(551,368,421)	484,238,752
Net income for the period	-	-				(75,434,325)	(75,434,325)
Cash Dividends Declared	-	-	-		-	-	-
Balances at June 30, 2020	**555,652,251**	**459,791,492**	**(3,125,850)**	**(26,921,275)**	**50,210,555**	**(626,802,746)**	**408,804,427**
Balances at December 31, 2018	555,652,251	459,791,492	(3,125,850)	(20,929,511)	162,068,607	(578,477,479)	668,826,020
Net income for the period	-	-				(173,516,171)	(40,638,724)
Cash Dividends Declared	-	-	-		-		-
Balances at June 30, 2019	**555,652,251**	**459,791,492**	**(3,125,850)**	**(20,929,511)**	**162,068,607**	**(751,993,650)**	**628,187,296**

LORENZO SHIPPING CORPORATION
Unaudited Statements of Cash Flows
For the Period Ending June 30, 2020 and June 30,2019
(Currency Expressed in Philippine Peso)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before provision for income tax	(75,434,325)	(173,516,171)
Adjustments:		
Provision for:		
Doubtful accounts	6,538,624	19,248,878
Inventory losses		
Depreciation /Amortization	128,478,271	99,769,305
Interest Income	(108,061)	(121,448)
Interest Expense	35,334,307	43,323,505
Pension Costs		
Loss (Gain) on:		
Disposal of property and equipment	(802,422)	(1,288,258)
Foreign currency translation	-	-
Operating income before working capital changes	94,006,394	(12,584,188)
Increase in current assets		
Receivables	(308,592,796)	(201,674,634)
Prepayments	(20,171,899)	(56,491,079)
Decrease in accounts payable and	-	-
accrued expenses	420,081,381	520,123,089
Cash generated from operations	185,323,080	249,373,189
Income tax paid through tax credits		
Net cash flow provided by operating activities	185,323,080	249,373,189
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in:		
Other assets	(5,443,345)	(14,265,007)
Additions to property and equipment	(38,354,137)	(86,191,093)
Proceeds from disposal of property and equipment	73,920	3,011,643
Interest received	108,061	121,448
Net cash flow used in investing activities	(43,615,501)	(97,323,009)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in:		
Obligations under finance lease/lease liability	(37,037,666)	(17,329,837)
Payments of short-term borrowings	(136,300,000)	(83,200,000)
Proceeds from short-term borrowings	-	50,000,000
Proceeds from long-term borrowings	-	-
Payments of long-term borrowings	(32,409,524)	(68,747,936)
Interest paid	(35,334,307)	(43,323,505)
Payment for acquisition of treasury shares	-	-
Cash Dividends paid		
Net cash flows used in financing activities	(241,081,498)	(162,601,278)
NET INCREASE (DECREASE) IN CASH ON HAND AND IN BANKS DURING THE PERIOD	(99,373,918)	(10,551,098)
CASH ON HAND AND IN BANKS		
Beginning	204,913,480	87,834,502
Ending	**105,539,562**	**77,283,404**

LORENZO SHIPPING CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Lorenzo Shipping Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on October 17, 1972 primarily to engage in domestic inter-island cargo shipping activities.

Since 2006, the Company is majority-owned by National Marine Corporation (NMC), a domestic shipping company (see Note 24). A. Magsaysay, Inc. (AMI) is the ultimate parent company of NMC.

The Company's common shares of stock are traded in the Philippine Stock Exchange (PSE) (see Note 22).

The Company is a holder of several Certificates of Convenience and special permits issued by the Maritime Industry Authority to service certain domestic ports of call.

The Company's registered and principal business address is 20th Floor Times Plaza Building, United Nations Avenue, Ermita, Manila.

The Company incurred a net loss of ₱75.4million and ₱174.5 million in June 30,2020 and December 31 2019, respectively, resulting to a deficit of ₱626.8 million and ₱551.37 million as of June 30, 2020 and December 31, 2019, respectively. In addition, the Company's current liabilities exceeded its current assets by₱961million and ₱1.1 billion as of June 30, 2020 and December 31, 2019, respectively.

Management believes that with the Company's available unused credit facilities, the continued financial support from the Parent Company and its affiliate, and various revenue enhancement programs (i.e., rate adjustments and recovery charges, among others) and cost reduction initiatives (i.e., fuel consumption rationalization, technological enhancements, among others) to further improve the results of its operations, the Company will be able to generate sufficient cash flows from its operations to meet its obligations as and when they fall due. As such the accompanying financial statements have been prepared on a going concern basis of accounting.

The financial statements of the Company as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were approved and authorized for issue by the Board of Directors on June 30, 2020.

2. Basis of Preparation, Statements of Compliance and Changes in Accounting Policies and Disclosures

<u>Basis of Preparation</u>
The accompanying financial statements have been prepared under the historical cost basis except for land which is carried at revalued amounts. The financial statements are presented in Philippine peso (Peso), which is the Company's functional and presentation currency, and rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2019:

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact on leases where the Company is the lessor.

The Company adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company has not restated the comparative information, which continues to be reported under PAS 17.

The effect of adoption of PFRS 16 as at January 1, 2019 is as follows:

	Increase
Assets	
Property and equipment	₱92,885,283
Deferred tax asset	27,865,584
Liabilities	
Lease liabilities	92,885,283
Deferred tax liability	27,865,584

The Company has lease contracts for various items of container yard, container vans, warehouses and equipment**.** Before the adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

Refer to Note 3 for the accounting policy beginning January 1, 2019.

The Company recognized right-of-use assets (ROU) and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The ROU assets were recognized based on the amount equal to the lease liabilities. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it**:**

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the above, as at January 1, 2019:

- Property and equipment increased by ₱92.89 million representing the amount of the ROU assets set up at transition date.
- Container vans with cost amounting to ₱228.82 million and accumulated depreciation amounting to ₱179.14 million, previously recognized as assets under finance lease under PAS 17, were identified as ROU assets upon adoption of PFRS 16.
- Additional lease liabilities of ₱92.89 million were recognized.
- The adjustments have no impact to the retained earnings.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 follows:

Operating lease commitments as at December 31, 2018	₱112,913,324
Weighted average incremental borrowing rate at January 1, 2019	7.62%
Lease liabilities recognized at January 1, 2019	₱92,885,283

The adoption of PFRS 16 will not have an impact on equity in 2019, since the Company elected to measure the ROU assets at an amount equal to the lease liabilities, relating to the lease recognized in the statement of financial position immediately before the date of initial application.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.
  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and has full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgement in identifying uncertainties over its income tax treatments. The Company determined, based on its assessment, that it is probable that its uncertain tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the Company's financial statements.

The Company also adopted the following other new accounting pronouncements and amendments to existing standards starting January 1, 2019. The adoption of these new pronouncements did not have a significant impact to the Company.

- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to Philippine Accounting Standards (PAS) 19, *Employee Benefits*, Plan Amendment, Curtailment or Settlement
- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Annual Improvements to PFRSs 2015–2017 Cycle
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, Previously Held Interest in a Joint Operation
  - Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity
  - Amendments to PAS 23, *Borrowing Costs*, Borrowing Costs Eligible for Capitalization

<u>Standards Issued but not yet Effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective Beginning on or after January 1, 2020

- Amendments to PFRS 3, Definition of a Business
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material

Effective Beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred Effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

3. **Summary of Significant Accounting Policies**

Presentation of Financial Statements

The Company has elected to present all items of recognized income and expenses in two statements: a statement displaying components of income or loss (statements of income) and a second statement beginning with income or loss and displaying components of OCI (statements of comprehensive income).

Current versus Noncurrent Classification

The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash

Cash includes cash on hand and in banks, which are carried at face value.

Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial Instruments (*Effective prior to January 1, 2018*)

Date of recognition
The Company recognizes a financial asset or financial liability in the statement of financial position when it becomes a party to contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognized on the settlement date, which is the date the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial recognition of financial instruments
All financial instruments, including investment securities and loans and receivables, are initially measured at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial instruments in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, loans and receivables, financial liabilities at FVPL, and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting period.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are carried at amortized cost using the effective interest method less accumulated allowance for impairment, if any. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

The Company's cash, trade and other receivables, loan receivable included under prepayments and other current assets and security deposits included under other noncurrent assets are classified under this category (see Note 26).

Other financial liabilities
Issued financial liabilities or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial liabilities that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

The Company's interest-bearing borrowings, accounts payable and accrued expenses, obligations under finance lease and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable) are classified under this category (see Note 26).

Impairment of Financial Assets
The Company assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment loss is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through the use of an allowance account.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument, that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Financial Instruments (*Effective starting January 1, 2018*)

Date of recognition
The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets, recognition and de-recognition, as applicable, that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date .

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company's initial measurement of financial instruments, except for those classified as fair value through profit or loss (FVTPL), includes transaction cost. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

Financial assets
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVTOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

The Company has no financial assets at FVTOCI and at FVTPL as at December 31, 2019 and 2018.

The basis of the classification of the Company’s financial instruments depends on the following:

- The Company’s business model for managing its financial assets; and
- The contractual cash flow characteristics of the financial assets

A financial asset is classified to be measured at amortized cost if following conditions were met:

- The financial asset is held to collect the contractual cash flows; and
- Contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets shall be classified as FVTPL unless it is measured at amortized cost or at FVTOCI. The Company may also irrevocably elect at the initial recognition of equity instruments that would otherwise be measured at FVTPL to be presented as FVTOCI.

Financial liabilities
Financial liabilities are classified as measured at amortized cost except for:

- Financial liabilities measured at FVTPL which includes derivatives that liabilities measured at fair value;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate;
- Contingent considerations recognized by an acquirer in a business combination to which PFRS 3 applies.

“Day 1” difference
Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a Day 1 difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference amount.

Subsequent measurement
Financial assets measured at amortized cost
After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by considering any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized and impaired, as well as through the amortization process. Loans and receivables are included under current assets if realizability or collectibility is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

The Company's cash, trade and other receivables and security deposits included under other noncurrent assets are classified under this category (see Note 26).

Financial liabilities measured at amortized cost
After initial recognition, these financial liabilities are carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the statement of income when the liabilities are derecognized, as well as through the amortization process.

The Company's interest-bearing borrowings, accounts payable and accrued expenses, lease liabilities, obligations under finance lease and other obligations that meet the above definition (other than lease liabilities covered by other accounting standards, such as income tax payable) are classified under this category (see Note 26).

Derecognition of Financial Assets and Liabilities

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Impairment of Financial Assets
The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash

flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash, the Company applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and considered to be low credit risk investments.

The Company considers a financial asset in default when contractual payments are 90 days past due and/or it meets certain qualitative criteria. In certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

<u>Inventories</u>
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Materials and spare parts	-	purchase cost using first-in, first-out method
Fuel, diesel and lubricants	-	purchase cost using first-in, first-out method

Net realizable value is the estimated replacement cost.

An allowance for losses and obsolescence is determined based on a regular review and management evaluation of movement and condition of spare parts and supplies.

<u>Property and Equipment</u>
Property and equipment, except for land, are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met.

Land is measured at fair value less any accumulated impairment in value. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. All of the Company's land properties had been revalued as determined by an independent firm of appraisers. Subsequent additions are stated at cost. The appraisal increment, net of the related tax effect, is credited to the "Revaluation increment on land" account included as other comprehensive income in the statement of comprehensive income and as other component of equity in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of income, in which case the increase is recognized in the statement of income. A revaluation deficit is recognized in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Upon disposal, any revaluation increment relating to the particular asset being sold is transferred to retained earnings.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged in the statement of income in the period in which the costs are incurred.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation is computed on a straight-line basis less its residual value over the estimated useful life (EUL) as follows:

Category	Number of Years
Land improvements	3
Vessels, excluding drydocking costs and vessel tools and equipment	35*
Drydocking costs	3
Container vans and improvements	5-10
Buildings, warehouses, terminal premises and equipment and leasehold improvements	3-10
Office furniture and equipment	5
Transportation equipment	5
Vessel tools and equipment	5

**From the time the vessel was built*

The property and equipment's residual value, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each statement of financial position date.

Major overhaul costs incurred during drydocking of vessels are capitalized and depreciated over a 3-year period or the next drydocking, whichever comes first. When significant drydocking costs are incurred prior to the expiry of the 3-year depreciation period, the remaining costs of the previous drydocking are written off in the period of the subsequent drydocking. Drydocking costs are recorded as part of "Vessels" under property and equipment.

Leasehold improvements are depreciated over their estimated useful lives or the term of the lease, whichever is shorter.

Fully depreciated property and equipment are retained in the accounts until these are no longer in use. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from the continued use of the item. Any gain or loss arising on derecognition of

the property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income in the year the asset is derecognized.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment of Nonfinancial Assets

The carrying values of the Company's nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indication exists, and in circumstances indicate that the carrying value may not be recoverable. If such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGU is written-down to their recoverable amounts. The recoverable amount of the asset is the greater of the fair value less cost to sell or value in use (VIU). The fair value less cost to sell is the amount obtainable from the sale of an asset in an arms' length transaction between knowledgeable, willing parties, less costs of disposal. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. For an asset that does not generate largely independent cash losses are recognized in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exists or may have decreased. In such case, the recoverable amount is estimated. Any previously recognized impairment loss is reversed only when there is a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Accordingly, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount of that would have been determined, net of depreciation and amortization, had no impairment loss been recognized in prior years. Such reversal is recognized in the statement of profit or loss. After such reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue (*Effective prior to January 1, 2018*)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Freight revenue

Revenues derived from freight services are recognized on the basis of cargo loaded during the year taking into account all direct costs related to the cargo as well as capacity costs incurred.

Interest income
Interest income is recognized as the interest accrues using the effective interest method.

Rental income
Revenue is recognized on a straight-line basis over the lease term.

Income from insurance claims

Income from insurance claims is recognized when the amount can be measured and the flow of the economic benefit to the Company is virtually certain.

<u>Revenue from Contracts with Customers (*Effective starting January 1, 2018*)</u>
Revenue from contracts with customers is recognized when control of goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for the goods and services. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The disclosures of significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in Note 4.

The specific recognition criteria for each type of revenue are as follows:

Ocean freight
Revenues derived from ocean freight services are recognized when the related services are rendered over time based on the timing of the voyage to the port destination.

Other vessel revenue - Trucking
Revenue from trucking services are recognized when the related services are rendered over time based on the timing of delivery of the cargoes to the customer.

Other vessel revenues - Storage
Storage fees for each container van are recognized over time based on the number of days storage is availed of.

Other vessel revenues - Port charges
Revenues from port charges such as arrastre, wharfage, Lift On - Lift Off (LOLO), stevedoring and weighing fee, etc. are recognized over time based on the timing of the service performance.

<u>Other Income</u>

Interest income
Interest income is recognized as the interest accrues using the effective interest method.

Rental income
Revenue is recognized on a straight-line basis over the lease term.

Income from insurance claims
Income from insurance claims is recognized when the amount can be measured and the flow of the economic benefit to the Company is virtually certain.

Contract Balances

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liability
A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Trade receivables
A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial instruments - initial recognition and subsequent measurement.

Cost and Expenses
Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are generally recognized when the services are used or the expense arises while interest expenses are accrued in the appropriate period.

Direct costs
Direct costs include cost of services and terminal expenses, and include material, supplies and facilities costs, depreciation of vessels and terminal, personnel expenses, vessel insurance and other freight and terminal related costs. This is recognized when the cost is incurred or the expense arises.

General and administrative expenses
General and administrative expenses are incurred in the direction and general administration of day-to-day operations of the Company. General and administrative expenses are generally recognized when the services are used or the expenses arise.

Provisions
Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income and expenses, net of any reimbursements. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Related Party Transactions
Transactions with related parties are accounted for based on the nature and substance of the agreement, and financial effects are included in the appropriate asset, liabilities, income and expense accounts.

Taxes

Current income tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of reporting period.

Deferred income tax
Deferred tax is provided using the balance sheet liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of taxable temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, deferred tax income assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income.

Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

Creditable Withholding Taxes (CWTs)

CWTs are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source, subject to the rules on Philippine income taxation.

In 2019, the Company reclassified its creditable withholding taxes, initially recognized under "Prepayments and other current assets" account to "Other noncurrent assets" since management believes that this will better reflect the realization of such assets. The reclassification will decrease total current assets and increase total noncurrent assets as of December 31, 2018 and January 1, 2018 by ₱301.7 million and ₱267.9 million, respectively. There was no third statement of financial position presented since the impact of the reclassification is very specific to "Prepayments and other current assets" and "Other noncurrent assets".

<u>Capital Stock</u>

Capital stock is determined using the par value shares that have been issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued. The Company's capital stock pertains to common stock. Direct costs incurred related to the issuance of new common stock such as accounting and legal fees, printing costs and taxes are shown in equity as deduction, net of tax, from proceeds.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When the shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at fair value of the share issued or fair value of the liability settled, whichever is more reliably determinable.

<u>Treasury Stock</u>

Treasury stock consists of the Company's own equity instruments which are reacquired, recognized at cost and deducted from equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Deficit

The amount included in deficit includes profit or loss attributable to the Company's equity holders and reduced by dividends on common stock. Deficit may also include effect of changes in accounting policies as may be required by the standards' transitional provisions

Retirement Benefit Obligation

The retirement benefit obligation is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Loss per Share (LPS)

Basic LPS is calculated by dividing net income for the year attributable to common shareholders by the number of shares issued and outstanding at the end of the year after giving retroactive effect to regular stock dividends declared and stock rights exercised during the year, if any. Diluted LPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive convertible preferred shares. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted would decrease the basic LPS, then such convertible preferred shares would be deemed dilutive. Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted LPS are stated at the same amount.

Leases (*Effective starting January 1, 2019*)

ROU assets
The Company recognizes ROU assets (included in 'Property and Equipment') at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term as follows:

Category	Number of Years
Container Yard	3-10
Container Vans	1.5-8
Warehouse and Equipment	2-5

ROU asset is subject to impairment in accordance with the Company's policy on impairment of nonfinancial assets.

Lease liabilities
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of container yard, container van, warehouse and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of that are considered of low value.
Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Deferred taxes
In accounting for the deferred tax relating to the lease, the Company considers both the lease asset and liability separately. The Company separately accounts for the deferred taxation on the taxable temporary difference and the deductible temporary difference, which upon initial recognition are equal and offset to zero. Deferred tax is recognized on subsequent changes to the taxable and temporary differences.

Leases (*Effective prior to January 1, 2019*)
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after the inception of the lease only if one of the following applies:
a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenario a, c or d and at the date of renewal or extension period for scenario b.

Operating lease commitments - the Company as lessee (Applicable in 2018 and 2017)
Leases of office premises and container yards where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of lease.

Operating lease commitments - the Company as lessor
Lease of land where the Company retains substantially all the risks and rewards of ownership are classified as operating leases. Receipts under operating leases (net of any incentives granted to the lessee) are charged to the statement of income on a straight-line basis over the period of lease.

Finance lease commitments - the Company as lessee
Leases of container vans, where the Company has substantially obtained the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in "Obligations under finance lease" account in the statement of financial position. The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the

liability for each period. Property and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, otherwise it is depreciated over the useful life of the property and equipment.

Foreign Currency Transactions
The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in Philippine peso based on the exchange rates prevailing at the dates of the transactions. At year-end, monetary assets and liabilities denominated in foreign currencies are restated at closing rate and any exchange differentials are credited to or charged against the statement of income.

Contingencies
Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Segment Reporting
The Company and its branches and agencies are operating as one reportable segment engaged in domestic inter-island cargo shipping activities within the Philippines. Therefore, neither business nor geographical segment information is presented.

Events After the Reporting Period
Post year-end events that provide additional information about the Company's financial position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

4. Significant Accounting Judgments and Estimates

The preparation of the accompanying financial statements in accordance with PFRSs requires management to make judgments and estimates that affect the amounts reported in the financial statements and the accompanying notes. The judgments and estimates used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of date of the financial statements. Actual results could differ from such estimates.

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

Use of going concern assumption
The use of the going concern assumption involves management making judgments, at a particular point in time, about the future outcome of events or conditions that are inherently uncertain. The Company has no plans to liquidate. Management believes that it will be able to generate future income and obtain potential sources of financing. Accordingly, the financial statements are prepared on a going concern basis since management has future plans, including revenue enhancements and cost reduction programs, with regards to the Company as disclosed in Note 1.

Revenue from contracts with customers

The Company applied the following judgments that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- *Identifying performance obligations in a bundled freight revenue*
  The Company determined that the following performance obligations are capable of being distinct: (1) ocean freight revenue, (2) trucking services, (3) port charges, (4) storage. The Company has determined that these services are capable of being distinct in the context of the contract. Consequently, the Company allocated a portion of the transaction price to the different performance obligations, taking into consideration its stand-alone rates.

- *Determining the timing of satisfaction of performance obligation*
  Ocean freight and other vessel revenues
  The Company assessed that performance obligation for ocean freight and other vessel related services are rendered to the customers over time. As a result, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the input method to measure progress towards completion requires judgement.

- *Determining whether the Company is acting as principal or an agent*
  The Company assesses its revenue arrangements against the following indicators to determine whether it is acting as a principal or an agent:
  - whether the Company has primary responsibility for fulfilling the promise to providing the services;
  - whether the Company has inventory risk; and
  - whether the Company has discretion in establishing prices.

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

  Except for wharfage, the Company assessed its revenue arrangements and concluded that it is acting as principal in these arrangements.

- *Determination of lease term of contracts with renewal and termination options - Company as a lessee*

  The Company's lease contract includes extension and termination options. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

  The extension option has not been considered in its lease contract as it is not reasonably certain that the extension option will exercised and shall be reassessed if there is any change of circumstances in the future.

Estimations

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk causing material adjustments to the carrying amounts of the assets and liabilities within the next financial years are discussed below:

Provision for ECL of trade receivables and contract assets
The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customers that have similar loss patterns (i.e., customer type and rating).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., core inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future (see Note 6).

EUL of property and equipment
The EUL used as a basis for depreciating the Company's vessels and other property and equipment were determined on the basis of management's assessment of the period within which the benefits of these assets are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Company's assets. The Company reviews annually the EUL of property and equipment.

A reduction in EUL of property and equipment would increase the recorded depreciation expense and decrease noncurrent assets.

The net book value of property and equipment, excluding land, amounted to ₱1,408.2 million and ₱1,220.5 million as of December 31, 2019 and 2018, respectively (see Note 9).

Estimation of impairment of property and equipment and nonfinancial assets
The Company assesses at the end of each reporting period whether there is any indication that the property and equipment and other non-financial assets may be impaired. If such indication exists, the Company shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its VIU. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators. In estimating the VIU, the Company is required to make an estimate of the expected future cash flows from the CGU and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the Company's financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results operations of the Company.

The carrying value of property and equipment amounted to ₱1,559.0 million and ₱1,545.3 million as of December 31, 2019 and 2018, respectively (see Note 9). The carrying value of other non-financial assets amounted to ₱447.58 million and ₱328.43 million as of December 31, 2019 and 2018, respectively (see Notes 7, 9, and 10). No impairment loss was recognized on the Company's property and equipment and nonfinancial assets in 2019 and 2018.

Fair value of land properties
The Company carries its land properties at revalued amount with changes in fair value recognized in OCI. The fair value of the Company's land is based on the valuation carried out by independent appraiser. The valuation was arrived by reference to market evidence of transaction prices of similar properties.

External appraisers used market approach to value the land properties by using sales comparison method in particular. The valuation analysis involved key assumptions such as listing prices of reasonably comparable properties and adjustments related to the characteristics of the land properties such as size, location, utility, and other relevant conditions.

Revaluation increment on land properties recognized under OCI amounted to ₱50.21 million and ₱162.1 million, net of the applicable tax, as at December 31, 2019 and 2018, respectively. Net book value of revalued land properties amounted to ₱150.768 million and ₱324.9 million as of December 31, 2019 and 2018, respectively (see Note 9).

Realizability of deferred tax assets
The Company reviews the carrying amounts of deferred tax assets at reporting date and reduces it to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Deferred income tax assets amounted to nil and ₱42.3 million as of December 31, 2019 and 2018, respectively. Details of temporary differences in which no deferred tax assets were recognized are provided in Note 21.

Leases - Estimating the incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Company would have pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The Company estimates the incremental borrowing rate using observable inputs like the risk-free rate and adjust it for factors such as the credit rating of the Company and the terms and conditions of the lease.

The Company's lease liabilities amounted to ₱214.4 million as of December 31, 2019 (see Note 25).

Retirement benefit obligation
The determination of retirement benefit obligation is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17, and include among others, discount rates and salary increase rates. In accordance with PFRSs, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future

periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

The carrying amount of the Company's retirement benefit obligation amounted to ₱61.8 million and ₱71.5 million as of December 31, 2019 and 2018, respectively (see Note 17).

Contingencies
In the ordinary course of business, the Company is a defendant in various litigations and claims. The Company has an ongoing case with the Court of Tax Appeals. The estimate of the probable costs for the resolution of these claims and cases has been developed in consultation with internal and external legal counsels handling the Company's defense in these matters and is based upon an analysis of potential results. Although there can be no assurances, management and its legal counsels believe that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of its operations, financial position or liquidity of the Company. It is possible, however, that the future results of operations could be materially affected by changes in estimates or effectiveness of the strategies relating to these litigations and claims (see Note 28).

5. **Cash**

	June 30, 2020	Dec. 31, 2019
Cash on hand	**₱788,000**	₱728,000
Cash in banks	**104,751,562**	204,185,480
	₱ 105,539,562	₱204,913,480

Cash in banks earn interest at the respective bank deposit rates.

6. **Trade and Other Receivables and Contract Assets**

	June 30, 2020	Dec. 31, 2019
Trade:		
Third parties	**₱ 751,605,866**	₱1,073,693,538
Related parties (see Note 24)	**78,164,243**	65,157,842
	829,770,109	1,138,851,380
Less allowance for ECL	**125,254,760**	118,716,136
	704,515,349	1,020,135,244
Non-trade - related parties (see Note 24)	**24,312,357**	18,142,613
Others (see Note 24)	**626,166,455**	14,662,133
	₱ 1,354,994,162	₱1,052,939,990

a. Trade receivables are noninterest-bearing and have varying credit terms.

b. Non-trade receivables include advances to related parties for the rental of container yard, container vans, cost sharing of office space. These receivables are noninterest-bearing and collectible on demand.

c. Others include dues from SSS, claims, advances to employees, insurance and others. These receivables are noninterest-bearing.

d. The Company has contract assets amounting to ₱45,614,484 and ₱24,751,046 as of December 31, 2019 and 2018, respectively, which is net of allowance for expected credit losses of ₱3,095,022 and ₱2,727,684.

e. The rollforward of ECL and allowance for impairment losses on receivables and contract assets follows:

	June 30, 2020		
	Trade Receivables and Contract Assets	**Others**	**Total**
Balance as of January 1, 2020	**₱118,716,136**	**₱–**	**₱118,716,136**
Provision	**6,538,624**	**–**	**6,538,624**
	₱125,254,760	**₱–**	**₱125,254,760**

	December 31, 2019		
	Trade Receivables and Contract Assets	Others	Total
Balance as of January 1, 2019	₱135,020,592	₱-	₱135,020,592
Reversal of provision for ECL	(16,304,456)	–	(16,304,456)
	₱118,716,136	₱–	₱118,716,136

7. **Inventories**

As of June 30, 2020 and December 31 2019, fuel, diesel and lubricants amounted to P32.9 million and P32.9 million, respectively. These are at carried cost, which is lower that the net realizable value.

Fuel and supplies inventories recorded as expenses in 2020 and 2019 are as follows (see Notes 14, 15 and 16):

	June 30, 2020	June 30, 2019
Cost of services	**₱277,712,156**	₱ 363,517,915
Terminal expenses	**20,893,103**	16,304,122
General and administrative expenses	**615,732**	680,458

8. Prepayments and Other Current Assets

	June 30, 2020	**Dec. 31, 2019**
CWTs	**₱ 21,668,401**	–
Prepaid expenses	**4,429,501**	19,429,617
Input VAT	**31,906,304**	18,402,690
	₱ 58,004,206	₱ 37,832,307

Prepaid expenses include prepaid insurance and prepaid software maintenance.

9. **Property and Equipment**

a. <u>At Cost</u>

	June 30, 2020									
	Land Improvements	**Vessels and Drydocking Costs**	**Container Vans and Improvements**	**Buildings, Warehouses, Terminal Premises and Equipment and Leasehold Improvements**	**Office Furniture and Equipment**	**Transportation Equipment**	**Vessel Tools and Equipment**	**Construction-in-Progress**	**Right-of-Use Assets**	**Total**
Cost										
Balances at beginning of the year	–	**2,032,736,213**	**421,718,217**	**348,354,777**	**75,246,264**	**28,369,682**	**297,501,078**	–	**459,546,187**	**3,663,472,418**
Additions	–	**14,798,359**	**8,874,995**	**71,429**	**651,152**		**1,527,120**	**16,963,966**		**42,887,020**
Disposals/write-off	–			**(1,260,784)**						**(1,260,784)**
Reclassification	–	**(3,678,303)**								**(3,678,303)**
Balances at end of year	–	**2,043,856,268**	**430,593,212**	**347,165,422**	**75,897,416**	**28,369,682**	**299,028,198**	**16,963,966**	**459,546,187**	**3,701,420,351**
Accumulated depreciation										
Balances at beginning of the year	–	**962,489,853**	**384,408,987**	**318,057,938**	**72,310,674**	**26,415,274**	**224,041,272**	–	**267,470,660**	**2,255,194,658**
Depreciation for the year (see Notes 14, 15 and 16)	–	**63,404,775**	**18,076,894**	**1,622,266**	**864,757**	**317,097**	**13,845,421**		**30,347,061**	**128,478,271**
Disposals/write-off	–			**(1,134,705)**						**(1,134,705)**
Balances at end of year	–	**1,025,894,628**	**402,485,881**	**318,545,498**	**73,175,431**	**26,732,371**	**237,886,693**	-	**297,817,721**	**2,382,538,223**
Net book values	**₱–**	**1,017,961,640**	**28,107,331**	**28,619,924**	**2,721,985**	**1,637,311**	**61,141,505**	**16,963,966**	**161,728,466**	**1,318,882,128**

	December 31, 2019									
	Land Improvements	Vessels and Drydocking Costs	Container Vans and Improvements	Buildings, Warehouses, Terminal Premises and Equipment and Leasehold Improvements	Office Furniture and Equipment	Transportation Equipment	Vessel Tools and Equipment	Construction-in-Progress	Right-of-Use Assets	Total
Cost										
Balances at beginning of the year, as previously reported	₱14,763,838	₱1,855,006,051	₱671,549,001	₱342,818,752	₱73,981,700	₱29,675,425	₱263,641,386	₱6,365,837	₱–	₱3,257,801,990
Effect of adoption of PFRS 16	–	–	(228,821,919)	–	–	–	–	–	321,707,202	92,885,283
Balances at beginning of the year, as restated	14,763,838	1,855,006,051	442,727,082	342,818,752	73,981,700	29,675,425	263,641,386	6,365,837	321,707,202	3,350,687,273
Additions	–	171,364,325	–	5,536,025	1,264,564	573,900	33,859,692	–	137,838,985	350,437491
Disposals/write-off	(14,763,838)	–	(21,008,865)	–	–	(1,879,643)	–	–	–	(37,652,346)
Reclassification	–	6,365,837	–	–	–	–	–	(6,365,837)	–	–
Balances at end of year	–	2,032,736,213	421,718,217	348,354,777	75,246,264	28,369,682	297,501,078	–	459,546,187	3,663,472,418
Accumulated depreciation										
Balances at beginning of the year, as previously reported	14,763,838	838,617,415	572,433,902	315,200,111	70,773,578	27,577,850	197,982,088	–	–	2,037,348,782
Effect of adoption of PFRS 16	–	–	(179,174,704)	–	–	–	–	–	179,174,704	–
Balances at beginning of the year, as restated	14,763,838	838,617,415	393,259,198	315,200,111	70,773,578	27,577,850	197,982,088	–	179,174,704	2,037,348,782
Depreciation for the year (see Notes 14, 15 and 16)	–	126,394,656	10,179,460	2,857,827	1,537,096	717,067	26,059,184	–	88,295,956	256,041,246
Disposals/write-off	(14,763,838)	(2,522,218)	(19,029,671)	–	–	(1,879,643)	–	–	–	(38,195,370)
Balances at end of year	–	962,489,853	384,408,987	318,057,938	72,310,674	26,415,274	224,041,272	–	267,470,660	2,255,194,658
Net book values	₱–	₱1,070,246,360	₱37,309,230	₱30,296,839	₱2,935,590	₱1,954,408	₱73,459,806	₱–	₱192,075,527	₱1,408,277,760

a. ROU Assets

The following are the leased assets that qualifies to the criteria of PFRS 16 as at December 31, 2019.

	Container Yards	Container Vans	Warehouse and Equipment	Total
Cost				
At January 1, as previously reported	**₱–**	**₱–**	**₱–**	**₱–**
Effect of adoption of PFRS 16	**46,436,684**	**262,113,904**	**13,156,614**	**321,707,202**
At January 1, as restated	**46,436,684**	**262,113,904**	**13,156,614**	**321,707,202**
Additions	**112,768,407**	**8,711,370**	**16,359,208**	**137,838,985**
At December 31, 2019	**159,205,091**	**270,825,274**	**29,515,822**	**459,546,187**
Accumulated Depreciation				
At January 1, as previously reported	**–**	**–**	**–**	**–**
Effect of adoption of PFRS 16	**–**	**179,174,704**	**–**	**179,174,704**
At January 1, as restated	**–**	**179,174,704**	**–**	**179,174,704**
Depreciation	**28,375,222**	**51,264,873**	**8,655,861**	**88,295,956**
At December 31, 2019	**28,375,222**	**230,439,577**	**8,655,861**	**267,470,660**
Net book value	**₱130,829,869**	**₱40,385,697**	**₱20,859,961**	**₱192,075,527**

b. At Revalued Amount

The Company accounts for its Bacolod and Cagayan De Oro land properties using the revaluation model (see Note 4). The carrying amount of the land properties is as follows:

	2019	2018
Balances at beginning of year	**₱324,881,000**	₱369,485,000
Revaluation increment	**45,887,000**	66,210,000
Disposal	**(220,000,000)**	(110,814,000)
Balances at end of year	**₱150,768,000**	₱324,881,000

Revaluation increment on land as at December 31, 2019 and 2018 amounted to ₱50.2 million and ₱162.1 million, respectively, net of the applicable tax. These are presented under the "Revaluation increment" account in the statement of financial position.

The Company engaged independent appraisers to determine the fair value of the following properties:

Location	Area in Square Meters	**2019**	2018	Highest and Best Use
Bacolod				
Lot 1	3,782	**₱90,768,000**	₱86,986,000	Industrial land development
Lot 2	2,500	**60,000,000**	57,500,000	Industrial land development
Cagayan De Oro	10,933	**–**	180,395,000	Commercial land development
		₱150,768,000	₱324,881,000	

The fair values were estimated through the market approach by using sales comparison method in particular. The valuation analysis involved key assumptions such as listing prices of reasonably comparable properties and adjustments related to the characteristics of the land properties such as size, location, utility, and other relevant conditions.

Key unobservable inputs (Level 3) used to measure the fair value of the land is the price per square meter ranging from ₱25,000 to ₱40,000 in 2019 and ₱15,000 to ₱54,000 in 2018, depending on the property.

Significant increases (decreases) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis.

The Company uses the land as a container yard for shipments not directly delivered to the customer's warehouse and awaiting for loading to the vessels. Having the use of the land as a container yard reduces the cost of rent from other warehouse or container yard. Thus, the Company assessed that the highest and best use of the property does not differ from their current use.

If the land properties were measured using the cost model, the carrying value of the land would be ₱79.0 million and ₱93.3 million as at December 31, 2019 and 2018, respectively.

b. Sale of land

On July 29, 2019, the Company entered into a Deed of Absolute Sale with a third party for the sale of Cagayan de Oro lot for a consideration of ₱220.0 million. As a result of the sale, the Company transferred the related revaluation increment on land to retained earnings amounted to ₱205.7 million, gross of related tax.

On September 13, 2018, the Company entered into a Deed of Absolute Sale with a third party for the sale of Davao lot for a consideration of ₱71.8 million. As a result of the sale, the Company transferred the related revaluation increment on land to retained earnings amounted to ₱108.0 million, gross of related tax.

c. To ensure the maintenance of the vessels in accordance with international standards, the Company has availed of the services of a related party to oversee the regular upgrading and maintenance of the vessels (see Note 24).

d. The balance of property and equipment as of December 31, 2019 and 2018 includes fully-depreciated assets still in use amounting to ₱794.5 million and ₱840.9 million, respectively.

e. Certain vessels with carrying values of ₱597.0 million and ₱930.2 million as of December 31, 2019 and 2018, respectively, are used as chattel mortgage securities for long-term borrowings (see Note 12).

10. **Other Noncurrent Assets**

	June 30, 2020	Dec. 31, 2019
CWTs	**371,403,200**	371,403,200
Deferred input VAT	**34,082,349**	34,082,349
Deposits - net of allowance for impairment loss amounting to ₱4.1 million (see Note 25)	**9,102,268**	3,658,923
Others	**525,277**	525,277
	₱ 415,113,095	₱ 409,669,749

CWTs represent the amount withheld by the Company's customers in relation to its sale of services. These are recognized upon collection of the related sales and are utilized as tax credits against income tax due as allowed by the Philippine taxation laws and regulations.

Deferred input VAT relates primarily to the major capital expenditures and dry docking of vessels.

Deposits consist of amounts paid for rental deposits which are refundable at the end of the lease term.

11. **Accounts Payable and Accrued Expenses**

	June 30, 2020	Dec. 31, 2019
Trade:		
Third parties	**₱522,592,425**	₱486,804,920
Related parties (see Note 24)	**629,370,592**	816,915,720
Output VAT	**155,196,850**	127,620,656
Accrued expenses:		
Repairs, maintenance and supplies for vessels	**159,062,979**	55,862,885
Outside services	**238,433,820**	55,382,495
Other taxes payable	**16,515,120**	18,348,181
General and administrative	**42,284,597**	16,184,102
Hustling, trucking and labor services	**170,166,882**	14,937,347
Other accrued expenses	**34,774,649**	4,883,227
Dividends payable (see Note 22)	**10,216,513**	10,216,513
Others	**25,861,576**	4,641,701
	₱ 2,004,476,002	₱1,611,797,747

Outside services includes cargo and port expenses incurred in relation to the Company's normal shipping operations.

Others include payroll-related expenses incurred but not yet paid and accruals for payment to retired employees outside of the retirement fund.

12. **Borrowings**

Short-term borrowings consist of:

	June 30, 2020	Dec. 31, 2019
Bank of the Philippine Islands (BPI)	**₱163,690,000**	₱165,690,000
Rizal Commercial Banking Corporation (RCBC)	**-**	137,000,000
Unionbank of the Philippines (UBP)	**96,000,000**	100,000,000

Banco de Oro (BDO)	**93,980,400**	93,980,400
Metropolitan Bank and Trust Company (MBTC)	**-**	83,000,000
Philippine National Bank (PNB)	**-**	8,300,000
	₱ 353,670,400	₱587,970,400

Short-term borrowings from local banks bear annual interest at 5.88% to 9% and 3.50% to 7.50% in 2019 and 2018, respectively. Short-term borrowings are not secured. On February 2020, the Company's short-term borrowings from RCBC amounting to ₱137 million was converted to a term loan.

Long-term borrowings consist of:

	June 30, 2020	Dec. 31, 2019
Balance of loan obtained from CBC of ₱200.0 million, availed of last September 9, 2015 and will mature on September 9, 2025. The loan is payable quarterly in 36 equal quarterly installments starting December 9, 2016. Annual interest rate is equal to 90-day BVAL rate plus 1.25% inclusive of GRT and BSP overnight borrowing rate plus spread of 0.125% inclusive of GRT whichever is higher, subject to quarterly repricing. Interest rate range from 5.750% to 7.250% in 2019, 4.3054% to 6.000% in 2018, and 2.96% to 4.04% in 2017.	**₱116,666,667**	₱127,777,760
Balance of loan obtained from China Banking Corporation (CBC) of ₱200.0 million, maturing on October 22, 2024 and payable quarterly in 36 equal quarterly installments starting January 22, 2016. Annual interest rate is equal to BVAL rate plus 1.25% inclusive of Gross Receipts Tax rate (GRT) and Bangko Sentral ng Pilipinas (BSP) overnight borrowing rate plus spread of 0.125% inclusive of GRT whichever is higher, subject to quarterly repricing. Interest rates range from 6.179% to 7.000% in 2019, 3.687% to 6.000% in 2018, and 3.125% to 4.041% in 2017.	**100,000,000**	111,111,111
Balance of loan obtained and refinanced from BDO of ₱450.0 million, maturing on July 7, 2021. Annual interest rate is equal to the BVAL plus 1.20% spread plus 1.00% GRT or BSP overnight borrowing rate plus 0.25% and 1.00% GRT whichever is higher, subject to quarterly repricing. Interest rates range from 5.740% to 7.453% in 2019, 4.2933% to 4.7515% in 2018, and 3.421% to 4.594% in 2017.	**42,857,143**	50,000,000
Balance of loan obtained from BDO of ₱132.0 million, availed of last December 10, 2015 and will mature on December 8, 2020. The loan is payable quarterly in 20 equal installments starting March 9, 2016. Annual interest rate is equal to 3-month BVAL rate 120 basis points (bps) (inclusive of GRT) with floor rate of BSP overnight rate. Interest rates range from 4.489% to 6.832% in 2019, 4.307% to 4.723% in 2018, and 3.007% to 4.166% in 2017.	**₱13,200,000**	₱26,400,000

(Forward)

	June 30, 2020	Dec. 31, 2019
Balance of loan obtained from RCBC of ₱137 million, availed of last May 6, 2020 and will mature on May 6, 2027. The loan is payable monthly in 72 equal monthly installments starting May 6, 2021. Annual interest rate is equal to the BVAL plus 2.5% spread. Interest rate 6.01%	**₱137,000,000**	-
	409,723,810	315,288,871
Less deferred financing costs	**890,706**	(696,577)
	408,833,104	314,592,294
Less current portion	**(56,850,794)**	(121,133,268)
	₱351,982,310	₱193,459,026

As of December 31, 2018, the Company obtained consent letters from the banks to waive the financial covenant such as the current ratio and debt-to-equity ratio under the Company's long-term loan agreements.

As of December 31, 2019, the Company did not meet the minimum current and debt to equity ratio required under the Company's long-term loan agreement. Accordingly, the Company reclassified the noncurrent portion of its long-term debts that are subject to such covenants in the loan agreements, from noncurrent liabilities to current liabilities amounting to ₱15.87 million as of December 31, 2019. Subsequent to year-end, the Company's lender issued a waiver of default action against the breach of loan covenants as of December 31, 2019. Consequently, the Company continues to pay long-term loans based on original credit terms.

These long-term borrowings are secured by chattel mortgages on certain vessels with carrying values of ₱597.0 million and ₱930.2 million as of December 31, 2019 and 2018, respectively (see Note 9).
Deferred financing costs were incurred in connection with the financing arrangement. These costs are amortized using the effective interest method over the term of the related loans.

Rollforward analysis of deferred financing costs follow:

	2019	2018
Balances at beginning of year	**₱1,121,436**	₱1,703,443
Amortization for the year	**424,859**	582,007
Balances at end of year	**₱696,577**	₱1,121,436

13. Freight Revenue

	June 30, 2020	June 30, 2019
REVENUE FROM CONTRACTS WITH CUSTOMERS (Note 24)		
Ocean freight	**₱ 834,791,579**	₱925,804,348
Other vessel revenue:		
Trucking	**345,927,572**	354,682,678
Port charges	**151,590,778**	162,392,439
Storage	**7,077,825**	7,805,983
FREIGHT REVENUE (Note 24)	**–**	–
	₱ 1,339,387,754	₱1,450,685,448

14. **Cost of Services**

	June 30, 2020	June 30, 2019
Materials, supplies and facilities (see Note 7)	**₱ 277,712,156**	₱363,517,915
Outside services		
Trucking	**302,538,974**	309,839,613
Arrastre	**111,170,308**	131,630,033
Co-loading/sea transport service agreement (see Note 24)	**135,106,949**	193,173,717
Craneage	**78,854,778**	91,113,627
Cargo charges	**73,739,837**	59,068,274
Stevedoring charges	**37,163,349**	42,358,161
Vessel related charges	**27,303,638**	23,867,781
Container rental (see Note 25)	**3,583,174**	14,536,905
Depreciation (see Note 9)	**77,250,196**	78,253,317
Voyage	**28,930,865**	30,199,233
Personnel cost (see Note 18)	**30,116,984**	32,168,133
Vessel insurance (see Note 24)	**19,296,268**	16,226,973
Taxes and licenses	**513,566**	–
Others	**490,240**	1,332,342
	₱ 1,203,771,283	₱1,387,286,024

15. **Terminal Expenses**

	June 30, 2020	June 30, 2019
Depreciation (see Note 9)	**₱ 50,190,112**	₱20,441,410
Materials, supplies and facilities (see Note 7)	**20,893,103**	16,304,122
Outside services	**34,580,747**	17,387,860
Rental (see Note 25)	**4,192,192**	38,747,906
Lift-on/lift-off (LOLO) charges	–	19,536,277
Personnel cost (see Note 18)	**11,667,094**	8,931,415
Others:		
Utilities	**1,454,935**	2,191,076
Office supplies	**1,160,457**	1,460,609
Taxes and licenses	**1,745,927**	611,430
Other terminal charges	**750,970**	914,284
Container van insurance	**133,004**	171,766
	₱ 126,768,541	₱126,698,155

Outside services includes expenses for security and temporary services amounting to ₱15.7 million and ₱23.9 million, respectively, in 2019; ₱11.1 million and ₱5.1 million, respectively, in 2018 and ₱8.7 million and ₱5.4 million, respectively, in 2017.

16. General and Administrative Expenses

	June 30, 2020	June 30, 2019
Personnel cost (see Note 18)	**₱ 12,387,147**	₱21,534,326
Service fees	–	–
Outside services	**25,155,853**	30,497,280
Taxes and licenses	**3,723,027**	1,936,263
Communication, light and water	**1,468,738**	2,287,747
Transportation and travel	**1,247,828**	1,484,634
Depreciation (see Note 9)	**1,037,962**	1,074,579
Supplies (see Note 7)	**615,732**	680,458
Repairs and maintenance	**223,418**	575,725
Entertainment, amusement and recreation	**390,024**	576,976
Rental (see Note 25)	**454,992**	2,672,889
Employees' training and staff meeting	**248,983**	425,573
Advertising	**4,411**	91,082
IT subscription licenses	**475,886**	–
Expected credit losses on:		
Trade and other receivables (see Note 6)	–	–
Deposit (see Note 10)	–	–
Impairment losses on:		
Inventories (see Note 7)	–	–
Trade and other receivables (see Note 6)	**6,538,624**	19,248,878
Others	**271,867**	1,683,345
	₱ 54,244,491	₱84,769,755

17. **Retirement Benefit Obligation**

The existing regulatory framework, Republic Act 7641, *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company maintains a funded, tax qualified, non-contributory retirement plan (the Plan) covering all its eligible employees. Under the provisions of the plan, the normal retirement age is 60 for both shore-based and sea-based employees, with completion of at least 5 years of service for sea-based employees. Shore-based employees at age 50 with at least 10 years of credited services can avail of an early retirement. The retirement plan is intended to provide lump-sum benefit payments to employees equal to 150% and 115% of plan salary for every year of credited service for shore-based and sea-based employees, respectively.

The Company's retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by BPI Asset Management.

The following tables summarize the components of net benefit expense recognized in the statements of income and the funded status and amounts recognized in the statements of financial position for the Plan.

Retirement expense recognized in the statements of income:

	2019	2018	2017
Current service cost	**₱4,833,667**	₱8,434,318	₱7,321,827
Net interest cost	**4,887,902**	5,141,086	3,519,791
	₱9,721,569	₱13,575,404	₱10,841,618

Actuarial loss (gains) recognized in other comprehensive income are as follows:

	2019	2018	2017
Actuarial losses (gains) on defined benefit obligation	**(₱2,978,897)**	(₱26,834,157)	₱17,164,245
Return on assets excluding amount included in net interest cost	**870**	1,016,652	1,171,401
	(₱2,978,027)	(₱25,817,505)	₱18,335,646

Movements in the retirement benefit obligation are as follows:

	2019	2018
Balances at beginning of year	**₱71,536,638**	₱97,629,223
Current service cost	**4,833,667**	8,434,318
Net interest cost	**4,887,902**	5,141,086
Benefits paid	**(14,482,607)**	(13,350,484)
Transferred obligation	**(1,990,019)**	–
Actual contributions	**–**	(500,000)
Actual return excluding amount included in net interest cost	**870**	1,016,652
Actuarial gains during the year	**(2,978,897)**	(26,834,157)
	₱61,807,554	₱71,536,638

Retirement benefit obligation

	2019	2018
Present value of defined benefit obligation	**₱62,371,833**	₱72,063,142
Fair value of plan assets	**(564,279)**	(526,504)
Retirement benefit obligation	**₱61,807,554**	₱71,536,638

Changes in the present value of the defined benefit obligation are as follows:

	2019	2018
Balances at beginning of year	**₱72,063,142**	₱115,982,286
Current service costs	**4,833,667**	8,434,318
Interest cost	**4,926,547**	6,179,869
Actuarial loss due to:		
Changes in demographic assumptions	**(10,724,252)**	–
Changes in financial assumptions	**6,570,901**	(15,257,685)
Experience adjustments	**1,174,454**	(11,576,472)
Benefits paid for voluntary separation	**(14,482,607)**	(31,699,174)
Net released obligation due to employee transfers	**(1,990,019)**	–
Balances at end of year	**₱62,371,833**	₱72,063,142

Changes in the fair value of plan assets are as follows:

	2019	2018
Balances at beginning of year	**₱526,504**	₱18,353,063
Interest income included in net interest cost	**38,645**	1,038,783
Actual return excluding amount included in net interest cost	**(870)**	(1,016,652)
Benefits paid	**–**	(18,348,690)
Actual contributions	**–**	500,000
Balances at end of year	**₱564,279**	₱526,504

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	2019	2018
Cash and fixed-income investments	**₱576,511**	₱549,368
Less other liabilities	**12,232**	22,864
Fair value of plan assets	**₱564,279**	₱526,504

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market. The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used as of December 31, 2019 and 2018 in determining pension benefit obligations for the Company's Plan are shown below:

	2019	2018
Discount rate	**4.88%**	7.34%
Salary increase rate:		
Land-based	**3.00%**	4.00%
Sea-based	**3.00%**	4.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019, assuming all other assumptions were held constant:

	Increase (decrease)	Effect on defined benefit obligation
Discount rate	+100 basis points	(₱57,467,905)
	–100 basis points	67,995,984
Salary increase rate	+100 basis points	₱68,366,802
	–100 basis points	(57,066,414)

The Company does not expect to contribute to the Fund in 2020.

The average duration of the defined benefit obligation is 13.48 years and 12.28 years as of December 31, 2019 and 2018, respectively.

18. **Personnel Cost**

	June 30, 2020	June 30, 2019
Salaries and wages	**₱33,554,912**	₱44,298,642
Other employee benefits	**17,961,854**	13,032,519
Retirement expense (see Note 17)	**2,004,661**	5,302,713
	₱ 53,521,427	₱62,633,874

19. **Finance Costs and Other Charges** - Net

	June 30, 2020	June 30, 2019
Interest expense on:		
Borrowings (see Note 12):		
Short-term borrowings	**₱ 25,951,650**	₱ 41,063,917
Long-term borrowings	**4,233,130**	2,259,588
Obligations under finance lease (see Note 25)	**–**	–
Lease liabilities (see Note 25)	**–**	–
Net foreign exchange losses / (gain)	**387,391**	20,251
Banks and other financing charges	**203,508**	2,054,279
Interest income from:		
Banks (see Note 5)	**(108,061)**	(121,448)
Accretion of deposit	**–**	–
	₱ 30,667,617	₱45,276,587

20. **Other Income (Charges)** - Net

	June 30, 2020	June 30, 2019
Income from insurance claims	**₱–**	₱16,282,840
Gain on disposal of property and equipment - net (see Note 9)	**799,292**	1,288,258
Rental income and others	**(169,439)**	2,257,803
Recovery of provision for bad debt		–
Loss on disposal of investment in associate	**–**	–
Write-off of a liability to a related party	**–**	–
Equity in net income (loss) of an associate	**–**	–
	₱629,854	₱14,758,110

Income from insurance claims refers to shipping, container LOLO and other claims, which are part of the normal operating cycle of the Company, collected during the year.

21. **Income Taxes**

The Company's current provision for income tax represents minimum corporate income tax (MCIT) in 2019, 2018 and 2017.

The reconciliation of income tax computed at the statutory income tax rate to provision for (benefit from) income tax as shown in the statements of income is as follows:

	2019	2018	2017
Income tax at statutory income tax rate of 30%	**(₱43,529,816)**	(₱42,189,701)	(₱50,101,209)
Additions to (reductions in) income tax resulting from:			
Taxable other income	**61,705,265**	20,703,158	–
Nondeductible expenses	**26,400**	16,188,603	2,788,396
Income subjected to final tax	**(80,862)**		
Derecognition of deferred taxes	**33,016,735**	–	–
Movement of unrecognized deferred tax asset	**(21,808,903)**	1,873,811	30,949,482
Loss subject to income tax holiday (see Note 28)	**–**	8,927,399	21,233,851
Equity in net income of an associate	**–**	–	(276,820)
Amortization of deferred financing costs	**–**	–	220,015
	₱29,362,090	₱5,480,8914	₱4,791,806

The components of the net deferred income tax liabilities are as follows:

	2019	2018
Deferred income taxes recognized in the statement of income:		
Deferred income tax assets:		
Retirement benefit obligation	**₱–**	₱23,154,560
Allowance for impairment losses on trade and other receivables	**–**	9,862,175
	–	33,016,735
Deferred income tax liabilities:		
Unrealized foreign exchange gain	**703,413**	6,413,520
Deferred financing costs	**208,972**	336,430
	912,385	6,749,950
Deferred income taxes recognized directly in equity:		
Deferred tax asset on actuarial losses on retirement benefit obligation	**–**	8,969,791
Deferred income tax liability on revaluation increment on land	**21,518,810**	69,457,975
Net deferred tax liabilities	**₱22,431,195**	₱34,221,399

Movement in NOLCO and MCIT follows:

Year Incurred	Availment Period	As at December 31, 2018	Applied	Expired	As at December31, 2019
NOLCO					
2017	2018−2020	₱56,897,697	₱–	₱–	₱56,897,697
2016	2017−2019	225,344,378	(80,959,806)	(144,384,571)	–
		₱282,242,075	(₱80,959,806)	(₱144,384,571)	₱56,897,697
MCIT					
2019	2020−2022	₱6,296,604	₱–	₱–	₱6,296,604
2018	2019−2021	4,751,792	–	–	4,751,792
2017	2018−2020	3,272,285	–	–	3,272,285
2016	2017−2019	1,176,260	–	(1,176,260)	–
		₱15,496,941	₱–	(₱1,176,260)	₱14,320,681

No deferred income tax assets were recognized on the following deductible temporary differences because management believes that it is not probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized:

	2019	2018
NOLCO	**₱56,897,698**	₱282,242,075
Allowance for impairment losses on:		
Trade and other receivables	**150,584,056**	111,692,223
Deposit	**2,728,481**	2,728,481
MCIT	**14,320,681**	9,200,337
Unrealized foreign exchange loss	**–**	13,550,996
Leases	**22,076,991**	–
Retirement benefit obligation	**88,728,829**	–
Rent levelization and accretion	**–**	956,045

22. **Equity**

Capital Stock
On July 22, 1996, the Company listed its common stock with the PSE, wherein it offered 300,751,880 shares to the public at the issue price of ₱5.96 per share.

On September 4, 2006, the SEC approved the increase in the Company's authorized capital stock from ₱700.0 million divided into 400.0 million common shares, and 300.0 million preferred shares, both with a par value of ₱1.0 per share, to ₱1.0 billion divided into 895,058,756 common shares and 104,941,244 preferred shares, both with a par value of ₱1.00 per share. In separate meetings, the BOD and the shareholders resolved that the increase of the authorized capital stock shall be funded by the declaration of stock dividends equivalent to 75,187,967 common shares with a par value of
₱1.00 per share. On October 3, 2006, the PSE approved the application of the Company to list additional shares relating to the issuance of stock dividends.

On December 29, 2006, certain shareholders owning 96,125,243 preferred shares opted to convert their shares into 1 common share per 1 preferred share, plus stock dividends equivalent to 86.96% common share for every preferred share (equivalent to 83,587,161 shares). The Company filed Form 10.1 with SEC for the exemption from registration requirements of the converted 96,125,243 preferred shares into 179,712,404 common shares.

On September 21, 2007, the SEC approved the amendment of Article VII of the Company's Articles of Incorporation through the retirement of 8,816,001 preferred shares and conversion of 96,125,243 preferred shares into common shares resulting in the reduction of the Company's authorized capital stock to 991,183,999 with par value of ₱1.00 per share.

On November 28, 2007, the PSE has approved the Company's application to list additional 96,125,243 common shares to cover the underlying common shares for the conversion of a total of 96,125,243 preferred shares at a conversion rate of one (1) common share for every one (1) convertible preferred share. In addition, the PSE has approved the application of the Company to list additional 83,587,161 common shares, with a par value of ₱1.00 per share, to cover the 86.96% stock dividend declaration to the stockholders who opted to convert their preferred shares to common shares in 2007.

The Company has 910 and 914 shareholders as of December 31, 2019 and 2018, respectively.

Treasury Shares
On March 11, 2011, the BOD approved the acquisition of 1,010,000 shares of stock of the Company. On June 23, 2011, the Company acquired 1,010,000 shares of its own outstanding shares for a total consideration of ₱3.1 million.

23. Loss Per Share (LPS)

Following are the bases for the computation of earnings (loss) per share as of December 31:

	2019	2018	2017
Net loss available to common shareholders	**₱174,461,476**	₱146,113,226	₱171,795,837
Weighted average number of outstanding common shares	**555,652,251**	555,652,251	555,652,251
Basic and diluted loss per share	**₱0.31**	₱0.26	₱0.31

For the years ended December 31, 2019, 2018 and 2017 there were no shares of stock that have a potentially dilutive effect on the basic LPS of the Company.

24. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

The following are the more significant related party transactions and balances as of and for the years ended December 31, 2019, 2018 and 2017 not separately shown elsewhere in the financial statements

Related Parties	Year	Freight Revenue	Purchases	Management Fees (Note 13)	Reimbursable Expenses	Insurance, Rental, Guarantee Fee, and Other Services	Amounts Owed by Related Parties (Note 6) Trade	Non Trade	Others	Amounts Owed to Related Parties (Note 11)	Terms	Conditions
Parent:												
NMC	**2019**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,750,000**	**₱–**	**₱–**	**₱6,848.45**	**₱3,920,560**	Brokerage Fee -	Unsecured;
	2018	–	–	–	–	17,079,488	–	343,365	–	4,992,060	Payable within the	No
	2017	–	–	–	–	36,338,842	–	–	–	19,191,211	following month	impairment
Affiliates:												
One Stop Logistics	**2019**	**95,121,293**	**–**	**–**	**154,277**	**1,107,980**	**34,968,490**	**–**	**125,150**	**1,623,798**	Trucking - Payable	Unsecured;
Solutions, Inc. (OSLI)	2018	74,633,840	–	–	–	46,989	93,175,916	11,462,208	–	84,197	within the month	No
	2017	54,808,504	–	–	–	181,608	75,391,480	14,120,501	–	24,767		impairment for receivables
One Stop Warehousing	**2019**	**–**	**–**	**–**	**6,003**	**3,302,676**	**21,793**	**17,142,613**	**3,222,758**	**54,667,507**	Various	Unsecured;
Solutions, Inc. (OWLI)	2018	–	–	–	127,707	7,315,705	21,793	19,136,571	–	53,870,626		No
	2017	–	–	–	11,255	19,611,998	21,793	19,131,771	–	48,028,921		impairment for receivables
NMC Container Lines,	**2019**	–	–	–	**121,712**	**228,380,995**	**13,676,179**	**1,000,000**	**6,814,577**	**142,798,426**	Co-loading/Sea	Unsecured;
Inc. (NMCCLI)	2018	316,801,404	–	–	1,659,882	222,106,717	2,886,295	7,527,702	–	75,608,074	transport service/	No
	2017	404,330,859	–	–	493,421	309,480,298	161,979,838	6,617,464	–	137,351,562	Reimbursables - Payable within the following month	impairment for receivables
All Asian Countertrade	**2019**	**13,552,275**	**–**	**–**	**–**	**459,821**	**–**	**–**	**–**	**536,059**	Freight - Collectible	Unsecured;
	2018	18,780,274		–	–	2,230,046	29,856,222	–	–	1,061,269	in 30 days after	No
	2017	15,141,678	3,337,500	–	–	97,216	27,894,088	–	–	1,061,269	receipt of Bill	impairment for receivables
Magsaysay	**2019**	**–**	**–**	**–**	**–**	**19,415,524**	**–**	**–**	**45,583**	**66,507,228**	Revolving Fund	Unsecured;
Shipmanagement, Inc.	2018	–	–	1,856,333	–	21,347,835	476,662	40,000	3,449,954	56,964,594	Replenishment -	No
(MSI)	2017	–	–	–	–	26,103,597	–	–	3,150,000	44,956,547	Payable 5 days after receipt	impairment for receivables
Oceanic Container Lines,	**2019**	**–**	**–**	**–**	**–**	**4,517,269**	**–**	**–**	**–**	**–**	Co-loading -	Unsecured;
Inc.	2018	–	–	–	–	12,860,447	92,627	–	–	2,843,192	Payable in 30 days	No
	2017	–	–	–	–	5,248,873	–	–	–	2,593,868		impairment for receivables
Asiaport Equipment and	**2019**	**–**	**–**	**–**	**–**	**15,753,098**	**–**	**–**	**–**	**6,087,510**	Lift on/lift off -	Unsecured;
Logistics Corp.	2018	–	–	–	–	19,788,743	–	–	–	3,662,789	Payable in 30 days	No
(AELC)	2017	–	–	–	–	15,599,939	–	–	–	12,032,666		impairment for receivables
Magsaysay Houlder	**2019**	**–**	**–**	**–**	**–**	**1,895,811**	**–**	**–**	**–**	**–**	Insurance - Payable	Unsecured;
Insurance Brokers, Inc.	2018	–	–	–	–	8,989,724	–	–	–	–	in 30 days	No
(MHIBI)	2017	–	–	–	–	11,768,405	–	–	–	36,347		impairment for receivables
Roadlink Solution Inc.	**2019**	**–**	**–**	**–**	**–**	**62,064,708**	**669,239**	–	**33,600**	**7,105,313**	Various	Unsecured;
(RLSI)	2018	–	–	–	–	23,552,459	–	4,800	–	7,657,151		No
	2017	–	–	–	–	19,098,089	–	–	–	6,019,512		impairment for receivables

(Forward)

Related Parties	Year	Freight Revenue	Purchases	Management Fees (Note 13)	Reimbursable Expenses	Insurance, Rental, Guarantee Fee, and Other Services	Amounts Owed by Related Parties (Note 6) Trade	Non Trade	Others	Amounts Owed to Related Parties (Note 11)	Terms	Conditions
Marine Fuels Philippines, Inc. (MFPI)	**2019**	**₱–**	**₱596,736,474**	**₱–**	**₱4,411,984**	**₱–**	**₱–**	**₱–**	**₱–**	**₱522,316,361**	Fuel - Payable in 30 days	Unsecured; No impairment for receivables
	2018	–	335,561,747	–	–	–	–	–	–	235,979,937		
	2017	–	355,975,341	–	–	–	–	–	–	191,466,815		
NMC Ship Agency and Brokearge Inc	**2019**	**–**	**–**	**–**	**779,034**	**257,653**	**–**	**–**	**630,644**	**–**	Shipping Agent - Payable in 30 days	Unsecured; No impairment for receivables
	2018	–	–	–	–	3,883,842	–	–	–	1,751,022		
	2017	–	–	–	–	1,403,345	–	–	–	711,810		
Icebox Logistics Services, Inc. ILSI	**2019**	**77,909,525**	**–**	**–**	**22,129**	**–**	**15,822,140**	**–**	**116,201**	**2,003,280**	Various	Unsecured; No impairment for receivables
	2018	59,421,801	–	–	–	–	21,736,216	–	–	2,311,079		
	2017	–	–	–	–	–	14,758,281	–	–	3,671,643		
Other shareholders:												
Dumaguete Coconut Mills, Inc. (DCM)	**2019**	**2,359,913**	–	–	–	**1,452,816**	**–**	**–**	**–**	**359,684**	Rental - first 5 days of the month	Unsecured; No impairment for receivables
	2018	5,626,353	–	–	–	1,342,986	1,707,170	11,247	–	122,319		
	2017	3,541,450	–	–	–	1,072,090	2,436,959	–	–	343,929		
Tao Commodity Trader, Inc. (TAO)	**2019**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	Fuel - Payable in 30 days	Unsecured; No impairment for receivables
	2018	–	9,955,750	–	–	–	–		–	11,049,973		
	2017	–	13,382,946	–	–	–	–	–	–	1,473,525		
Pioneer Insurance and Surety Corp. (Pioneer)	**2019**	**–**	**–**	**–**	**–**	**23,752,814**	–	–	–	–	Insurance - Quarterly payment, payable 1st day of the quarter	Unsecured; No impairment for receivables
	2018	–	–	–	–	25,262,972	–	–	–	6,852,800		
	2017	–	–	–	–	27,494,385	–	–	–	6,199,036		
Others	**2019**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,989,994**	Various	Unsecured; No impairment for receivables
	2018	8,248,603	–	–	–	–	11,208,102	–	–	378,952		
	2017	53,100,452	1,048,320	–	–	21,077,579	13,075,547	–	–	19,355,566		
Total	**2019**	**₱188,943,006**	**₱596,736,474**	**₱–**	**₱5,495,139**	**₱371,111,126**	**₱65,157,842**	**₱18,142,613**	**₱10,995,361**	**₱816,915,720**		
	2018	483,512,275	345,517,497	1,856,333	1,787,589	365,807,953	161,161,003	38,525,893	3,449,954	465,190,034		
	2017	530,922,943	373,744,107	–	504,676	494,576,264	295,557,986	39,869,736	3,150,000	494,518,994		

Magsaysay Group of Companies

- NMCCLI and MFPI are subsidiaries of NMC. NMCCLI has a co-loading agreement and sea transport service agreement with the Company while MFPI supplies fuel to the Company.
- MHIBI, a subsidiary of NMC's parent, handles both marine cargo and fidelity guarantee insurance requirements of the Company.
- MSI is a subsidiary of NMC's parent. The Company entered into a ship management agreement with MSI whereby the Company appointed MSI as the manager of its vessels. The agreement is renewable annually.
- AELC is an associate of NMC. In 2008, the Company entered into an equipment and logistics services contract with AELC.
- OSLI, a wholly-owned subsidiary of NMC, is engaged in warehousing, project and rolling cargo handling and other cargo related services.
- RLSI and OSWLI are wholly-owned subsidiaries of NMC.

Other Shareholders

- TAO and DCM are substantially owned by Mr. Julio Sy, or his immediate family. The Company has a lease agreement with DCM, while TAO is one of the Company's suppliers of fuel for its vessels.
- Pioneer is the Company's provider of protection and indemnity and hull and machinery insurance for its vessels.
- Other related parties mentioned are businesses owned by various shareholders or directors of the Company and has transactions with the Company in the regular course of business.

Retirement Fund

The Company's retirement fund is managed by BPI Asset Management (see Note 16).

Compensation of Key Management Personnel

	2019	2018	2017
Short-term employee benefits	**₱3,024,560**	₱4,361,122	₱5,042,640
Post-employment benefits	–	651,872	526,141
	₱3,024,560	₱5,012,994	₱5,568,781

25. Leases

Leases effective starting January 1, 2019

The Company as a lessee

The Company has lease contracts for various items of container yards, container vans, warehouse and equipment used in its operations. Leases of container yards generally have lease terms between 3 and 10 years, container vans generally have lease terms of 2 and 8 years, while warehouse and equipment generally have lease terms between 2 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets.

The Company also has certain leases on container yards, container vans, warehouse and equipment with lease terms of 12 months or less. The Company applies the 'short-term lease' recognition exemptions for these leases.

The following are the amounts recognized in the 2019 statement of income:

Depreciation expense of right-of-use assets included in property and equipment	₱88,295,983
Interest expense on lease liabilities	22,638,541
Expenses relating to short-term leases (included in cost of sales)	43,793,800
Total amount recognized in statement of income	₱154,728,324

The rollforward analysis of lease liabilities follows:

	2019
As at January 1, 2019, as previously reported	₱–
Effect of adoption of PFRS 16 (see Note 2)	144,746,733
At January 1, 2019, as restated	144,746,733
Additions	137,838,985
Interest expense	22,638,541
Unrealized foreign exchange gain	(1,924,524)
Payments	(88,857,533)
As at December 31, 2019	₱214,442,202

The Company has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 4).

Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2019:

	2019
Within 1 year	₱97,644,714
More than 1 years to 2 years	63,252,192
More than 2 years to 3 years	21,831,242
More than 3 years to 4 years	18,437,427
More than 5 years	29,371,706

Leases effective prior to January 1, 2019

Finance Leases

The Company entered into separate lease-purchase agreements with Cronos Containers Limited, SeaCube Containers LLC, Textainer Equipment Management Limited, Container Applications International (CAI) and Waterfront Container Leasing Co. Inc. for the lease purchase of dry van containers.

In August 4, 2015, a Notice of Assignment was given to the Company that took effect on October 1, 2015 wherein Cronos Containers Limited assigned to its affiliate, Seaco Global Limited, all its right, title, interest and benefit in and to all of the Company's existing lease documentation. Lease charges for each container shall commence on the first calendar day of the month following the month in which the container was delivered to the Company and shall continue for a period of 3-8 years and shall be payable in 36 monthly installments in accordance with the terms and conditions of the lease-purchase agreement.

The lease-purchase agreement includes the following terms and conditions:

a. the Company shall pay the lessor for any event of loss as defined in the agreement equivalent to the stipulated loss value; and

b. provided the Company is not in default, the Company has the option to purchase the containers at the purchase price of US$1 per container at the end of the lease term.

In January 1, 2018, a straight lease contract with Waterfront was converted to 3-year lease purchase. Lease charges for each container shall commence on the first calendar day of the month and shall be payable in 36 monthly installments in accordance with the terms and conditions of the lease-purchase agreement.

The lease-purchase agreement includes the following terms and conditions:

a. the Company shall pay the lessor for any event of loss as defined in the agreement a fixed replacement value of US$876.80 per unit, less payments made up to the time of declaration of loss; and

b. the Company has the option to purchase the containers at the purchase price of US$1 per container at the end of the lease term.

The future minimum lease payments for the obligations under finance lease are as follows:

	2018	2017
Within one year	₱39,212,672	₱41,539,735
After one year but not more than five years	29,119,593	47,787,343
Total minimum lease obligations	68,332,265	89,327,078
Less: interest portion	16,470,816	27,236,028
Present value of minimum lease obligations	51,861,449	62,091,050
Less current portion	28,770,849	29,549,103
Noncurrent portion	₱23,090,600	₱32,541,947

Operating Leases

The Company's leases pertain to the lease of container yards, warehouses/offices, equipment, and container vans under various lease agreements for a period ranging from 1 to 10 years until 2019. The minimum annual rental commitments on these leases are presented below:

	2018	2017
Less than one year	₱9,462,067	₱12,742,532
More than one year but not more than five years	5,703,918	8,766,745
	₱15,165,985	₱21,509,277

Deposits on the above agreements amounting to ₱3.1 million and ₱3.9 million in 2018 and 2017, respectively, are presented as part of "Other noncurrent assets" in the statements of financial position (see Note 10).

For the years ended December 31, 2018 and 2017, the Company's operating leases were charged to rental under "Cost of services" in the statements of income amounting to ₱17.3 million and ₱23.3 million, under "Terminal expenses" in the statements of income amounting to ₱44.9 million and ₱36.9 million, and under "General and administrative expenses" in the statements of income amounting to ₱2.9 million and ₱1.5 million, respectively (see Notes 14, 15 and 16).

26. Financial Instruments

Financial Risk Management Objectives and Policies

Risk management is carried out by the Management Committee (ManCom) under policies approved by the Executive Committee (ExCom) and the BOD. Audit Committee identifies, evaluates, and hedges financial risks in close cooperation with the Company's ManCom. ExCom and BOD approve written principles provided by ManCom for overall risk management, as well as written policies, covering specific ones such as internal control policies, freight policies, purchasing policies and operational policies among others.

The Company's principal financial instruments consist of borrowings and obligations under finance leases. The main purpose of these financial instruments is to raise funds for the Company's operations. The Company has various financial instruments such as cash and cash equivalents, trade and other receivables, deposits, loan receivable and others included under other noncurrent assets, and accounts payable and accrued expenses which arise directly from its operations.

The Company's activities expose it to a variety of financial risks. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Consistent with prior year, the Company's policies for managing each of these risks are summarized below:

Fluctuations in freight rate and cargo volumes

In the cargo liner shipping industry, there are constant fluctuations in cargo volumes arising from competition and changes in the market environment. Negative trends in cargo volumes and freight rates have an impact on the Company's results of operations.

Fuel price fluctuations

Purchases of fuel to operate vessels are vital to the Company's operations. The market price of fuel is directly influenced by the price of crude oil in the world market. Any increase in the price of crude oil and the related increase in the price of fuel will have a negative impact on the Company's earnings. The risk involving fuel price fluctuations are borne mostly by the customers as the Company is allowed to increase freight rates under General Rate Increase and Automatic Fuel Rate Adjustment.

Interest rate risk

The Company depends on funds procured from external sources to meet substantial capital expenditure requirements. The Company reviews its exposure to interest rate risk through quarterly monitoring of actual figures against projections. Management believes that cash generated from operations is sufficient to pay its obligations under the loan agreements as they fall due.

The following tables set out the carrying amount as of December 31 by maturity, of the Company's financial instruments that are exposed to interest rate risk:

Floating Rate		Within 1 Year	1-2 Years	2-5 Years	Over 5 Years	Total
Long-term borrowings	**2019**	**₱121,133,268**	**₱44,444,444**	**₱133,333,333**	**₱15,681,29**	**₱314,592,294**
	2018	118,031,014	99,415,873	154,761,905	60,414,517	432,623,309
Short-term borrowings	**2019**	**587,970,400**	**–**	**–**	**–**	**587,970,400**
	2018	651,420,400	–	–	–	651,420,400

Floating Rate		Within 1 Year	1-2 Years	2-5 Years	Over 5 Years	Total
Lease liabilities	**2019**	**₱97,644,714**	**₱63,252,192**	**₱40,268,669**	**₱29,371,706**	**₱230,537,281**
	2018	29,549,103	19,590,364	12,951,583	–	62,091,050
Obligations under finance lease	**2019**	–	–	–	–	–
	2018	29,549,103	19,590,364	12,951,583	–	62,091,050

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above tables are noninterest-bearing and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's income before tax (through the impact on floating rate borrowings):

	Year	Increase/Decrease in Basis Points	Effect on Income Before Tax
Interest-bearing loans and borrowings	**2019**	**+63**	(₱7,018,594)
		-63	7,018,594
	2018	+30	(₱3,205,152)
		-30	3,205,152

The sensitivity of the Company's income is the effect of assumed changes in interest rates based on the bank's projection of 90-day interest rates using a combination of technical analysis and trending techniques.

There is no other impact on the Company's equity other than those already affecting the statement of income.

Foreign currency risk

The Company's foreign currency risk results primarily from the foreign exchange rate movements of the Philippine peso against foreign currencies. The Company resolved to mitigate this risk by taking advantage of market trends. Such trends are used to determine the proper timing of foreign currency transactions in order to realize a foreign currency gain.

The following table demonstrates the sensitivity to a reasonable change in the Philippine peso exchange rate in relation to foreign currencies based on the bank's projection of foreign currency fluctuations, with all variables held constant, of the Company's income before tax:

	Effect on Income Before Tax		
	2019	2018	2017
US Dollar			
Strengthened (2019: 4%, 2018: 5%, 2017: 4%)	**(₱1,613,927)**	(₱3,195,015)	(₱2,783,247)
Weakened (2019: 4%, 2018: 5%, 2017: 4%)	**1,613,927**	3,195,015	2,783,247
Japanese Yen			
Strengthened (2019: 8%, 2018:8%, 2017: 9%)	**(26,430)**	(27,579)	(399)
Weakened (2019: 8%, 2018: 8%, 2017: 9%)	**26,430**	27,579	399
Euro			
Strengthened (2019: 8%, 2018: 8%, 2017: 8%)	**(803,316)**	(325,819)	(29,463)
Weakened (2019: 8%, 2018: 8%, 2017: 8%)	**803,316**	325,819	29,463
Singaporean Dollar			
Strengthened (2019: 5%, 2018: 5%, 2017: 6%)	–	–	7,781
Weakened (2019: 5%, 2018: 5%, 2017: 6%)	–	–	(7,781)

There is no other impact on the Company's equity other than those already affecting the statement of income.

The Company's foreign currency denominated monetary assets and liabilities as of December 31 consist of:

	2019		
	US Dollar	**Japanese Yen**	**Euro**
Current assets	**$199,732**	**¥–**	**€–**
Current liabilities	**(942,846)**	**(718,200)**	**(178,198)**
Noncurrent liabilities	**(53,651)**	**–**	**–**
Net foreign currency denominated liabilities	**(796,765)**	**(718,200)**	**(178,198)**
Exchange rate used	**50.64**	**0.46**	**56.35**
Peso equivalent	**(₱40,348,180)**	**₱(330,372)**	**₱(10,041,457)**

	2018		
	US Dollar	Japanese Yen	Euro
Current assets	$14,751	¥–	€–
Current liabilities	(790,896)	(718,200)	(67,530)
Noncurrent liabilities	(439,152)	–	–
Net foreign currency denominated liabilities	(1,215,297)	(718,200)	(67,530)
Exchange rate used	52.58	0.48	60.31
Peso equivalent	(₱63,900,316)	(₱344,736)	(₱4,072,734)

The Company had a net unrealized foreign exchange loss of ₱1.5 million, gain of ₱4.9 million and
loss of ₱0.7 million in 2019, 2018 and 2017, respectively.

Credit risk
Credit risk is defined as the risk of loss arising from the default of an individual, counterparty or issuer not being able to or unwilling to honor its contractual obligations. The Company's exposure to this risk is primarily due to its transactions with its trading customers.

The Company counters this risk by trading only with recognized, creditworthy third parties. It employs standard process in granting credit lines to customers. It performs thorough evaluation of its customers' operations and financial standing to ensure that its customers are able to meet its contractual obligation.

The Company monitors receivable balances and ensures that customers are able to settle their obligation within the agreed terms. Its Credit and Collection Department is responsible for the collection of these receivables and ensures that customers are able to settle their obligation.

Concentration of risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic feature that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions, such as fluctuations in currencies or interest rates. The Company has no significant concentration of credit risk.

The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of its financial assets.

The following table shows the Company's maximum exposure to credit risk:

	2019	2018
Cash in banks	**₱204,185,480**	₱87,104,502
Trade and other receivables:		
Trade	**1,093,236,896**	952,442,503
Contract assets	**45,614,464**	24,751,046
Non-trade	**18,955,244**	39,704,334
Advances	**9,895,361**	15,685,213
Receivables from officers and employees	**2,948,263**	2,595,894
Other receivables	**1,005,879**	683,423
Deposits*	**8,290,042**	7,720,241
	₱1,384,131,649	₱1,130,687,156

**Lodged to "Other noncurrent assets*

Credit quality per class of financial assets are as follows:

	2019					
	Neither Past Due nor Credit-impaired					
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Past Due but Not Credit-impaired**	**Credit-impaired**	**Total**
Cash in banks	**₱204,185,480**	**₱–**	**₱–**	**₱–**	**₱–**	**₱204,185,480**
Trade and other receivables:						
Trade	–	–	**365,753,237**	**608,767,523**	**118,716,136**	**1,093,236,896**
Contract assets	–	**45,614,484**	–	–	–	**45,614,484**
Non-trade	–	**2,200,000**	–	**16,755,244**	–	**18,955,244**
Advances	**5,968,898**	**3,926,463**	–	–	–	**9,895,361**
Receivables from officers and employees	–	**2,234,100**	–	–	–	**2,234,100**
Other receivables	**714,163**	**1,005,879**	–	–	–	**1,720,042**
Other noncurrent assets	–	**525,277**	**3,658,924**	–	**4,105,841**	**8,290,042**
	₱210,868,541	**₱55,506,203**	**₱369,412,161**	**₱625,522,767**	**₱122,821,977**	**₱1,384,131,649**

	2018					
	Neither Past Due nor Credit-impaired			Past Due but		
	High Grade	Standard Grade	Sub-standard Grade	Not Credit-impaired	Credit-impaired	Total
Cash in banks	₱87,104,502	₱–	₱–	₱–	₱–	₱87,104,502
Trade and other receivables:						
Trade	–	39,099,257	387,275,364	393,774,973	132,292,909	952,442,503
Non-trade	–	11,915,430	10,107,932	–	2,727,684	24,751,046
Advances	–	1,533,274	–	38,171,060	–	39,704,334
Insurance claims	4,532,867	11,152,346	–	–	–	15,685,213
Receivables from officers and employees	–	2,595,894	–	–	–	2,595,894
Other receivables	680,201	–	3,222	–	–	683,423
Other noncurrent assets	–	525,277	3,089,123	–	4,105,841	7,720,241
	₱92,317,570	₱ 66,821,478	₱400,475,641	₱431,946,033	₱139,126,434	₱1,130,687,156

High Grade. This pertains to counterparty who is not expected by the Company to default in settling its obligation, thus, credit risk exposure is minimal. This normally includes large prime financial institutions, companies, government agencies and individual buyers. Credit quality was determined based on the credit standing of the counterparty.

Standard Grade. This pertains to accounts of debtors who have historically paid their accounts on time and who have the financial capacity to pay.

Sub-standard Grade. This pertains to accounts of debtors where the Company incurred delays in collection.

A financial asset is past due when a counterparty has failed to make payment when contractually due. Impaired financial assets are those accounts identified by the Company that need to be provided with allowance. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts such as, but not limited to, the length of the Company's relationship with the customer, customer payment behavior and known market factors.

Aging analyses per class of financial assets are as follows:

	2019						
	Neither Past	**Past Due but Not Credit-impaired**					
	Due nor Credit-impaired	**Less than 30 Days**	**31-60 Days**	**61-90 Days**	**More than 91 Days**	**Credit-impaired**	**Total**
Cash in banks	**₱204,185,480**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱204,185,480**
Trade and other receivables:							
Trade	**365,753,237**	**139,909,936**	**49,612,046**	**23,354,590**	**395,890,951**	**118,716,136**	**1,093,236,896**
Contract assets	**45,614,484**	**–**	**–**	**–**	**–**	**–**	**45,614,484**
Non-trade	**2,200,000**	**2,400**	**2,400**	**2,400**	**16,748,044**	**–**	**18,955,244**
Advances	**9,895,361**	**–**	**–**	**–**	**–**	**–**	**9,895,361**
Receivables from officers and employees	**2,234,100**	**–**	**–**	**–**	**–**	**–**	**2,234,100**
Other receivables	**1,720,042**	**–**	**–**	**–**	**–**	**–**	**1,720,042**
Other noncurrent assets	**4,184,201**	**–**	**–**	**–**	**–**	**4,105,841**	**8,290,042**
	₱635,786,905	**₱139,912,336**	**₱49,614,446**	**₱23,356,990**	**₱412,638,995**	**₱122,821,977**	**₱1,384,131,649**

	2018						
	Neither Past Due nor Credit-impaired	Past Due but Not Credit-impaired					
		Less than 30 Days	31-60 Days	61-90 Days	More than 91 Days	Credit-impaired	Total
Cash in banks	₱87,104,502	₱–	₱–	₱–	₱–	₱–	₱87,104,502
Trade and other receivables:							
Trade	426,374,621	56,128,234	23,327,038	16,204,885	298,114,816	132,292,909	952,442,503
Contract assets	22,023,362	–	–	–	–	2,727,684	24,751,046
Non-trade	1,533,274	13,650	103,264	198,800	37,855,346	–	39,704,334
Advances	15,685,213	–	–	–	–	–	15,685,213
Receivables from officers and employees	2,595,894	–	–	–	–	–	2,595,894
Other receivables	683,423	–	–	–	–	–	683,423
Other noncurrent assets	3,614,400	–	–	–	–	4,105,841	7,720,241
	₱559,614,689	₱56,141,884	₱23,430,302	₱16,403,685	₱335,970,162	₱139,126,434	₱1,130,687,639

The Company has the following financial assets that are subject to the expected credit loss model:

General Approach

- *Cash in banks*. The ECL relating to the cash of the Company is minimal as these are deposited in reputable banks which have good credit rating, and are considered to have lower credit risk.

- *Advances and other receivables*. The Company did not recognize any allowance to receivable from counterparties based on benchmarking / use of external supplementary data. This assessment is undertaken each financial year through examination of the financial position of the related parties and the markets in which the related parties operates.

- *Refundable Deposits*. Refundable deposits are deposited with a third party which have good credit standing and are considered to have lower credit risk, hence, probability of default is expected to be less likely.

Simplified Approach

- *Trade receivables and contract assets*. The Company applied the simplified approach under PFRS 9, using a ‘provision matrix’, in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. The Company has identified the core inflation rate to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

	2019						
Amounts in millions	**Days Past Due**						
	Current*	**1-30 days**	**31-60 days**	**61-90 days**	**90 days <**	**Over 90 days**	**Total**
Expected loss rate	**6.72%**	**11.67%**	**18.07%**	**25.53%**	**35.58%**	**100%**	
Estimated gross carrying amount at default	**₱537.22**	**₱139.91**	**₱49.61**	**₱23.35**	**₱19.26**	**₱43.8**	**₱813.15**
Expected credit loss	**36.79**	**16.33**	**8.96**	**5.96**	**6.81**	**43.8**	**118.65**

2018

	2018						
	Neither Past Due nor Credit-impaired	Past Due but Not Credit-impaired					
		Less than 30 Days	31-60 Days	61-90 Days	More than 91 Days	Credit-impaired	Total
Cash in banks	₱87,104,502	₱–	₱–	₱–	₱–	₱–	₱87,104,502
Trade and other receivables:							
Trade	426,374,621	56,128,234	23,327,038	16,204,885	298,114,816	132,292,909	952,442,503
Contract assets	22,023,362	–	–	–	–	2,727,684	24,751,046
Non-trade	1,533,274	13,650	103,264	198,800	37,855,346	–	39,704,334
Advances	15,685,213	–	–	–	–	–	15,685,213
Receivables from officers and employees	2,595,894	–	–	–	–	–	2,595,894
Other receivables	683,423	–	–	–	–	–	683,423
Other noncurrent assets	3,614,400	–	–	–	–	4,105,841	7,720,241
	₱559,614,689	₱56,141,884	₱23,430,302	₱16,403,685	₱335,970,162	₱139,126,434	₱1,130,687,639

The Company has the following financial assets that are subject to the expected credit loss model:

General Approach

- *Cash in banks*. The ECL relating to the cash of the Company is minimal as these are deposited in reputable banks which have good credit rating, and are considered to have lower credit risk.

- *Advances and other receivables*. The Company did not recognize any allowance to receivable from counterparties based on benchmarking / use of external supplementary data. This assessment is undertaken each financial year through examination of the financial position of the related parties and the markets in which the related parties operates.

- *Refundable Deposits*. Refundable deposits are deposited with a third party which have good credit standing and are considered to have lower credit risk, hence, probability of default is expected to be less likely.

Simplified Approach

- *Trade receivables and contract assets*. The Company applied the simplified approach under PFRS 9, using a 'provision matrix', in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. The Company has identified the core inflation rate to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

	2019						
Amounts in millions	**Days Past Due**						
	Current*	**1-30 days**	**31-60 days**	**61-90 days**	**90 days <**	**Over 90 days**	**Total**
Expected loss rate	**6.72%**	**11.67%**	**18.07%**	**25.53%**	**35.58%**	**100%**	
Estimated gross carrying amount at default	**₱537.22**	**₱139.91**	**₱49.61**	**₱23.35**	**₱19.26**	**₱43.8**	**₱813.15**
Expected credit loss	**36.79**	**16.33**	**8.96**	**5.96**	**6.81**	**43.8**	**118.65**

Amounts in millions	2018 Days Past Due						
	Current*	1-30 days	31-60 days	61-90 days	90 days <	Over 90 days	Total
Expected Loss Rate	11.21%	17.47%	24.41%	33%	45.34%	100%	
Estimated gross carrying amount at default	₱498.36	₱68.00	₱30.86	₱24.19	₱17.54	₱43.8	₱682.75
Expected credit loss	55.87	11.88	7.53	7.98	7.95	43.8	135.01

**includes accrued receivables and contract assets*

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or meet its financial obligations when they fall due. To mitigate exposure to such risk, the Company regularly monitors its cash position and loan due dates to ensure sufficient fund for working capital and to meet obligations as they fall due.

The tables below summarize the maturity profile of the Company's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted cash flows. The table also analyses the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments. The analysis into relevant maturity grouping is based on the remaining period at the end of the reporting period to the contractual maturity dates.

	2019			
	Less than 6 Months	**6 Months to 1 Year**	**Over 1 Year**	**Total**
Financial liabilities:				
Short-term borrowings	**₱587,970,400**	**₱–**	**₱–**	**₱587,970,400**
Long-term borrowings	**98,622,222**	**22,222,222**	**193,747,850**	**314,592,294**
Future interest payable on borrowings and lease liability	**57,155,170**	**40,489,544**	**132,892,567**	**230,537,281**
Accounts payable and accrued expenses*	**1,455,612,398**	**–**	**–**	**1,455,612,398**
	₱2,199,360,190	**₱62,711,766**	**₱326,640,417**	**₱2,588,712,373**
Financial assets:				
Cash	**₱204,185,480**	**₱–**	**₱–**	**₱204,185,480**
Trade and other receivables:				
Trade	**704,539,803**	**53,070,034**	**335,627,059**	**1,093,236,896**
Contract assets	**45,614,484**	**–**	**–**	**45,614,484**
Non-trade	**2,214,400**	**14,400**	**16,726,444**	**18,955,244**
Advances	**9,895,361**	**–**	**–**	**9,895,361**
Receivables from officers and employees	**2,948,263**	**–**	**–**	**2,948,263**
Other receivables	**1,005,879**	**–**	**–**	**1,005,879**
Other noncurrent assets	**–**	**–**	**8,290,042**	**8,290,042**
	₱970,403,670	**₱53,084,434**	**₱360,643,545**	**₱1,384,131,649**

**Excluding statutory liabilities*

	2018			
	Less than 6 Months	6 Months to 1 Year	Over 1 Year	Total
Financial liabilities:				
Short-term borrowings	₱651,420,400	₱–	₱–	₱651,420,400
Long-term borrowings	68,747,936	49,707,936	315,288,889	433,744,761
Obligations under finance lease	12,275,484	8,940,850	21,711,313	42,927,647
Future interest payable on borrowings and finance leases	22,811,803	18,258,003	64,672,611	105,742,417
Accounts payable and accrued expenses*	975,127,607	–	–	975,126,607
	₱1,730,383,230	₱76,906,789	₱401,672,813	₱2,208,961,232
Financial assets:				
Cash	₱87,104,502	₱–	₱–	₱87,104,502
Trade and other receivables:				
Trade	522,034,779	430,407,724	–	952,442,503
Contract assets	24,751,046	–	–	24,751,046
Non-trade	37,855,346	1,848,988	–	39,704,334
Advances	15,685,213	–	–	15,685,213
Receivables from officers and employees	2,595,894	–	–	2,595,894
Other receivables	683,423	–	–	683,423
Other noncurrent assets	–	–	7,720,241	7,720,241
	₱690,710,203	₱432,256,712	₱7,720,241	₱1,130,687,156

**Excluding statutory liabilities*

Classification and Fair Values of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements.

	Carrying Amount		Fair Value	
	2019	2018	2019	2018
Loans and receivables:				
Loan receivable	**₱–**	₱–	₱–	₱–
Other noncurrent assets	**3,658,923**	3,089,123	**2,391,264**	3,099,760
	₱3,658,923	₱3,089,123	**₱2,391,264**	₱3,099,760
Other financial liabilities:				
Lease liabilities	**₱214,442,202**	₱52,269,974	**₱235,089,906**	₱64,792,009
Long-term borrowings	**314,595,850**	432,623,309	**318,213,352**	439,078,036
	₱529,038,051	₱484,893,283	**₱553,303,259**	₱503,870,045

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash, trade and other receivables, accounts payable and accrued expenses, and short-term borrowings

The management assessed that the fair values of cash, trade and other receivables, accounts payable and accrued expenses, short-term borrowings and long-term borrowings reclassified to current due to breach of contract terms approximate their carrying amount largely due to the relatively short-term maturity of these financial instruments.

Loan receivable

The fair value of loan receivable is based on the discounted net present value of cash flows using the applicable rates for similar type of loan receivables.

Long-term borrowings and obligations under finance lease
The fair value of loans from banks and as well as obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Those inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As of December 31, 2019 and 2018, the Company held the following financial instruments that are carried at amortized cost but for which fair values are required to be disclosed:

December 31, 2019

	Total	**Level 1**	**Level 2**	**Level 3**
Disclosed at fair value:				
Other noncurrent assets	**₱2,391,264**	**₱–**	**₱–**	**₱2,391,264**
Long-term borrowings	**318,213,352**	**–**	**–**	**318,213,352**
Lease Liabilities	**35,089,906**	**–**	**–**	**235,089,906**

December 31, 2018

	Total	Level 1	Level 2	Level 3
Disclosed at fair value:				
Other noncurrent assets	₱3,099,760	₱–	₱–	₱3,099,760
Long-term borrowings	439,078,036	–	–	439,078,036
Obligations under finance lease	64,792,009	–	–	64,792,009

There were no transfers between Level 1 and Level 2 fair value measurement, and there were no transfers into and out of Level 3 fair value measurement.

27. **Capital Management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize shareholder value.

The Company monitors capital using debt-to-equity ratio (see Note 12). Capital includes equity attributable to common shareholders, share premium and accumulated earnings. Debt includes all liabilities, current and long-term interest-bearing loans and borrowings and pension obligation.

	2019	2018
Short-term borrowings and other current liabilities	**₱2,199,768,148**	₱1,721,441,244
Long-term borrowings	**314,592,294**	432,623,308
Lease liabilities	**214,442,202**	–
Obligations under finance lease	**–**	52,269,974
Retirement benefit obligation	**61,807,554**	71,536,638
Total debt	**2,790,610,198**	2,277,871,166
Common stock	**555,652,251**	555,652,251
Additional paid-in capital	**459,791,492**	459,791,492
Actuarial losses on defined benefit plan	**(26,921,275)**	(20,929,511)
Treasury shares	**(3,125,850)**	(3,125,850)
Revaluation increment	**50,210,555**	162,068,607
Deficit	**(605,987,356)**	(578,477,479)
Total equity	**429,619,817**	575,979,510
Total debt and equity	**₱3,220,230,015**	₱2,852,850,676

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may declare dividends, reacquire outstanding shares, or issue new shares.

On October 28, 2010, PSE issued a memorandum regarding the rule for the minimum public ownership for all listed companies. Based on the memorandum, listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of ten percent (10%) of the listed companies' issued and outstanding shares, exclusive of any treasury shares or as such percentage that may be prescribed by the PSE. The Company has complied with the minimum public ownership.

No changes were made in the objectives, policies or processes on capital management during the years ended December 31, 2019 and 2018.

28. **Contingencies**

In the ordinary course of business, the Company is a defendant in various litigations and claims. The Company has an ongoing case with the Court of Tax Appeals. The estimate of the probable costs for the resolution of these claims and cases has been developed in consultation with internal and external legal counsels handling the Company's defense in these matters and is based upon an analysis of potential results. Although there can be no assurances, management and its legal counsels believe that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of its operations, financial position or liquidity of the Company. It is possible, however, that the future results of operations could be materially affected by changes in estimates or effectiveness of the strategies relating to these litigations and claims (see Note 4).

29. Registration with Board of Investments (BOI)

The Company is registered with the BOI as a new operator of domestic shipping cargo vessel of MV Lorcon Manila on a preferred pioneer status and MV Lorcon Dumaguete, MV Lorcon General Santos and MV Lorcon Bacolod on a non-pioneer status, under the provisions of Executive Order (EO) No. 226, otherwise known as the *Omnibus Investment Code of 1987*.

Under the Company's registration, it is entitled to certain tax and nontax incentives which include, among others, income tax holiday (ITH).

Below are the details of the Company's ITH entitlement:

Vessel	BOI Approval Date	Commencement Date*	ITH Period
MV Lorcon Bacolod	July 2014	July 2014	4 years

**or actual start of commercial operations, whichever comes first.*

The ITH incentives shall be limited only to the revenues generated from the new activity.

Under the terms of the Company's registration, it is subject to certain requirements, principally that of following a specified sales volume and sales revenue schedule and securing prior permission from the BOI before performing certain acts.

Under the Company's application with the BOI, it can avail of a bonus year in each of the following cases but the aggregate ITH availment (basic and bonus years) shall not exceed eight (8) years:

a. The ratio of the total imported and domestic capital equipment to the number of workers for the project does not exceed US$10,000 to one (1) worker;

b. The net foreign exchange savings or earnings amount to at least US$500,000 annually during the first three (3) years of operation; and

The indigenous raw materials used in the manufacture of the registered product must at least be fifty percent (50%) of the total cost of raw materials for the preceding years prior to the extension unless the BOI prescribes a higher percentage

30. Changes in Liabilities Arising from Financing Activities

	January 1, 2019	Cash flows	Accrued interest	Foreign exchange movement	Others	December 31, 2019
Interest payable	**₱4,813,234**	(₱68,581,693)	**₱68,011,656**	**₱–**	**₱–**	**₱4,243,197**
Short-term borrowings	**651,420,400**	(63,450,000)	–	–	–	**587,970,400**
Current portion of:						
Long-term borrowings	**118,455,873**	(118,455,873)	–	–	121,133,268	**121,133,268**
Lease liabilities (see Notes 2 and 25)	**67,617,351**	(88,857,533)	–	**(1,017,782)**	135,665,487	**113,407,523**
Noncurrent portion of:						
Long-term borrowings	**314,167,436**	–	–	–	(120,708,410)	**193,459,026**
Lease liabilities (see Notes 2 and 25)	**77,129,381**	–	–	**(906,742)**	24,812,040	**101,034,679**
Total liabilities from financing activities	**₱1,233,603,675**	(₱339,345,099)	**₱68,011,656**	**(₱1,924,524)**	**₱160,902,385**	**₱1,121,248,093**

	January 1, 2018	Cash flows	Accrued interest	Foreign exchange movement	Others	December 31, 2018
Interest payable	**₱4,419,731**	(₱72,790,600)	**₱73,184,103**	**₱–**	**₱–**	**₱4,813,234**
Short-term borrowings	**673,420,400**	**(22,000,000)**	–	–	–	**651,420,400**
Current portion of:						
Long-term borrowings	**287,355,760**	(137,495,891)	–	–	**(31,403,996)**	**118,455,873**
Obligations under finance lease	**29,140,578**	(39,023,801)	–	–	**38,654,072**	**28,770,849**
Noncurrent portion of:						
Long-term borrowings	**282,181,432**	–	–	–	31,986,004	**314,167,436**
Obligations under finance lease	**32,133,423**	–	–	4,769,073	(14,220,420)	**22,682,076**
Total liabilities from financing activities	**₱1,308,651,324**	(₱271,310,292)	**₱73,184,103**	₱4,769,073	**₱25,015,660**	**₱1,140,309,868**

Others include the effect of reclassification of non-current portion of long-term borrowings, effect of accrued but not yet paid interest, additions to finance lease obligation and amortization of deferred transaction costs.

31. Events After the Reporting Period

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, which was subsequently extended to May 15, 2020. National Capital Region and other high risk areas were under modified ECQ until May 31, 2020. Starting June 1, 2020 until June 30, 2020, Metro Manila and certain places in the Philippines were placed under general community quarantine. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Company remains fully operational and committed in delivering on its promises to clients and partners. Shipping operations to and from the ports of call that the Company serve (Manila, Cebu, Bacolod, Iloilo, Dumaguete, Davao, Cagayan de Oro, Zamboanga, Cotabato and General Santos) will sail as scheduled with minimal to no service disruption. The Company enacted risk mitigation and business continuity protocols to ensure this. In helping the limit of exposure of the employees, the Company have put in place work arrangements such as compressed work week, flexible work schedules, and options to work from home or remotely from office locations across the country.
While the present disruptions can slow down revenue inflows, the safety and security measures immediately adopted by the Company and the cost reduction during the quarantine period are expected to mitigate the unfavorable impact on business.

The Company considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.

32. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On November 25, 2010, the BIR issued RR 15-2010 which amends certain provisions of RR 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying the tax returns. It requires the disclosures of taxes, duties and licenses paid or accrued during the taxable year.

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and licenses paid or accrued during the taxable year.

VAT
The National Internal Revenue Code of 1997 provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. R.A.
No. 9337 increased the VAT rate from 10.0% to 12.0%, effective February 1, 2006.

The Company is a VAT-registered company with output VAT declaration for the year ended December 31, 2019 as follows:

	Net sales/ receipts	Output VAT
Taxable sales	₱3,164,152,657	₱379,698,319
Zero-rated sales/receipts	97,084,092	–
Exempt sales	–	–
	₱3,261,236,748	₱379,698,319

The Company's sales that are subjected to VAT are reported under "Freight revenue" and "Rental and miscellaneous income".

The Company's output VAT are based on actual collections received, hence may not be the same as amounts accrued in the statement of income.

The movement in input VAT during the year is summarized below:

Balance at January 1	₱21,132,986
Current year's purchases:	
Services lodged under direct costs	313,240,829
Capital goods subject to amortization	9,418,292
Capital goods not subject to amortization	170,114
From importation	826,653
Claims for tax credit/refund and other adjustments	344,788,873
Payments from previous periods	39,869,562
Input tax application against output VAT	(379,698,319)
Balance at December 31	₱4,960,117

Importations
The landed cost of the Company's importations amounted to ₱6,640,199 for the year.

Documentary Stamp Taxes
The documentary stamp taxes paid/accrued during the year on the bill of lading and bank loans amounted to ₱2,176,001 and ₱5,359,422, respectively.

Other Taxes and License:

This includes all other taxes, local and national, including real property taxes, licenses and permit fees lodged under the "Taxes and licenses" account in "Cost of services", Terminal expenses" and "General and administrative expenses" in the statement of income.

Details of other taxes and licenses for the year ended December 31, 2019 follows:

License and permit fees	₱1,215,457
Real property tax	5,059,932
Others	4,620,794
	₱10,896,183

Withholding Taxes

Details of withholding taxes for the year ended December 31, 2019 follows:

Expanded withholding taxes	₱57,116,084
Tax on compensation and benefits	8,598,187
Final withholding taxes	5,089,204
Withholding taxes on fringe benefits	–
	₱70,803,475

2008 Tax Assessment

The Company has a pending case with the Court of Tax Appeals (CTA) for the deficiency taxes for the year 2008 amounting to ₱2.01 billion, inclusive of penalties, interest and surcharges. On October 17, 2014, the Respondent in the said case (BIR) filed a Motion to Dismiss (MTD), which motion has been denied by the CTA as per Resolution dated March 5, 2015.

On June 28, 2018, the CTA 3rd Division issued a Decision favorable to the Company thereby cancelling and declaring the ₱2.01 billion assessment as null and void. As anticipated, the Commissioner of Internal Revenue (CIR) filed a Motion for Reconsideration which, however, was later on denied by the CTA 3rd Division on October 29, 2018. From this adverse Resolution, the CIR accordingly filed a Petition for Review with the CTA En Banc on November 27, 2018. The Company filed its Comments/Opposition to the BIR's Petition for review last February 8, 2019. As February 3, 2020, the Company is still waiting for the Court En Banc's Resolution.

Exhibit 2

Management's Discussion

LORENZO SHIPPING CORPORATION

Management Discussion and Analysis or Plan of Operation
For the Six Months Ending June 30, 2020 and 2019

RESULT OF OPERATION

Lorenzo Shipping Corporation's (LSC or the "Company") total revenues for the six months ended June 30, 2020 amounted to P1.34million, which was 8% or P111 million lower than the revenue reported in the same period in 2019. TEU volumes were lower by 9% compared to the same period as last year primarily due to the Covid 19 - related lockdowns.

The Company ended the first six months of this year with a gross profit of P8.85 million, a reversal from the gross loss of P63.3 million for the same period last year. . There was a reduction in total direct cost amounting to P183.4 million or 12% from the P1.514 billion posted last year, to the P1.331 billion incurred this year. . In particular, fuel expenses decreased by P86 million or 25% , while voyage service fee and cargo expenses went down by P45.9 million or 25% and P 35 million or 5%,respectively.

General and Administrative expenses was P54.2million as of June 30 this year, which was P 30.5 million lower than the Php 84.7million posted for same period last year.. Personnel costs, outside services and impairment costs decreased by P9 million , P8 million and 12.7 million , respectively.

Net finance costs amounted to P30.7 million for the first six months. This was P14.6 million or 36% lower than the P45.3 million incurred for the same period last year due to payment of loans.

As of end of June 2020, the Company posted a net "other income" of P 0.629 million. This was P19.2 million lower than the same period in 2019. "Other income" of 2019 consisted of proceeds from various sales of assets and insurance recoveries.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) amounted to P83.2 million as of June 30, 2020 compared to the negative P30.5 million in 2019.

Considering all of the above, LSC's operating results for the six months ending in June 30, 2020 was a net loss of P75.4 million compared to P173.4 million net loss over the same period in 2019. The equivalent loss per share were P0.14 and P0.31 for 2020 and 2019, respectively.

FINANCIAL CONDITION

Total assets as of June 30, 2020 amounted to P3.436 billion, which was P138.9 million or 4% higher than the P3.297 billion registered as of December 31, 2019. Current assets increased by 16.8% at the end of June 2020 from last December's P1.328 billion to P1.551 billion last June 30 . There was a reduction of P99 million in total cash level last June 30, while there were increases in trade and accounts receivables by P302 million and in other current assets by P20 million.

Total non-current assets decreased by P84 million by the end of the 2nd Quarter from P1.969 billion in 2019 to P1.885 billion in 2020 due to continuing depreciation and amortization of property and equipment..

Total Liabilities increase by 8% or P214 million from P2.813 billion at the end of 2019 to P3.027 billion at the end of June 2020 driven by increases in accounts payable and accrued expenses . Principal repayments during the first two quarters of 2020 amounted to P140 million. Payments on capital leases amounted to P37million .

Retained deficit of as at June 30, 2020 was P626.8 million from the retained deficit level of P551 million at end of 2019. Along with the Company's capitalization of P1.015 billion, current Stockholders' Equity as of June 30, 2020 was P408.8 million.

Top Five Performance Indicators

LSC's financial performance is further reflected in the following key performance indicators

Performance Indicators	2nd Quarter		Full Year	
	2020	2019	2019	2018
Current Ratio	0.62	0.69	0.55	0.71
Debt-to-equity-ratio	7.41	6.76	5.81	4.02
Net revenues	P1.339 billion	P1.451 billion	P2.944 billion	P1.971 billion
Net income (loss) before tax	(P75.4million)	(P173.516million)	(P145 million)	(P140 million)
A/R turnover	1.39	1.48	3.20	2.26

i. LSC is not aware of any event that will trigger direct or contingent financial obligations that are material to LSC, including any default or acceleration of an obligation.

ii. LSC is not aware of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of LSC with unconsolidated entities or other persons created during the reporting period.

iii. LSC is not aware of any material commitments for capital expenditures.

iv. LSC is not aware of any known trends, events or uncertainties that have had or that are reasonably expected to have a material favourable or unfavourable impact on net sales or revenues or income from continuing operations.

v. LSC is not aware of any significant elements of income or loss that did not arise from the registrant's continuing operations.

vi. LSC is not aware of any seasonal aspects that had a material effect on the financial condition or results of operations.

Plan of Operation

The Company's turnaround plans have already started to reap benefits noting the significant reduction in its Direct Costs, and the consequent improvements in Gross Profit, Net Results and EBITDA. Continuing efforts are being exerted towards improving Net Results.

1. Improvement in vessel and service reliability remain to be the Company's top priority. Partnership with selected carriers are being enhanced for utmost flexibility especially in cases when there are excess volumes and/or service disruptions.

2. Emphasis is being given on maximizing vessel capacity, especially northbound volumes using enhanced pricing schemes.

3. Significant reduction of operating costs such as trucking, terminal, and cargo handling are being prioritized through a focused and flexible organizational structure and the use of technology.

4. Implementation is now underway for programs that will manage profit leaks , focused largely on claims reduction, billing and collection cycle improvements, and operations process streamlining through people, process, and technology interventions.

5. Excess capacities and non-profitable routes are being closely monitored and rationalized, as necessary.

Exhibit 2.1

Financial Indicators

Accounts Receivable Aging

Exhibit 2.1

LORENZO SHIPPING CORPORATION

Financial Indicators

For the Period Ending June 30, 2020 and 2019

Financial Ratios	2020	2019
Liquidity Ratios		
Current ratio	0.62	0.69
Accounts receivable turnover	1.39	1.48
Acid test ratio	0.59	0.51
Funds from operations	₱53,431,337	(₱73,726,614)
Solvency Ratios		
Times interest earned	2.76	0.71
Earnings (Loss) before interest and taxes (EBIT)	(₱45,249,546)	(₱130,314,113)
Earnings (Loss) before interest, taxes, depreciation and amortization (EBITDA)	₱83,228,725	(₱30,544,808)
Debt to equity ratio	7.41	6.76
Debt ratio	0.88	0.87
Equity ratio	0.12	0.13
Profitability Ratios		
Return on revenue or Net profit ratio	-5.6%	-12.0%
Operating profit margin	-3.4%	-9.0%
Return on total assets (ROA) vs. EBIT	-1.3%	-4.2%
Return on assets (ROA)	-2.2%	-5.6%
Return on owners' equity	-18%	-43%

LORENZO SHIPPING CORPORATION
Accounts Receivables Aging
As of 30 June 2020

Port	Total	Current	*1-30days*	*31-60 days*	*61-90 days*	*91-120 days*	*121-180 days*	*181-365 days*	*366 days- 2 years*	*over 2 years*
MANILA	664,367,206	231,416,742	87,428,968	10,207,444	37,868,456	37,443,342	32,691,877	6,171,586	77,412,554	143,726,236
BRANCHES	57,977,064	28,296,384	4,935,189	1,164,174	2,161,485	1,034,976	1,450,905	170,893	1,634,843	17,128,215
AGENCIES	31,592,453	5,913,013	870,978	344,800	466,148	(138,752)	(2,429,334)	5,837,774	4,638,902	16,088,926
TOTAL	**753,936,723**	**265,626,139**	**93,235,134**	**11,716,419**	**40,496,089**	**38,339,566**	**31,713,448**	**12,180,253**	**83,686,299**	**176,943,377**

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-LC
(COVID 19)
NOTIFICATION OF INABILITY TO FILE
SEC FORM 17-A OR 17-Q

Check One:

Form 17-A [ ] Form 17-Q [**X**]

Period/Ended Date of required filing... **June 30, 2020 / August 14, 2020**

Date of this report..**13 August 2020**

Nothing in this Form shall be construed to imply that the Commission has verified any information contained herein.

If this notification relates to a portion or portions of the filing checked above, identify the item(s) to which the notification relates:...

1. SEC Identification Number **48909** 2. BIR Tax Identification No. **000-628-958-000**

3. **LORENZO SHIPPING CORPORATION**
   Exact name of issuer as specified in its charter

4. **PHILIPPINES**
   Province, country or other jurisdiction of incorporation

5. Industry Classification Code: [ ] (SEC Use Only)

6. **20th Floor, Times Plaza Building, United Nations Avenue, Ermita, Manila 1000**
   Address of principal office Postal Code

7. (**632) 8567-2180**
   Issuer's telephone number, including area code

8. ....
   Former name, former address, and former fiscal year, if changed since last report.

9. Are any of the issuer's securities listed on a Stock Exchange?

   Yes [**X**] No [ ]

   If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

   Philippine Stock Exchange **Common Stock 554,642,251**

Part I - Representations

If the subject report could not be filed **due to COVID19** and the issuer seeks relief pursuant to SRC Rule 17-1, the following should be completed. (Check box if appropriate)

(a) The operation of the Company is [√] Domestic Only [ ] Domestic and Foreign.

(b) The subject annual report on SEC Form 17-A [ ], and/or the subject quarterly report on SEC Form 17-Q [√], will be filed within the period prescribed in SEC MC 5, series of 2020 or in any amendment thereto.

Part II - Other Information

(a) Name, address and telephone number, including area code, and position/title of person to contact in regard to this notification

REYNOLD JOHN B. MADAMBA
President
20th Floor Times Plaza Bldg.
United Nations Avenue, Ermita, Manila
Telephone Number: +632 8527.5555
Fax Number: n/a

(b) Have all other periodic reports required under Section 17 of the Code and under Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months, or for such shorter period that the issuer was required to file such report(s), been filed? If the answer is no, identify the report(s).

Yes [√] No [ ] Reports: **N.A**

(c) **The indicative date the company would convene the Annual Stockholders' Meeting: 08 September 2020.**

SIGNATURE

Pursuant to the requirements of the SRC Rule 17-1, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LORENZO SHIPPING CORPORATION
Registrant's full name as contained in charter

REYNOLD JOHN B. MADAMBA
President

Date 13 August 2020

Sarah M. Aranes

From: Majorette B. Merza
Sent: Wednesday, August 19, 2020 12:10 PM
To: Claire B. Valencia; Sarah M. Aranes
Subject: FW: Acknowledgement Notice Re: Lorenzo Shipping Corporation_SEC Form-17-LC_13August2020

Proof of received of SEC for the request for extension

From: Marisse D. Aldeza
Sent: Thursday, 13 August 2020 4:34 PM
To: Majorette B. Merza
Subject: FW: Acknowledgement Notice Re: Lorenzo Shipping Corporation_SEC Form-17-LC_13August2020

From: ICTD Submission <ictdsubmission@sec.gov.ph>
Sent: Thursday, 13 August 2020 4:33 PM
To: Marisse D. Aldeza <marisse.aldeza@magsaysay.com.ph>
Subject: Acknowledgement Notice Re: Lorenzo Shipping Corporation_SEC Form-17-LC_13August2020

Dear Customer,

SUCCESSFULLY ACCEPTED

(subject to verification and review of the quality of the attached document)

Thank you.

SEC ICTD.