

To be an indispensable partner in the journey of everyone
whose life we touch.



16 February 2015

Ms. Janet A. Encarnacion
Head, Disclosure Department
Philippine Stock Exchange
3/F PSE Plaza
Ayala Triangle Plaza, Ayala Ave.,
Makati City

Dear **Ms. Encarnacion**:

In relation to our disclosure dated 11 February 2015 on the Audited Financial Statement of the Company for the period ended 31 December 2014, please find the attached Audited Finance Statement for period ended 31 December 2014 complete with notes for your reference.

Thank you and warm regards.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Socorro Ermac Cabreros".

Atty. Socorro Ermac Cabreros
Corporate Secretary

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Report of Independent Auditors

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The Board of Directors

P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries

Stella Hizon Reyes Road,
Barrio Pampanga, Davao City

We have audited the accompanying consolidated financial statements of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.




An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of P-H-O-E-N-I-X Petroleum Philippines, Inc. and Subsidiaries as at December 31, 2014 and 2013, and their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: 
Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PIR No. 4748317, January 5, 2015, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-3 (until Mar. 31, 2015)
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 11, 2015

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash and cash equivalents	6	P 555,508,720	P 357,220,520
Trade and other receivables - net	7	7,832,712,191	7,343,793,926
Inventories	8	2,870,829,069	3,812,532,673
Land held for sale and land development costs	9	485,985,811	503,672,474
Due from related parties	26	10,373,356	2,747,994
Restricted deposits	10	70,406,743	95,419,646
Input value-added tax - net		603,608,784	448,838,093
Prepayments and other current assets	11	1,146,632,540	489,913,177
Total Current Assets		<u>13,576,057,214</u>	<u>13,054,138,503</u>
NON-CURRENT ASSETS			
Property and equipment - net	12	10,688,608,904	8,628,490,469
Land held for future development	14	312,617,496	297,942,281
Investment in an associate	13	2,250,000	2,250,000
Goodwill - net	16	84,516,663	84,516,663
Other non-current assets	15	336,110,518	270,215,050
Total Non-current Assets		<u>11,424,103,581</u>	<u>9,283,414,463</u>
TOTAL ASSETS		<u>P 25,000,160,795</u>	<u>P 22,337,552,966</u>
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	17	P 8,479,025,750	P 8,207,229,484
Trade and other payables	18	3,734,569,995	1,570,427,327
Due to related parties	26	17,204,725	64,161,243
Total Current Liabilities		<u>12,230,800,470</u>	<u>9,841,818,054</u>
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	17	5,363,617,647	5,544,509,333
Deferred tax liabilities - net	25	71,872,184	76,530,691
Other non-current liabilities	19	283,644,395	376,789,584
Total Non-current Liabilities		<u>5,719,134,226</u>	<u>5,997,829,608</u>
Total Liabilities		<u>17,949,934,696</u>	<u>15,839,647,662</u>
EQUITY			
Preferred stock	27	5,000,000	5,000,000
Common stock		1,428,777,232	1,428,777,232
Additional paid-in capital		3,367,916,774	3,367,916,774
Revaluation reserves		372,138,419	272,621,771
Other reserves		(622,952,239)	(622,952,239)
Retained earnings		2,499,345,913	2,046,541,766
Total Equity		<u>7,050,226,099</u>	<u>6,497,905,304</u>
TOTAL LIABILITIES AND EQUITY		<u>P 25,000,160,795</u>	<u>P 22,337,552,966</u>

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
REVENUES				
Sale of goods	26	P 34,100,287,928	P 43,139,691,819	P 34,080,171,520
Charter fees	2	392,681,626	205,235,733	201,813,941
Rent and storage income	30	100,583,267	79,208,786	113,295,479
Port revenues	2	84,647,031	65,206,403	54,385,910
Fuel service and other revenues	2	56,184,644	62,643,613	135,885,455
		<u>34,734,384,496</u>	<u>43,551,986,354</u>	<u>34,585,552,305</u>
COST AND EXPENSES				
Cost of sales and services	20	31,404,503,935	40,248,166,084	31,961,749,413
Selling and administrative expenses	21	1,916,826,177	1,991,460,138	1,473,661,606
		<u>33,321,330,112</u>	<u>42,239,626,222</u>	<u>33,435,411,019</u>
OTHER CHARGES (INCOME)				
Finance costs	22	804,137,896	669,030,064	519,720,493
Finance income	22	(3,394,843)	(8,481,577)	(24,629,351)
Others		(6,842,368)	(14,625,113)	(16,133,556)
		<u>793,900,685</u>	<u>645,923,374</u>	<u>478,957,586</u>
PROFIT BEFORE TAX		619,153,699	666,436,758	671,183,700
TAX EXPENSE	25	<u>2,790,727</u>	<u>1,379,153</u>	<u>19,873,548</u>
NET PROFIT		<u>616,362,972</u>	<u>665,057,605</u>	<u>651,310,152</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Revaluation of tankers	27	180,637,550	6,847,358	331,807,097
Remeasurements of post-employment defined benefit obligation	23	(31,217,753)	(3,147,836)	(13,306,797)
Tax expense	25	(29,334,251)	(1,109,855)	(95,550,091)
Other Comprehensive Income - net of tax		<u>120,085,546</u>	<u>2,589,667</u>	<u>222,950,209</u>
TOTAL COMPREHENSIVE INCOME		<u>P 736,448,518</u>	<u>P 667,647,272</u>	<u>P 874,260,361</u>
Basic and Diluted Earnings per share	28	<u>P 0.40</u>	<u>P 0.45</u>	<u>P 0.48</u>

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

Note	Preferred Stock	Common Stock	Additional Paid-in Capital	Other Reserves	Other Comprehensive Income			Total Equity
					Revaluation Reserves	Retained Earnings	Total	
	P 5,000,000	P 1,428,777,232	P 3,367,916,774	(P 622,952,239)	P 272,621,771	P 2,046,541,766	P 2,319,163,537	P 6,497,905,304
Cash dividends	27	-	-	-	-	(184,127,723)	(184,127,723)	(184,127,723)
Total comprehensive income for the year		-	-	-	120,085,546	616,362,972	736,448,518	736,448,518
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	(20,568,898)	20,568,898	-	-
Balance at December 31, 2014	<u>P 5,000,000</u>	<u>P 1,428,777,232</u>	<u>P 3,367,916,774</u>	<u>(P 622,952,239)</u>	<u>P 372,138,419</u>	<u>P 2,499,345,913</u>	<u>P 2,871,484,332</u>	<u>P 7,050,226,099</u>
Balance at January 1, 2013	P 5,000,000	P 906,059,416	P 2,051,723,794	(P 622,952,239)	P 282,423,030	P 1,859,916,993	P 2,142,340,023	P 4,482,170,994
Issuance of shares during the year		193,000,000	1,316,192,980	-	-	-	-	1,509,192,980
Stock dividends	27	329,717,816	-	-	-	(329,717,816)	(329,717,816)	-
Cash dividends	27	-	-	-	-	(161,105,942)	(161,105,942)	(161,105,942)
Total comprehensive income for the year		-	-	-	2,589,667	665,057,605	667,647,272	667,647,272
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	(12,390,926)	12,390,926	-	-
Balance at December 31, 2013	<u>P 5,000,000</u>	<u>P 1,428,777,232</u>	<u>P 3,367,916,774</u>	<u>(P 622,952,239)</u>	<u>P 272,621,771</u>	<u>P 2,046,541,766</u>	<u>P 2,319,163,537</u>	<u>P 6,497,905,304</u>
Balance at January 1, 2012	P 5,000,000	P 661,123,014	P 2,051,723,794	(P 622,952,239)	P 71,543,651	P 1,547,959,455	P 1,619,503,106	P 3,714,397,675
Stock dividends	27	244,936,202	-	-	-	(244,936,202)	(244,936,202)	-
Cash dividends	27	-	-	-	-	(106,487,242)	(106,487,242)	(106,487,242)
Adjustments		200	-	-	-	-	-	200
Total comprehensive income for the year		-	-	-	222,950,209	651,310,152	874,260,361	874,260,361
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	(12,070,830)	12,070,830	-	-
Balance at December 31, 2012	<u>P 5,000,000</u>	<u>P 906,059,416</u>	<u>P 2,051,723,794</u>	<u>(P 622,952,239)</u>	<u>P 282,423,030</u>	<u>P 1,859,916,993</u>	<u>P 2,142,340,023</u>	<u>P 4,482,170,994</u>

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	<u>2014</u>	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 619,153,699	P 666,436,758	P 671,183,700
Adjustments for:				
Interest expense	22	728,178,099	617,451,997	467,358,205
Depreciation and amortization	21	660,281,915	528,400,077	405,815,569
Impairment losses	22	40,077,464	17,959,002	37,851,057
Interest income	22	(3,394,843)	(8,481,577)	(10,567,992)
Operating profit before working capital changes		2,044,296,334	1,821,766,257	1,571,640,539
Increase in trade and other receivables		(528,995,729)	(3,804,750,049)	(729,368,304)
Decrease (increase) in inventories		941,703,604	(123,772,997)	(1,556,137,271)
Decrease (increase) in land held for sale and land development costs		17,686,663	(1,641,915)	(50,443,441)
Decrease (increase) in restricted deposits		25,012,903	(12,725,617)	(13,657,192)
Increase in input value-added tax		(154,770,691)	(55,869,471)	(166,461,101)
Increase in prepayments and other current assets		(656,719,363)	(207,552,655)	(76,150,578)
Decrease in installment contract receivable		-	-	9,002,788
Increase (decrease) in trade and other payables		2,164,142,668	23,322,143	(1,536,482,533)
Cash generated from (used in) operations		3,852,356,389	(2,361,224,304)	(2,548,057,093)
Cash paid for income taxes		(610,696)	(1,635,260)	(564,033)
Net Cash From (Used in) Operating Activities		<u>3,851,745,693</u>	<u>(2,362,859,564)</u>	<u>(2,548,621,126)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	12	(2,473,554,558)	(2,053,908,624)	(1,401,021,187)
Increase in other non-current assets		(122,883,739)	(149,078,003)	(184,693,102)
Increase in land held for future development		(14,675,215)	(8,864,054)	(17,096,393)
Advances to related parties	26	(10,373,356)	(17,362,078)	(9,467,416)
Interest received		2,750,097	7,831,603	9,406,440
Collections from related parties	26	2,747,994	22,914,084	27,479,102
Proceeds from disposal of property and equipment		949,543	1,834,386	2,734,603
Net Cash Used in Investing Activities		<u>(2,615,039,234)</u>	<u>(2,196,632,686)</u>	<u>(1,572,657,953)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from additional interest-bearing loans and borrowings		35,866,969,673	29,837,925,969	20,255,892,079
Repayments of interest-bearing loans and borrowings		(35,776,065,093)	(26,001,508,949)	(16,217,888,445)
Interest paid		(798,899,617)	(688,863,445)	(545,207,465)
Payments of cash dividends	27	(184,127,723)	(161,105,942)	(106,487,242)
Increase (decrease) in other non-current liabilities		(99,338,981)	3,951,722	225,101,428
Repayments to related parties	26	(46,956,518)	(21,390,502)	(153,064,039)
Proceeds from issuance of shares of stock	27	-	1,509,192,980	-
Proceeds from borrowings from related parties		-	-	177,435,185
Net Cash From (Used in) Financing Activities		<u>(1,038,418,259)</u>	<u>4,478,201,833</u>	<u>3,635,781,501</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		198,288,200	(81,290,417)	(485,497,578)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		357,220,520	438,510,937	924,008,515
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>P 555,508,720</u>	<u>P 357,220,520</u>	<u>P 438,510,937</u>

Supplemental Information on Non-cash Investing and Financing Activities:

- 1) Stock dividends declared and distributed by the Group amounted to nil in 2014, P329.7 million in 2013 and P244.9 million in 2012 (see Note 27.6)
- 2) On July 6, 2012, the Board of Directors of the Parent Company approved the acquisition of 100% shares of stock of Chelsea Shipping Corp. (CSC) via share-for-share swap. The agreed purchase price amounted to P1,578.0 million payable as 90% issuance of new common shares of the Parent Company and 10% cash. Accordingly, 171.35 million new common shares were issued in favor of Udena Management & Resources Corp., a related party under common control. The acquisition of CSC is accounted for as business combination using pooling-of-interest method (see Note 1.3 and 27.3).
- 3) Certain hauling and heavy equipment with carrying amount of P19.5 million, P23.7 million and P25.5 million as of December 31, 2014, 2013 and 2012, respectively, are carried under finance leases (see Notes 12.5, 17.6 and 30.5).
- 4) The Group's tankers were revalued by an independent appraiser in each year from 2009. Revaluation reserves amounted to P407.9 million, P286.6 million and P294.1 million as of December 31, 2014, 2013 and 2012, respectively (see Notes 12.2 and 27.5).
- 5) Interest payments amounting to P70.7 million, P71.4 million and P77.8 million in 2014, 2013 and 2012, respectively, were capitalized as part of the cost of property and equipment (see Notes 12.3 and 17).

See Notes to Consolidated Financial Statements.

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the Parent Company) was incorporated in the Philippines on May 8, 2002 and is 41% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines.

The Parent Company's shares of stock are listed with the Philippine Stock Exchange (PSE). The Parent Company is presently engaged in trading of petroleum products on wholesale and retail basis and operating of gas stations, oil depots, storage facilities and allied services. The registered office of the Parent Company, which is also its principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

PPHI was incorporated in the Philippines on May 31, 2006. PPHI's primary purpose is to provide management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. PPHI's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The ultimate parent is Udenna Corporation, which is primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing. The ultimate parent company's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The Parent Company has a total of 418 operating retail service stations, comprising of 141 service stations in Luzon, 56 in the Visayas and 221 in Mindanao and a total of 61 service stations under construction as of December 31, 2014.

1.2 Subsidiaries, Associate and their Operations

The Parent Company holds ownership interests in the following entities as of December 31 (the Parent Company and the subsidiaries are collectively referred to as “the Group”):

	<u>2014</u>	<u>2013</u>
P-F-L Petroleum Management, Inc. (PPMI)	100%	100%
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	100%	100%
Phoenix Petroterminals & Industrial Park Corp. (PPIPC)	100%	100%
Subic Petroleum Trading and Transport Phils., Inc. (SPTT)	100%	100%
Chelsea Shipping Corp. (CSC)	100%	100%
Bunkers Manila, Inc. (BMI)*	100%	100%
Michael, Inc. (MI)*	100%	100%
PNX – Chelsea Shipping Corp. (PNX – Chelsea)*	100%	100%
Chelsea Ship Management Marine Services Corp. (CSMMSC)*	100%	100%
Fortis Tugs Corp. (FTC)*	100%	100%
Norse/Phil Marine Services Corp. (NPMSC)**	45%	45%

* *Wholly-owned subsidiaries of CSC*

** *Associate of CSC*

All the subsidiaries were organized and incorporated in the Philippines.

PPMI is primarily engaged in organizing, managing, administering, running and supervising the operations and marketing of various kinds of services-oriented companies such as petroleum service stations. PPMI was registered with the Securities and Exchange Commission (SEC) on January 31, 2007.

PGMI was registered with the SEC on July 31, 2006 to engage in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. PGMI has temporarily ceased its operation since 2008.

PPIPC is engaged in real estate development. PPIPC was registered with the SEC on March 7, 1996. PPIPC is also registered with the Housing and Land Use Regulatory Board (HLURB) under Executive Order No. 648 and was granted to sell parcels of land on the Group’s project, the Phoenix Petroleum Industrial Park (the Park).

SPTT was registered with the SEC on February 20, 2007 and is engaged in buying and selling, supply and distribution, importation and exportation, storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use. It does not carry any inventory at any given time.

CSC was incorporated in the Philippines on July 17, 2006 and started commercial operations on January 1, 2007 and is engaged in maritime trade through conveying, carrying, loading, transporting, discharging and storing of petroleum products, goods and merchandise of every kind, over waterways in the Philippines.

BMI was registered with the SEC on March 7, 2000 to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines. Aside from international bunkering, BMI also ventures into hauling of marine fuel and petroleum products for major oil companies.

MI, which was registered with the SEC on December 26, 1957 and whose corporate life was approved to be extended for another 50 years by the SEC on May 6, 2008, is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule. MI is also engaged in the trading of fuel oil.

PNX – Chelsea was incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.

CSMMSC was incorporated on March 30, 2012 to carry on the business of ship management and to act as agent, broker, ship chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

FTC was incorporated on April 8, 2013 and started commercial operations on November 8, 2013. It is engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbours, and other waterways between the various ports of the Philippines, and to acquire by purchase, charter, lease or modes recognized by law of obtaining title to or use of such equipment and properties, real or personal, which may be necessary to achieve such purpose.

NPMSC was incorporated on January 30, 2013 to engage in the business of providing technical ship services and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals, and to equip any and all kinds of ships, barges and vessels of every class and description owned by any shipping corporation. NPMSC started commercial operations on June 10, 2013.

PPMI's registered office is located at Penthouse, Valero Tower, 122 Valero Street, Salcedo Village, Makati City and its principal place of business is located at Stella Hizon Reyes Road, Barrio Pampang, Davao City.

The registered office of PGMI, CSC, BMI, MI and PNX – Chelsea, which is also their principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampang, Davao City.

PPIPC's registered office is located at 4th Floor, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City and its principal place of business is located at 26th Floor, The Fort Legend Tower, 3rd Avenue corner 31st Street, The Fort Global City, Taguig City.

The registered office of SPTT, which is also its principal place of business, is located at Units 113 and 115 Subic International Hotel, Alpha Building, Rizal Highway, Subic Bay Freeport Zone, Zambales.

The registered address of CSMMSC and FTC, which is also their principal place of business, is located at the 26/F, Fort Legend Towers, 3rd Ave. corner 31st St., Bonifacio Global City, Taguig City.

The registered office of NPMSC, which is also its principal place of business, is located at 2/F Harbor Centre II Bldg., Railroad and Delgado Sts., South Harbor, Port Area, Manila.

1.3 Acquisition of CSC

On September 6, 2012, CSC became a wholly owned subsidiary of the Parent Company upon the approval of the Parent Company's stockholders of the acquisition of the 100% of CSC's outstanding shares from Udenna Management Resources Corp. (UMRC), a related party under common ownership (see Note 27.3). The acquisition was initially approved by the Parent Company's Board of Directors (BOD) on July 6, 2012 and was subsequently ratified by the Parent Company's stockholders on September 6, 2012.

1.4 Approval of Consolidated Financial Statements

The consolidated financial statements of the Group as of and for the year ended December 31, 2014 (including the comparative consolidated financial statements for the years ended December 31, 2013 and 2012) were authorized for issue by the Parent Company's BOD on February 11, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single consolidated statement of comprehensive income.

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

(c) *Functional and Presentation Currency*

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

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

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2014 that are Relevant to the Group*

In 2014, the Group adopted for the first time the following amendments and interpretation to PFRS that are relevant to the Group and effective for the consolidated financial statements for the annual period beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instrument: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
PFRS 10, 12 and PAS 27 (Amendments)	:	Consolidated Financial Statements, Disclosure of Interests in Other Entities, Separate Financial Statements – Exemption from Consolidation for Investment Entities
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies

Discussed in the succeeding pages are the relevant information about these amended standards and interpretation.

- (i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The amendment has been applied retrospectively in accordance with its transitional provisions. The Group's existing offsetting and settlement arrangements for its financial instruments with its counterparties are not affected by the amendment; hence, such did not have an impact on the presentation of financial assets and financial liabilities on the Group's consolidated financial statements for any periods presented.
- (ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the consolidated financial statements. This amendment did not result in additional disclosures in the consolidated financial statements since the Group did not recognize or reverse impairment losses on its non-financial assets during the year.
- (iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor does it applies hedge accounting, the amendment did not have any impact on the Group's consolidated financial statements.

- (iv) PFRS 10, PFRS 12 and PAS 27 (Amendments), *Consolidated Financial Statements, Disclosures of Interests in Other Entities, Separate Financial Statements – Exemption from Consolidation for Investment Entities*. The amendments define the term “investment entity” and provide to such an investment entity an exemption from the consolidation of particular subsidiaries and instead require to measure investment in each eligible subsidiary at fair value through profit or loss in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, both in its consolidated or separate financial statements, as the case maybe. The amendments also require additional disclosures about the details of the entity’s unconsolidated subsidiaries and the nature of its relationship and certain transactions with those subsidiaries. This amendment had no significant impact on the Group’s consolidated financial statements as the Group does not have investment entities.
 - (v) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the consolidated financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Group’s consolidated financial statements.
- (b) *Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014 which are adopted by the FRSC, subject to the approval of the BOA. Management will adopt the following relevant pronouncements in accordance with their transitional provisions, and, unless otherwise stated, none of these are expected to have significant impact on the Group’s consolidated financial statements:

- (i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan’s contribution formula or on a straight-line basis) for the gross benefit.

- (ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the consolidated financial statements. Accordingly, it clarifies that materiality applies to the whole consolidated financial statements and an entity shall not reduce the understandability of the consolidated financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the consolidated financial statements.
- (iii) PAS 16 (Amendment), *Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.
- (iv) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.
- (v) PFRS 10 (Amendment), *Consolidated Financial Statements* and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

- (vi) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
 - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
 - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Group does not expect to implement and adopt any version of PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (vii) FFRS 12 (Amendment), *Disclosures of Interests in Other Entities – Investment Entities: Applying the Consolidation Exception* (effective from January 1, 2016). The amendment clarifies that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by PFRS 12.
- (viii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but management does not expect those to have a material impact on the Group's consolidated financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

- (a) PAS 16 (Amendment), *Property, Plant and Equipment*. The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- (b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the information required to be disclosed in the consolidated financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.
- (c) PFRS 3 (Amendment), *Business Combinations*. The amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.
- (d) PFRS 8 (Amendment), *Operating Segments*. The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

- (e) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

- (a) PFRS 3 (Amendment), *Business Combinations*. The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, *Joint Arrangement*, in the financial statements of the joint arrangement itself.
- (b) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.
- (c) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.

Annual Improvements to PFRS (2012-2014 Cycle)

- (a) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.
- (b) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries (see Note 1) after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

The Parent Company accounts for its investments in subsidiaries and an associate as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Parent Company has control. The Parent Company controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control.

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

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Parent Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill (see Note 16). If the consideration received is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.13).

On the other hand, business combinations arising from transfers or acquisition of interests in entities that are under the common control of the shareholder that controls the Group are normally accounted for under the pooling-of-interests method and reflected in the consolidated financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities acquired are recognized in the Group's consolidated financial statements at the carrying amounts previously recognized. The difference between the consideration transferred and the net assets of the subsidiary acquired is recognized as Other Reserves as part of the equity (see Notes 2.13 and 2.24).

(b) *Investment in an Associate*

Associates are those entities over which the Parent Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.17).

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

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

The Parent Company holds interests in various subsidiaries and in an associate as presented in Notes 1 and 13.

2.4 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

Currently, the financial assets category relevant to the Group is loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables, Due from Related Parties, Restricted Deposits, and Refundable Rental Deposits (presented as part of Other Non-Current Assets in the consolidated statement of financial position). Cash and cash equivalents include cash on hand, savings and demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Refundable rental deposits are initially recognized at fair value. Interest on the rental deposits arising from subsequent amortization is accounted for using the effective interest method and is presented as part of Finance Income under Other Charges (Income) in the consolidated statement of financial position. The excess of the principal amount of the deposit over its present value is immediately recognized as deferred minimum lease payments (presented as part of Other Non-Current Assets in the consolidated statement of financial position). Meanwhile, rent expense arising from subsequent amortization of deferred minimum lease payments is accounted for using the straight-line method over the lease term and is presented as part of Rent under Selling and Administrative Expenses in the consolidated statement of comprehensive income.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' 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 or current effective interest rate determined under the contract if the loan has a variable interest rate.

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 profit or loss.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

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

2.5 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. The cost of inventories include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.6 Land Held for Sale and Land Development Costs

Land held for sale and land development costs are valued at the lower of cost and net realizable value. Land held for sale and land development costs includes the cost of land and actual development costs incurred as at the end of reporting period. Interest incurred during the development of the project is capitalized (see Note 2.19).

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of developing and the estimated costs necessary to make the sale.

2.7 Prepayments and Other Current Assets

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

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

2.8 Land Held For Future Development

Land held for future development is valued at the lower of cost and net realizable value. Cost of land held for future development includes purchase price and other costs directly attributable to the acquisition of land.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of developing and estimated costs necessary to make the sale.

2.9 Property and Equipment

Land is stated at cost less any impairment in value. Tankers are measured at revalued amount less accumulated depreciation. All other property and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred, except for periodic drydocking costs performed at least every two years on the vessel, which are capitalized (see Note 2.10).

Following initial recognition, tankers are carried at revalued amounts which are the fair values at the date of revaluation, as determined by independent appraisers, less subsequent accumulated depreciation and any accumulated impairment losses.

Revalued amounts represent fair values determined based on appraisals by external professional valuer once every two years unless more frequently if market factors indicate a material change in fair value (see Note 5.4).

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

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

Marine Tankers	30 years
Buildings, depot and pier facilities	5-25 years
Transportation and other equipment	1-10 years
Vessel equipment	5 years
Hauling and heavy equipment	1-5 years
Gasoline station equipment	1-5 years
Office furniture and equipment	1-3 years

Leasehold and land improvements are amortized over the terms of the related leases or the useful lives of the improvements, whichever is shorter.

Hauling and heavy equipment held under finance lease agreements (see Note 2.15) are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

Construction in progress represents properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.19) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

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

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

2.10 Drydocking Costs

Drydocking costs are considered major repairs that preserve the life of the vessel. As an industry practice, costs associated with drydocking are amortized over two years or until the next drydocking occurs, whichever comes earlier. When significant drydocking expenditures occur prior to their expiry, any remaining unamortized balance of the preceding drydocking costs is expensed in the month of the subsequent drydocking.

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

The carrying amount of drydocking costs, presented as part of the Other Non-current Asset account in the consolidated statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.17).

The carrying amount of drydocking costs is derecognized upon derecognition of the related tanker. The computed gain or loss arising on the derecognition of the tanker takes into consideration the carrying amount of drydocking costs and is included in profit or loss in the year the related tanker is derecognized (see Note 2.9).

2.11 Financial Liabilities

Financial liabilities, which include interest-bearing loans and borrowings, trade and other payables (excluding tax-related payables), due to related parties and security deposits (presented under Other Non-Current Liabilities in the consolidated statement of financial position), are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.19). All other interest related charges are recognized as an expense in the consolidated statement of comprehensive income under the caption Finance Costs.

Interest-bearing loans and borrowings are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Obligations under finance lease (included as part of Interest-bearing Loans and Borrowings) are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments, at the inception of the lease (see Notes 2.15 and 30.5).

Trade and other payables (excluding tax-related payables), due to related parties and security deposits are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Security deposits are initially recognized at fair value. Interest on the security deposits arising from subsequent amortization is accounted for using the effective interest method and is presented as part of Finance Costs. The excess of the principal amount of the deposit over its present value is immediately recognized as unearned rent (presented as part of Other Non-Current Liabilities in the consolidated statement of financial position). Meanwhile, the rent income arising from subsequent amortization of unearned rent is accounted for using the straight-line method over the lease term and is presented as part of Rent and Storage Income in the consolidated statement of comprehensive income. Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company.

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

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

2.12 Provisions and Contingencies

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

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

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

2.13 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting and pooling-of-interest method.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.17).

Negative goodwill which is the excess of the Group's interest in the fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

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

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

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

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

Under the pooling-of-interest method, similar accounts of the entities are combined on a line-by-line basis except for the equity accounts which were offset with the new shares issued by the new entity in which the difference between the net assets received and the amount of the consideration (shares issued and cash) is accounted for as Other Reserves.

2.14 Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (VAT), rebates and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e. generally when the customer has acknowledged delivery of goods or when the customer has taken undisputed delivery of goods.
- (b) *Charter fees* – Revenue, which consists mainly of charter income arising from the charter hire of tankers, is recognized based on the type of charter arrangement entered into, either under a time charter (TC), a continuing voyage charter (CVC), or a bareboat agreement (BB) [see Note 3.1(d)]. Under a TC and BB, revenue is recognized based on the terms of the contract, with the distinction that in a BB, no administration or technical maintenance is included as part of the agreement. Under a CVC, revenue is recognized upon completion of the voyage; however, appropriate accrual of revenue is made at the end of the reporting period.
- (c) *Fuel service and other revenues, port revenues and storage income* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. This account includes franchise income, which has minimal amount. In addition, this includes revenue arising from port and cargo handling services.
- (d) *Rent income* – Revenue is recognized on a straight-line basis over the lease term (see Note 2.15).
- (e) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in the profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.19).

The cost of real estate sold, if any, before the completion of the development is determined based on the actual costs incurred to date which include the cost of land plus estimated costs to complete the project development. The estimated expenditures for the development of sold real estate, as determined by project engineers, are charged to Cost of Sales and Services account in the consolidated statement of comprehensive income with a corresponding credit to accrued expenses presented under the Trade and Other Payables account in the consolidated statement of financial position. Effects of any revisions in the total project cost estimates are recognized in the year in which the changes become known.

2.15 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

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

Finance lease obligations, net of finance charges, are included in Interest-bearing Loans and Borrowings account in the consolidated statement of financial position.

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

(b) Group as Lessor

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

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

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

2.16 Foreign Currency Transactions and Translations

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

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

2.17 Impairment of Non-financial Assets

The Group's property and equipment, investment in an associate, drydocking costs (presented as part of Other Non-current Assets in the consolidated statement of financial position), goodwill and other non-financial assets are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, except for goodwill that is tested for impairment at least annually.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

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

Except for goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss, except impairment loss on goodwill (see Note 2.13), is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.18 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

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

(b) Post-employment Defined Contribution Plans

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

(c) Termination Benefits

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

(d) Profit-sharing and Bonus Plans

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

(e) Compensated Absences

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

2.19 Borrowing Costs

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

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

2.20 Income Taxes

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for land held for sale and land development costs, the carrying amount of such properties is presumed to be recovered entirely through sale, unless the presumption is rebutted, that is when the land held for sale and development costs are held within the business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.21 Offsetting Financial Instruments

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

2.22 Related Party Transactions and Relationships

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

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

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

2.23 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's BOD and management committee responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 29 which represent the main products and services provided by the Group.

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

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements, except that post-employment benefit expenses are not included in arriving at the operating profit of the operating segments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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

2.24 Equity

Preferred and common stock represents the nominal value of shares that have been issued.

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

Revaluation reserves comprise of gains and losses arising from the revaluation of the Group's tankers and from the remeasurements of post-employment defined benefit obligation, net of applicable taxes.

Other reserves pertain to the difference between the Parent Company's cost of investment and the acquired net assets of CSC accounted for under the pooling-of-interest method (see Notes 2.3 and 2.13).

Retained earnings include all current and prior period results of operations as reported in the profit or loss section of the consolidated statement of comprehensive income, reduced by the amounts of dividends declared.

2.25 Earnings per Share

Basic earnings per share (EPS) is computed by dividing net income attributable to common shareholders by the weighted average number of common shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

2.26 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) *Distinguishing Operating and Finance Leases*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement, either as a lessor or a lessee, as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Certain hauling and heavy equipment are accounted for under finance lease.

(b) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and disclosures on relevant contingencies are presented in Note 30.

(c) *Qualifying Assets on Borrowing Costs*

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Determining if an asset is a qualifying asset will depend on the circumstances and requires the use of judgment in each case. In making judgment, the management takes into account its intention when it determines whether the asset is a qualifying asset and considers the facts and circumstances and uses its judgment to determine whether an asset takes a substantial period of time to get ready for its intended use or sale. Based on the facts and circumstances affecting the Group's qualifying asset, the management concludes that the Group's retail station, depot facilities, tankers and land held for sale and development costs are qualifying assets as the management assesses that it takes substantial period of time for the completion of those assets.

(d) *Revenue Recognition for Charter Fee Arrangements*

In determining the appropriate method to use in recognizing the Group's revenue from TC, CVC and BB, management considers the following criteria: (1) whether the fulfilment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract (see Note 2.14). Otherwise, revenue will be recognized based on contract terms when substantial agreed tasks have been rendered.

3.2 Key Sources of Estimation Uncertainty

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

(a) *Impairment of Trade and Other Receivables and Due from Related Parties*

Adequate amount of allowance for impairment is provided for specific and group of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7. The carrying value of due from related parties is shown in Note 26.4. The Group has determined that no impairment loss on Due from Related Parties account should be recognized in 2014, 2013 and 2012.

(b) *Determining Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amounts of inventories, as presented in Note 8, is affected by price changes and action from the competitors. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial reporting period.

(c) *Determining Net Realizable Value of Land Held for Sale and Land Development Costs and Land Held for Future Development*

In determining the net realizable value of land held for sale and land development costs and land held for future development, management takes into account the most reliable evidence available at the time the estimates are made. Future realization of the carrying amounts of land held for sale and development costs and land held for future development is affected by price changes and demand from the target market segments. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments within the next financial reporting period.

(d) *Estimating Useful Lives of Property and Equipment and Drydocking Costs*

The Group estimates the useful lives of property and equipment and drydocking costs based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and drydocking costs are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment and drydocking costs are analyzed in Notes 12 and 15, respectively. Based on management's assessment as of December 31, 2014 and 2013, there is no change in the estimated useful lives of the property and equipment and drydocking costs during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Fair Value Measurement of Tankers*

The Group's tankers, presented as part of the Property and Equipment account, are carried at revalued amount at the end of the reporting period. In determining the fair values of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 5.4.

For tankers with appraisals conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of the Group's tankers.

A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on the Group's tankers are disclosed in Note 12.

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2014 and 2013 will be fully utilized in the coming years. The carrying value of deferred tax assets as of December 31, 2014 and 2013 is disclosed in Note 25.

(g) *Estimating Liability for Land Development*

Obligations to complete development of real estate are based on actual costs and project estimates of the Group's contractors and technical personnel. These costs are reviewed at least annually and are updated if expectations differ from previous estimates. Liability to complete the project for sold units included in the determination of cost of sales amounting to P0.1 million as of December 31, 2014 and 2013, are presented as part of accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 18).

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

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 23.2.

(i) *Estimating Development Costs*

The accounting for real estate requires the use of estimates in determining costs and gross profit recognition. Cost of real estate sold (under Cost of Sales and Services in the consolidated statement of comprehensive income) includes estimated costs for future development. The development cost of the project is estimated by the Group's contractors and technical personnel. Many factors influence a project development cost estimate, which include among others, the geographic location of the project, quantity of materials and item availability, general soil conditions and scheduling of resources including labor and equipment. At the end of reporting period, these estimates are reviewed and revised to reflect the current conditions, when necessary.

(j) *Impairment of Non-Financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to discount such. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.17). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2014, 2013 and 2012.

(k) *Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in profit or loss in the subsequent period.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk and liquidity risk.

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

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described in the succeeding pages.

4.1 Market Risk

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

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's sales to a certain customer and, fuel and tanker importations, which are primarily denominated in U.S. dollars (US\$). The liability covering the fuel importation is covered by letter of credits which is subsequently closed to Philippine peso trusts receipts (TRs). Further, the Group has several U.S. dollar loans from certain banks which were used to finance its capital expenditures (see Note 17). The Group also holds U.S. dollar-denominated cash and cash equivalents.

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

Foreign currency-denominated financial assets and financial liabilities, translated into Philippine pesos at the closing rate follow:

	<u>2014</u>	<u>2013</u>
Financial assets	P4,383,654,349	P 1,174,762,469
Financial liabilities	(2,988,051,570)	(1,465,688,449)
Net exposure	<u>P1,395,602,779</u>	<u>(P 290,925,980)</u>

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine peso against U.S dollar exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	<u>2014</u>	<u>2013</u>
Reasonably possible change in rate	27.8%	23.4%
Effect in profit before tax	P 387,977,573	(P 68,076,679)
Effect in equity after tax	271,584,301	(47,653,675)

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

(b) Interest Rate Risk

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually made at fixed rates. As of December 31, 2014 and 2013, the Group is exposed to changes in market interest rates through its cash and cash equivalents and bank borrowings, which are subject to variable interest rates (see Notes 6 and 17). All other financial assets and liabilities have fixed rates.

Cash in banks are tested on a reasonably possible change of +/-0.96% and +/-1.10% in 2014 and 2013, respectively. Banks loans subject to variable interest rates are tested on a reasonably possible change of +/-0.68% and +/-1.67% for Philippine peso and +/-0.31% and +/-0.69% for U.S. dollar in 2014 and 2013, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of the each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/-P68.2 million and +/- P85.9 million for the years ended December 31, 2014 and 2013, respectively.

(c) *Other Price Risk*

The Group's market price risk arises from its purchases of fuels. It manages its risk arising from changes in market prices by monitoring the daily movement of the market price of fuels and to some extent, using forward and other similar contracts to manage the fluctuation of the fuel price.

4.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting of loans and selling goods and services to customers including related parties; and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

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

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	6	P 555,508,720	P 357,220,520
Trade and other receivables – net	7	3,789,225,134	6,402,695,635
Due from related parties	26.4	10,373,356	2,747,994
Restricted deposits	10, 15	71,670,538	96,683,441
Refundable rental deposits	15	<u>172,226,696</u>	<u>180,951,286</u>
		<u>P 4,599,004,444</u>	<u>P7,040,298,876</u>

The Group's management considers that all the above financial assets that are not impaired or past due for each reporting dates are of good credit quality.

None of the financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) *Trade and Other Receivables and Due from Related Parties*

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good.

The Group has a Credit Committee which approves credit lines given to its customers. The Group's Credit and Collection Department, which regularly reports to the Credit Committee, continuously monitors customers' performance and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

Some of the unimpaired trade and other receivables are past due at the end of the reporting date. The age of financial assets past due but not impaired is as follows:

	<u>2014</u>	<u>2013</u>
Not more than one month	P 205,924,748	P 182,306,369
More than one month but not more than two months	152,505,688	149,532,251
More than two months but not more than six months	87,978,949	120,856,868
More than six months but not more than one year	74,091,227	69,157,737
More than one year	<u>86,449,908</u>	<u>45,598,603</u>
	<u>P 606,950,520</u>	<u>P 567,451,828</u>

In respect of due from related parties, the Group has assessed that these advances are collectible and the credit risk exposure is considered to be low.

4.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

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

As of December 31, 2014, the Group's financial liabilities have contractual maturities which are summarized as follows:

	<u>Current</u>		<u>Non-current</u>
	<u>Within 6 months</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>
Interest-bearing loans and borrowings	P 7,011,246,094	P 1,692,894,035	P 6,116,547,965
Trade and other payables (excluding tax-related payables)	3,193,805,959	517,524,441	-
Due to related parties	17,204,725	-	-
Security deposits	-	-	158,325,351
	<u>P10,222,256,778</u>	<u>P 2,210,418,476</u>	<u>P 6,274,873,316</u>

This compares to the maturity of the Group's financial liabilities as of December 31, 2013 as presented below.

	<u>Current</u>		<u>Non-current</u>
	<u>Within 6 months</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>
Interest-bearing loans and borrowings	P 6,050,573,611	P 2,726,331,756	P 6,007,722,903
Trade and other payables (excluding tax-related payables)	818,142,220	451,750,258	-
Due to related parties	33,991,925	30,169,318	-
Security deposits	-	-	275,962,723
	<u>P 6,902,707,756</u>	<u>P 3,208,251,332</u>	<u>P 6,283,685,626</u>

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

5. CATEGORIES, OFFSETTING AND FAIR VALUE MEASUREMENTS AND DISCLOSURES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated statements of financial position are presented below.

	Notes	2014		2013	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	6	P 555,508,720	P 555,508,720	P 357,220,520	P 357,220,520
Trade and other receivables-net	7	3,789,225,134	3,789,225,134	6,402,695,635	6,402,695,635
Due from related parties	26.4	10,373,356	10,373,356	2,747,994	2,747,994
Restricted deposits	10, 15	71,670,538	71,670,538	96,683,441	96,683,441
Refundable rental deposits	15	<u>172,226,696</u>	<u>172,226,696</u>	<u>180,951,286</u>	<u>180,951,286</u>
		P 4,599,004,444	P 4,599,004,444	P 7,040,298,876	P 7,040,298,876
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	17	P 13,842,643,397	P 13,842,643,397	P 13,751,738,817	P 13,751,738,817
Trade and other payables*	18	3,711,330,400	3,711,330,400	1,269,892,478	1,269,892,478
Due to related parties	26.4	17,204,725	17,204,725	64,161,243	64,161,243
Security deposits	19	<u>158,325,351</u>	<u>158,325,351</u>	<u>275,962,723</u>	<u>275,962,723</u>
		P 17,729,503,873	P 17,729,503,873	P 15,361,755,261	P 15,361,755,261

*Excludes tax-related payables

See Notes 2.4 and 2.11 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Fair Value Hierarchy

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

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

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

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

5.3 Fair Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below and in the next page summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

	Notes	2014			
		Level 1	Level 2	Level 3	Total
Financial Assets					
<i>Loans and receivables:</i>					
Cash and cash equivalents	6	P 555,508,720	P -	P -	P 555,508,720
Trade and other receivables - net	7	-	-	3,789,225,134	3,789,225,134
Due from related parties	26.4	-	-	10,373,356	10,373,356
Restricted deposits	10, 15	71,670,538	-	-	71,670,538
Refundable rental deposits	15	-	-	172,226,696	172,226,696
		P 627,179,258	P -	P 3,971,825,186	P 4,599,004,444

		2014			
Notes	Level 1	Level 2	Level 3	Total	
Financial Liabilities					
<i>Financial liabilities at amortized cost:</i>					
Interest-bearing loans and borrowings	17	P -	P -	P 13,842,643,397	P 13,842,643,397
Trade and other payables	18	-	-	3,711,330,400	3,711,330,400
Due to related parties	26.4	-	-	17,204,725	17,204,725
Security deposits	19	-	-	158,325,351	158,325,351
		<u>P -</u>	<u>P -</u>	<u>P 17,729,503,873</u>	<u>P 17,729,503,873</u>
		2013			
Notes	Level 1	Level 2	Level 3	Total	
Financial Assets					
<i>Loans and receivables:</i>					
Cash and cash equivalents	6	P 357,220,520	P -	P -	P 357,220,520
Trade and other receivables - net	7	-	-	6,402,695,635	6,402,695,635
Due from related parties	26.4	-	-	2,747,994	2,747,994
Restricted deposits	10, 15	96,683,441	-	-	96,683,441
Refundable rental deposits	15	-	-	180,951,286	180,951,286
		<u>P 453,903,961</u>	<u>P -</u>	<u>P 6,586,394,915</u>	<u>P 7,040,298,876</u>
Financial Liabilities					
<i>Financial liabilities at amortized cost:</i>					
Interest-bearing loans and borrowings	17	P -	P -	P 13,751,738,817	P 13,751,738,817
Trade and other payables	18	-	-	1,269,892,478	1,269,892,478
Due to related parties	26.4	-	-	64,161,243	64,161,243
Security deposits	19	-	-	275,962,723	275,962,723
		<u>P -</u>	<u>P -</u>	<u>P 15,361,755,261</u>	<u>P 15,361,755,261</u>

For financial asset with fair value included in Level 1, management considers that the carrying amount of this short-term financial instrument approximates its fair value.

The fair values of the financial assets and financial liabilities included in Level 3 in the preceding page, which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. Since not all significant inputs required to determine the fair value of the other instruments not included in Level 1 are observable, these are included in Level 3.

5.4 Fair Value Measurements for Non-financial Assets

a) Determining Fair Value of Tankers

The fair values of the Group's tankers, included as part of the Property and Equipment account, were determined based on the appraisal reports of a professional and independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties. To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the tanker.

In estimating the fair value of these tankers, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's non-financial assets indicated above is their current use.

The Level 3 fair value of tankers was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

b) Other Fair Value Information

The reconciliation of the carrying amount of tankers included in Level 3 is presented in Note 12.2.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2014 and 2013.

5.5 Offsetting of Financial Assets and Financial Liabilities

The following financial assets with net amounts presented in the consolidated statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

		December 31, 2014					
		Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
		Financial assets	Financial liabilities set off	financial position	Financial instruments	Cash collateral received	Net amount
Trade and other receivables	P	4,031,673,199	(P 242,448,065)	P 3,789,225,134	P -	P -	P 3,789,225,134
Restricted deposits		70,406,743	-	70,406,743	(70,406,743)	-	-
	P	4,102,079,942	(P 242,448,065)	P 3,859,631,877	(P 70,406,743)	P -	P 3,789,225,134

		December 31, 2013					
		Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
		Financial assets	Financial liabilities set off	financial position	Financial instruments	Cash collateral received	Net amount
Restricted deposits	P	95,419,646	P -	P 95,419,646	(P 95,419,646)	P -	P -

The following financial liabilities with net amounts presented in the consolidated statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

		December 31, 2014					
		Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
		Financial liabilities	Financial assets set off	financial position	Financial instruments	Cash collateral received	Net amount
Interest-bearing loans and borrowings	P	13,842,643,397	P -	P 13,842,643,397	(P 70,406,743)	P -	P 13,772,236,654
Trade and other payables		3,769,778,465	(58,448,065)	3,711,330,400	-	-	3,711,330,400
Security deposits		342,325,351	(184,000,000)	158,325,351	-	-	158,325,351
	P	17,954,747,213	(P 242,448,065)	P 17,712,299,148	(P 70,406,743)	P -	P 17,641,892,405

		December 31, 2013					
		Gross amounts recognized in the consolidated statement of financial position		Net amount presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
		Financial liabilities	Financial assets set off	financial position	Financial instruments	Cash collateral received	Net amount
Interest-bearing loans and borrowings	P	13,751,738,817	P -	P 13,751,738,817	(P 95,419,646)	P -	P 13,656,319,171

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	<u>2014</u>	<u>2013</u>
Revolving fund	P 1,131,815	P 21,213,984
Cash on hand	10,335,747	7,731,306
Cash in banks	538,072,742	249,585,435
Short-term placements	<u>5,968,416</u>	<u>78,689,795</u>
	<u>P 555,508,720</u>	<u>P 357,220,520</u>

Cash in banks generally earn interest based on daily bank deposit rates ranging from 0.10% to 3.00% per annum in all years presented. Short-term placements are made for varying periods ranging from 7 to 90 days and earn effective interest ranging from 2.10% to 7.10% per annum in all years presented. Interest income earned amounted to P2.8 million, P7.8 million and P9.4 million in 2014, 2013 and 2012, respectively, and is included as part of Finance Income in the statements of comprehensive income (see Note 22.2).

The balances of cash in banks as of December 31, 2014 and 2013 exclude restricted time deposits amounting to P71.7 million and P96.7 million, respectively, which are shown as Restricted Deposits account (see Note 10) and restricted time deposits under Other Non-current Assets (see Note 15) in the consolidated statements of financial position. Such amounts are not available for the general use of the Group under the loan agreement (see Note 17.1).

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Trade receivables:			
Third parties		P 3,771,130,305	P 6,323,073,299
Related parties	26.1	<u>25,524,583</u>	<u>37,334,222</u>
		<u>3,796,654,888</u>	<u>6,360,407,521</u>
Advances to suppliers:			
Third parties	30.7	4,001,272,283	924,304,898
Related parties	26.2	<u>10,024,800</u>	<u>2,000,000</u>
		<u>4,011,297,083</u>	<u>926,304,898</u>
Non-trade receivables		<u>242,324,636</u>	<u>237,344,364</u>
Advances subject to liquidation		<u>32,189,974</u>	<u>14,793,393</u>
Other receivables		<u>34,636,908</u>	<u>49,257,584</u>
		8,117,103,489	7,588,107,760
Allowance for impairment		(<u>284,391,298</u>)	(<u>244,313,834</u>)
		<u>P 7,832,712,191</u>	<u>P 7,343,793,926</u>

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables, which are due from customers, were found to be impaired; hence, adequate amount of allowance for impairment has been recorded as of December 31, 2014 and 2013. Impairment losses amounted to P40.1 million, P18.0 million and P37.9 million in 2014, 2013 and 2012, respectively, and are presented as part of Finance Costs under the Other Charges (Income) account in the consolidated statements of comprehensive income (see Note 22.1).

A reconciliation of the allowance for impairment at the beginning and end of 2014 and 2013 is shown below.

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Balance at beginning of year		P 244,313,834	P 226,354,832
Impairment loss for the year	22.1	<u>40,077,464</u>	<u>17,959,002</u>
Balance at end of year		<u>P 284,391,298</u>	<u>P 244,313,834</u>

Trade and other receivables do not bear any interest. All receivables are subject to credit risk exposure (see Note 4.2).

Advances to suppliers include amounts initially paid to foreign corporation amounting to P89.6 million (US\$2.0 million) as of December 31, 2014, in relation to the Memorandum of Agreement (MOA) entered into by PNX – Chelsea for the importation of one unit of oil tanker vessel (MT Chelsea Denise II) from China for a total consideration of \$7.3 million.

Non-trade receivables mostly pertain to receivable from locators and accrued rent and franchise income. Non-trade receivables also include P12.9 million and P12.7 million worth of reimbursable costs incurred by the Group as of December 31, 2014 and 2013, respectively, in relation to its TC agreement with a certain third party.

Other receivables include partial claims from an insurance company amounting to P32.9 million and P31.9 million as of December 31, 2014 and 2013, respectively, which is related to an incident encountered by certain vessels of the Group and one of FTC's tugboats. The amount represents the actual costs incurred for the vessels, net of the applicable deductible clause. In 2014, the Group received a notice of the final amount to be settled by the insurance company based on the computations provided by the adjuster. Out of the outstanding claim of the Group of P32.9 million, only P29.0 million will be collectible; hence, the remaining balance of P3.9 million was recognized as Loss on settlement of insurance claims, which is presented as part of Finance Costs in the 2014 consolidated statement of comprehensive income (see Note 22.1).

Certain trade receivables amounting to P33.3 million and P15.5 million as of December 31, 2014 and 2013, respectively, were used as collateral to the Group's interest-bearing loans and borrowings [see Notes 17.5(a), 17.5(b) and 17.5(e)].

8. INVENTORIES

Inventories which are stated at cost are broken down as follows:

	<u>2014</u>	<u>2013</u>
Fuel	P2,564,596,748	P 3,589,175,766
Lubricants	306,133,400	223,353,772
Others	<u>98,921</u>	<u>3,135</u>
	<u>P2,870,829,069</u>	<u>P 3,812,532,673</u>

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of P2,138.5 million and P3,554.4 million as of December 31, 2014 and 2013, respectively, have been released to the Group in trust for the bank. The Group is accountable to the bank for the trusted inventories or their sales proceeds (see Note 17.1).

There were no inventory write-down in all of the years presented.

An analysis of the cost of inventories included in the cost of fuels and lubricants sold in each year is presented in Note 20.1.

9. LAND HELD FOR SALE AND LAND DEVELOPMENT COSTS

The land held for sale and land development costs stated at cost relate to the following as of December 31:

	<u>2014</u>	<u>2013</u>
Land held for sale	P 450,786,035	P 483,927,707
Land development costs	<u>35,199,776</u>	<u>19,744,767</u>
	<u>P 485,985,811</u>	<u>P 503,672,474</u>

The land held for sale was used as security for the Group's installment payable with Land Bank of the Philippines (LBP) [see Note 17.2(a)].

Land development costs pertain to expenditures for the development and improvement of the land held for sale of the Park.

10. RESTRICTED DEPOSITS

This account pertains to the time deposits that are used as securities for various banking credit facilities covered by hold-out agreements (see Notes 6 and 17.1) amounting to P70.4 million and P95.4 million as of December 31, 2014 and 2013, respectively. As such, these are restricted as to withdrawals. The proceeds from availment of the banking credit facilities by the Group are used for the purpose of purchasing fuel and lubricant supplies (see Note 17.1). Interest rates for this type of deposit range from 2.40% to 5.98% per annum for all the years presented.

11. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account as of December 31 is shown below:

	<u>2014</u>	<u>2013</u>
Prepayments	P 577,645,850	P 167,721,208
Creditable withholding tax	353,395,385	174,300,564
Supplies	215,476,323	144,038,688
Others	<u>114,982</u>	<u>3,852,717</u>
	<u>P 1,146,632,540</u>	<u>P 489,913,177</u>

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2014 and 2013 are shown below.

	<u>Buildings, Depot and Pier Facilities</u>	<u>Leasehold and Land Improvements</u>	<u>Gasoline Station Equipment</u>	<u>Office Furniture and Equipment</u>	<u>Hauling and Heavy Equipment</u>	<u>Transportation and Other Equipment</u>	<u>Tankers</u>	<u>Vessel Equipment</u>	<u>Land</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2014											
Cost or valuation	P 3,824,032,006	P 97,172,129	P 1,946,995,014	P 84,756,860	P 579,287,791	P 75,106,949	P 4,440,508,081	P 265,909,110	P 641,719,262	P 996,711,879	P 12,952,199,081
Accumulated depreciation and amortization	(793,867,463)	(47,067,752)	(372,424,732)	(67,337,047)	(293,248,875)	(66,443,159)	(548,682,231)	(74,518,918)	-	-	(2,263,590,177)
Net carrying amount	<u>P 3,030,164,543</u>	<u>P 50,104,377</u>	<u>P 1,574,570,282</u>	<u>P 17,419,813</u>	<u>P 286,038,916</u>	<u>P 8,663,790</u>	<u>P 3,891,825,850</u>	<u>P 191,390,192</u>	<u>P 641,719,262</u>	<u>P 996,711,879</u>	<u>P 10,688,608,904</u>
December 31, 2013											
Cost or valuation	P 2,940,015,956	P 68,286,414	P 1,349,077,762	P 76,438,965	P 547,121,336	P 66,714,204	P 3,102,998,637	P 132,261,485	P 358,163,195	P 1,643,322,006	P 10,284,399,960
Accumulated depreciation and amortization	(633,529,168)	(36,606,594)	(189,963,789)	(56,019,329)	(228,201,903)	(63,532,510)	(410,279,603)	(37,776,595)	-	-	(1,655,909,491)
Net carrying amount	<u>P 2,306,486,788</u>	<u>P 31,679,820</u>	<u>P 1,159,113,973</u>	<u>P 20,419,636</u>	<u>P 318,919,433</u>	<u>P 3,181,694</u>	<u>P 2,692,719,034</u>	<u>P 94,484,890</u>	<u>P 358,163,195</u>	<u>P 1,643,322,006</u>	<u>P 8,628,490,469</u>
January 1, 2013											
Cost or valuation	P 3,084,915,381	P 55,656,133	P 407,092,708	P 75,462,927	P 338,114,309	P 63,195,010	P 2,935,833,849	P 109,371,360	P 314,817,213	P 826,164,543	P 8,210,623,433
Accumulated depreciation and amortization	(488,342,896)	(34,646,602)	(90,255,972)	(59,479,148)	(161,728,911)	(58,709,091)	(306,045,202)	(12,629,793)	-	-	(1,211,837,615)
Net carrying amount	<u>P 2,596,572,485</u>	<u>P 21,009,531</u>	<u>P 316,836,736</u>	<u>P 15,983,779</u>	<u>P 176,385,398</u>	<u>P 4,485,919</u>	<u>P 2,629,788,647</u>	<u>P 96,741,567</u>	<u>P 314,817,213</u>	<u>P 826,164,543</u>	<u>P 6,998,785,818</u>

A reconciliation of the carrying amounts at the beginning and end of 2014 and 2013 of property and equipment is shown below.

	<u>Buildings, Depot and Pier Facilities</u>	<u>Leasehold and Land Improvements</u>	<u>Gasoline Station Equipment</u>	<u>Office Furniture and Equipment</u>	<u>Hauling and Heavy Equipment</u>	<u>Transportation and Other Equipment</u>	<u>Tankers</u>	<u>Vessel Equipment</u>	<u>Land</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 2,306,486,788	P 31,679,820	P 1,159,113,973	P 20,419,636	P 318,919,433	P 3,181,694	P 2,692,719,034	P 94,484,890	P 358,163,195	P 1,643,322,006	P 8,628,490,469
Additions	124,963,964	28,885,715	116,897,418	8,181,587	32,527,133	8,977,566	168,433,749	49,842,599	283,556,067	1,722,010,278	2,544,276,076
Revaluation increment	-	-	-	-	-	-	180,637,550	-	-	-	180,637,550
Transfers	760,494,436	-	482,071,526	174,656	308,573	-	988,438,145	83,805,026	-	(2,368,620,405)	(53,328,043)
Cost of asset disposed	(1,442,350)	-	(1,051,692)	(38,348)	(669,251)	(584,821)	-	-	-	-	(3,786,462)
Accumulated depreciation of asset disposed	1,442,350	-	361,152	38,348	614,935	380,134	-	-	-	-	2,836,919
Depreciation and amortization charges for the year	(<u>161,780,645</u>)	(<u>10,461,158</u>)	(<u>182,822,095</u>)	(<u>11,356,066</u>)	(<u>65,661,907</u>)	(<u>3,290,783</u>)	(<u>138,402,628</u>)	(<u>36,742,323</u>)	-	-	(<u>610,517,605</u>)
Balance at December 31, 2014, net of accumulated depreciation and amortization	<u>P 3,030,164,543</u>	<u>P 50,104,377</u>	<u>P 1,574,570,282</u>	<u>P 17,419,813</u>	<u>P 286,038,916</u>	<u>P 8,663,790</u>	<u>P 3,891,825,850</u>	<u>P 191,390,192</u>	<u>P 641,719,262</u>	<u>P 996,711,879</u>	<u>P 10,688,608,904</u>
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 2,596,572,485	P 21,009,531	P 316,836,736	P 15,983,779	P 176,385,398	P 4,485,919	P 2,629,788,647	P 96,741,567	P 314,817,213	P 826,164,543	P 6,998,785,818
Additions	183,013,627	15,921,442	111,480,716	13,553,509	136,021,056	5,279,959	160,317,430	22,890,125	43,345,982	1,433,496,226	2,125,320,072
Revaluation increment	-	-	-	-	-	-	6,847,358	-	-	-	6,847,358
Transfers	(324,753,648)	3,092,242	842,451,561	13,076,749	82,471,859	-	-	-	-	(616,338,763)	-
Cost of asset disposed	(3,159,404)	(6,383,403)	(11,947,223)	(25,654,220)	(9,485,888)	(1,760,765)	-	-	-	-	(58,390,903)
Accumulated depreciation of asset disposed	1,332,633	6,379,948	10,536,181	12,784,339	8,874,799	-	-	-	-	-	39,907,900
Depreciation and amortization charges for the year	(<u>146,518,905</u>)	(<u>8,339,940</u>)	(<u>110,243,998</u>)	(<u>9,324,520</u>)	(<u>75,347,791</u>)	(<u>4,823,419</u>)	(<u>104,234,401</u>)	(<u>25,146,802</u>)	-	-	(<u>483,979,776</u>)
Balance at December 31, 2013, net of accumulated depreciation and amortization	<u>P 2,306,486,788</u>	<u>P 31,679,820</u>	<u>P 1,159,113,973</u>	<u>P 20,419,636</u>	<u>P 318,919,433</u>	<u>P 3,181,694</u>	<u>P 2,692,719,034</u>	<u>P 94,484,890</u>	<u>P 358,163,195</u>	<u>P 1,643,322,006</u>	<u>P 8,628,490,469</u>

12.1 Acquisition of Vessel – MT Chelsea Donatela

In 2013, PNX – Chelsea entered into a MOA with a foreign corporation for the importation of one unit of oil tank vessel (MT Chelsea Donatela) from China for US\$21.2 million [see Note 17.2(g)]. The construction of the vessel was completed in 2014 and had its first voyage on July 15, 2014.

As of December 31, 2013, the vessel is still under construction. Since the vessel is not yet ready for use, the contract price of the vessel, costs incurred for the major improvements made to the vessel and other incidental costs totaling P418.6 million are recognized as construction in progress and presented as part of Property and Equipment - net in the 2013 consolidated statement of financial position. The whole amount was then reclassified to tankers in 2014 upon completion of the vessel.

MT Chelsea Donatela is used as collateral to secure the payment of interest-bearing loan obtained to finance the acquisition of the vessel [see Note 17.2(g)].

12.2 Fair Value of Tankers

The Group's tankers are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses. The revaluation surplus, net of applicable deferred income taxes, is presented as part of Revaluation Reserves account in the equity section of the consolidated statements of financial position (see Note 27.5).

The information on the fair value measurement and disclosures related to the revalued tankers are presented in Note 5.4.

If the tankers were carried using the cost model, the cost, accumulated depreciation and carrying amount as of December 31 would be as follows:

	<u>2014</u>	<u>2013</u>
Cost	P 5,905,411,437	P 4,843,406,123
Accumulated depreciation	(848,386,914)	(671,334,763)
	<u>P5,057,024,523</u>	<u>P 4,172,071,360</u>

12.3 Borrowing Costs

Construction in progress includes accumulated costs incurred on the various depot facilities and retail stations being constructed as part of the Group's expansion program, including capitalized borrowing costs of P70.7 million and P71.4 million as of December 31, 2014 and 2013, respectively, representing the actual borrowing costs incurred on borrowings obtained to fund the retail stations and depot facilities. The average capitalization rate used was 8.5% both in 2014 and 2013.

12.4 Collaterals

Port expansion facilities with carrying value of P192.9 million as of December 31, 2013, are used to secure the Group's installment payable with LBP [see Note 17.2(a)].

Certain property and equipment with an aggregate carrying value of nil and P24.2 million as of December 31, 2014 and 2013, respectively, are mortgaged with local banks [see Note 17.2(b)].

As of December 31, 2014 and 2013, certain tankers owned by the Group with carrying value of P1,483.7 million and P1,420.1 million as of December 31, 2014 and 2013, respectively, were used as collaterals for the interest-bearing loans from various local commercial banks [see Notes 17.2(c), 17.4, 17.5(a) and 17.5(b)].

Moreover, certain service vehicle of the Group with carrying value of P3.0 million and P40.9 million as of December 31, 2014 and 2013, respectively, was used as collateral for mortgage payable (see Note 17.7).

12.5 Finance Lease

The carrying amount of hauling and heavy equipment held under finance lease amounted to P19.5 million and P23.7 million as of December 31, 2014 and 2013, respectively (see Note 17.6).

12.6 Depreciation and Amortization

The amount of depreciation and amortization is allocated as follows:

	Notes	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cost of services	20.2	P 201,694,106	P 149,726,182	P 122,984,227
Selling and administrative expenses		<u>408,823,499</u>	<u>334,253,594</u>	<u>258,443,669</u>
	21	<u>P 610,517,605</u>	<u>P 483,979,776</u>	<u>P 381,427,896</u>

As of December 31, 2014 and 2013, the cost of fully-depreciated property and equipment still used in operations amounted to P247.0 million and P146.7 million, respectively.

13. INVESTMENT IN AN ASSOCIATE

The Group has 45% equity interest in NPMSC which management considered to be material to the Group. The investment in NPMSC is accounted for using the equity method in these consolidated financial statements.

The summarized financial information of NPMSC is shown below.

	<u>2014</u>	<u>2013</u>
Total assets	P 15,860,855	P 11,823,327
Total liabilities	5,699,029	7,705,459
Total equity	10,161,826	4,117,868
Total revenues	36,353,600	19,659,530
Net profit (loss)	6,043,958	(882,132)

The Group did not recognize its share of the net profit (loss) of NPMSC in the Group's consolidated statements of comprehensive income as the Group's management deemed it to be insignificant.

No dividends were received from NPMSC in 2014 and 2013.

NPMSC is a private company and there are no quoted prices available for its shares of stocks.

14. LAND HELD FOR FUTURE DEVELOPMENT

Land held for future development represents the Group's land property totaling to 44 hectares in Phase 2 and 3 of the Park that is intended for sale once developed.

The Group's land held for future development was used as collateral for the Group's installment payable with LBP [see Note 17.2(a)].

15. OTHER NON-CURRENT ASSETS

The composition of this account as of December 31 is shown below.

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Refundable rental deposits	26.3	P 172,226,696	P 180,951,286
Advances for future investment in a joint venture		67,750,000	-
Drydocking costs – net		58,281,453	46,588,245
Deferred minimum lease payments		34,379,811	34,554,625
Restricted time deposits	6	1,263,795	1,263,795
Others		2,208,763	6,857,099
		<u>P 336,110,518</u>	<u>P 270,215,050</u>

Refundable rental deposits represent deposits of the Group for the lease of various parcels of land. These deposits are refundable at the end of the term of agreement and are measured at amortized cost. The fair values on initial recognition of the lease deposits were determined by calculating the present value of the estimated future cash flows anticipated until the end of the lease terms using the market interest rate of comparable financial instrument at the inception of the lease. Meanwhile, interest on subsequent amortization of rental deposits using effective interest method amounted to P0.6 million both in 2014 and 2013, and P1.2 million in 2012, and is presented as part of Finance Income in the consolidated statements of comprehensive income (see Note 22.2).

The excess of the principal amount of the rental deposit over its present value is recognized in the consolidated statement of financial position as Deferred Minimum Lease Payments. Rent expense on subsequent amortization of the deferred minimum lease payments amounted to P0.9 million, P0.8 million and P1.4 million in 2014, 2013 and 2012, respectively, and is presented as part of Rent under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 21).

Advances for future investment in a joint venture represent the Group's payment to a certain third party for the Group's partial share in the investment in future joint venture per memorandum of agreement entered into with the said third party. The Group and the third party, through the future joint venture, are committed to construct a terminal and storage facility.

Restricted time deposits represent cash deposited with a local bank as an environmental trust fund set aside in compliance with the requirements of the Department of Environment and Natural Resources.

Presented below is a reconciliation of the carrying amount at the beginning and end of 2014 and 2013 of drydocking costs.

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Balance at beginning of year		P 46,588,245	P 64,433,228
Transfer from construction in progress	12	53,328,043	-
Additions		8,229,538	26,597,993
Amortization during the year	20.2, 21	(49,764,310)	(44,420,301)
Disposal		(100,063)	(22,675)
Balance at end of year		<u>P 58,281,453</u>	<u>P 46,588,245</u>

Amortization pertaining to drydocking costs is presented as part of depreciation and amortization under Cost of Sales and Services in the consolidated statements of comprehensive income (see Note 20.2).

Drydocking costs are being amortized over two years or until the occurrence of the next drydocking, whichever comes earlier.

16. GOODWILL

Goodwill amounting to P84.5 million as of December 31, 2014 and 2013, represents the excess of acquisition cost over the Group's share in the fair value of identifiable net assets of the acquired subsidiaries at the date of the acquisition. In 2012, the Parent Company assessed that the goodwill pertaining with PGMI is impaired, hence, full impairment loss amounting to P1.3 million was recognized.

17. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings are broken down as follow:

	<u>2014</u>	<u>2013</u>
Current:		
Liabilities under letters of credits and trust receipts	P 3,640,151,291	P 6,777,195,674
Installment and notes payable	2,163,017,181	1,104,979,911
Liabilities under short-term commercial papers	1,942,752,503	-
Bank loans	364,293,475	55,923,184
Term loans	359,737,069	255,841,741
Obligations under finance lease	7,462,297	7,559,190
Mortgage payable	1,611,934	5,729,784
	<u>P8,479,025,750</u>	<u>P 8,207,229,484</u>
Non-current:		
Installment and notes payable	P 4,319,927,159	P 4,678,622,549
Term loans	1,036,612,418	799,094,377
Obligations under finance lease	5,671,371	13,226,187
Mortgage payable	1,406,699	3,553,774
Bank loans	-	50,012,446
	<u>P5,363,617,647</u>	<u>P 5,544,509,333</u>

17.1 Liabilities under Letters of Credits and Trust Receipts

The Group avails of letters of credit (LC) and TR lines with local banks to finance its purchases of inventories (see Note 8). These short-term trust receipts bear interests based on prevailing market interest rates at an average of 5.00% per annum in 2014 and 6.50% per annum both in 2013 and 2012.

The Group is required by the banks to maintain certain collaterals for the credit line facility provided to the Group for working capital requirements. The collaterals are in the form of compensating deposits and a surety of a stockholder [see Notes 6, 10 and 26.6(a)].

17.2 Installment and Notes Payable

(a) Installment Loan with LBP

On April 16, 2010, the Group availed the P580.0 million loan with LBP. The loan with LBP was used to refinance the installment payable with PHINMA Group via take-out of the outstanding installment payable to PHINMA Group. The refinanced installment payable is payable for seven years with one year grace period on principal and bears an interest rate based on the prevailing LBP rate at the time of availment subject to quarterly repricing with reference to a three month PDST-F rate plus minimum spread of 2.5%. The installment payable with LBP is secured by the Group's parcel of land with carrying value of P326.7 million as of December 31, 2013, which is presented as part of land held for sale (see Note 9) and land held for future development (see Note 14), and port expansion facilities with carrying value of P192.9 million as of December 31, 2013, which is presented as part of buildings, depot and pier facilities (see Note 12.4). These securities were released upon full payment of the loan in 2014.

The outstanding balance of the principal of the loan as of December 31, 2013 amounted to P67.5 million.

(b) Notes Facility Agreement with BDO Group

In 2011, the Group availed of a P750.0 million clean loan under the notes facility agreement entered into with BDO Capital & Investment Corporation, Banco De Oro Unibank, Inc. (BDO), Maybank Philippines, Inc., Robinsons Bank Corporation and Banco de Oro Unibank, Inc. – Trust and Investment Group. The long-term loan amounting to P700.0 million with interest rate of 7.35% annually is payable on August 24, 2016 and the remaining P50.0 million with interest rate of 7.66% is payable on August 23, 2018.

The outstanding balance of the principal of the note as of December 31, 2014 and 2013 amounted to P727.5 million and P742.0 million, respectively.

(c) Omnibus Loan and Security Agreement (OLSA) with PBComm

On February 10, 2012, the Group entered into a loan agreement with PBComm amounting to P107.0 million to partly finance the double hulling and drydocking of a vessel owned by the Group. In February and May 2012, PBComm released the loan amounting to P65.0 million and P42.0 million, respectively. The loan is subject to annual interest rate of 9.5% and is payable in 36 equal monthly installments with one quarter grace period from date of each release.

The loan is secured by a chattel mortgage on two of the tankers (MT Chelsea Resolute and MT Ernesto Uno) of the Group with net book value amounting to P332.1 million and P317.5 million as of December 31, 2014 and 2013, respectively (see Note 12.4).

The loan agreement requires the Group to maintain a debt-to-equity ratio of not more than 4:1. As of December 31, 2014 and 2013, the Group has complied with its debt covenants with the bank.

The outstanding balance of the principal of the note as of December 31, 2014 and 2013 amounted to P8.0 million and P41.2 million, respectively.

(d) OLSA with BDO – MT Chelsea Thelma

On April 26, 2011, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit of oil tanker (MT Chelsea Thelma) in the amount of US\$19.8 million.

In connection with the MOA, the Group entered into an OLSA amounting to US\$14.5 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. The loan is payable into 27 consecutive equal quarterly principal installments starting in August 2012. The loan is subject to interest computed at one-year LIBOR plus applicable margin of 3.50% per annum.

The loan is secured by a chattel mortgage on certain tankers (MT Chelsea Thelma and Vela) of the Group with a net carrying amount of P1,100.4 million and P1,059.8 million as of December 31, 2014 and 2013, respectively.

Related debt issuance costs amounted to P8.2 million of which P1.4 million and P2.3 million was amortized in 2014 and 2013, respectively, using effective interest rate of 5.02%. Amortized debt issuance costs were recognized as part of interest expense on bank loans under Finance Costs under the Other Charges (Income) account in the consolidated statements of comprehensive income (see Note 22.1). The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

The outstanding balance of the principal of the note as of December 31, 2014 and 2013 amounted to P404.4 million and P496.9 million, respectively.

(e) Convertible Notes Facility Agreement with BDO

On July 11, 2012, the Parent Company executed a Convertible Notes Facility Agreement worth P500.0 million with warrants offering amounting to P180.0 million with BDO. The loan is subject to annual interest rate of 7.6% and is payable quarterly in arrears over its three years term. The issuance of the convertible note is part of the Group's plan to raise long-term capital, to refinance short-term debt and finance capital expenditures.

BDO is granted the option to convert all or any portion of the unpaid principal amount of the notes held by it into the conversion shares exercisable at any time upon written notice by BDO to the Parent Company specifying the time and date of the conversion. Also, BDO has the option to elect one nominee to the Parent Company's BOD which option may be exercised anytime after signing date and on or before conversion date.

For and in consideration of the subscription of BDO to the convertible notes issued by the Parent Company, the latter also granted the former the right to subscribe to the warrants to be issued by the Parent Company which is convertible into common shares of the Parent Company up to the aggregate principal amount of P180.0 million. The avilment of the convertible note and the issuance of the warrant were approved by the Parent Company's stockholders during a special stockholders' meeting held on September 6, 2012. The Parent Company's stockholders also authorized the execution, delivery and performance of Subscription Agreement between the Parent Company and BDO in relation to the issuance of the warrants.

The exercise price of the option to convert the note to the Parent Company's common shares and the warrant is equivalent to a determined price base plus a premium of fifteen percent. The exercise based used was the 30-day volume-weighted average price of the Parent Company's share on the PNX PM Equity HP page of Bloomberg from May 24, 2012 to July 5, 2012 which is equal to P8.3 per share. The exercise period consists of a two-year period commencing on the third anniversary date of the convertible notes issue date and expiring five years thereafter.

Considering that a fixed number of shares will be issued for options and warrants, the warrants and options may qualify as an equity instrument to be recorded as a separate component in the equity in the Group's consolidated financial statements. The Group's management, however, assesses that at the date of the initial recognition, the equity component has no value since the interest rate to be charged by the lender on the convertible note with warrants is similar to the interest rate of the note had it been issued without conversion options and warrants. As such, the fair value of the hybrid convertible note and the host instrument is the same resulting in the nil value of the equity component at the date of initial recognition.

Minimum financial ratios to maintain are as follows: (i) debt to equity ratio not to exceed 3:1; (ii) current ratio not to fall below 1:1 and (iii) debt service coverage ratio not to be less than 1.5:1.

The outstanding balance of the principal of the note as of both December 31, 2014 and 2013 amounted to P500.0 million.

As of December 31, 2014 and 2013, the Group has complied with its debt covenants.

(f) Notes Facility Agreement with China Banking Corporation and Pentacapital Investment Corporation

On November 8, 2012, the Parent Company entered into a notes facility agreement with China Banking Corporation and Pentacapital Investment Corporation totaling P2,500.0 million. The loan is subject to a fixed annual interest rate of 7.75% which is payable in twenty quarterly payments. The net proceeds of the loan were used by the Parent Company for the roll out of the retails stations, for debt financing, to support capital expenditures and for other general corporate purposes.

By virtue of the notes facility agreement, the Parent Company affirms that it shall maintain the listing of its common shares with PSE and shall not declare or pay any dividends to stockholders (other than dividends payable solely in shares of its capital stock) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the notes are current and updated.

Minimum financial ratios to maintain are as follows: (i) debt to equity ratio not to exceed 3:1; (ii) current ratio not to fall below 1:1 and (iii) debt service coverage ratio not to be less than 1.5:1.

The outstanding balance of the principal of the note as of December 31, 2014 and 2013 amounted to P2,476.2 million and P2,468.5 million, respectively.

As of December 31, 2014 and 2013, the Group has complied with its debt covenants.

(g) OLSA with BDO – MT Chelsea Donatela

In 2013, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit oil tanker (MT Chelsea Donatela) of PNX - Chelsea in the amount of US\$21.2 million (see Note 12.1). In connection with the acquisition of an oil tank vessel, the Group entered into an OLSA amounting to US\$14 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. In September 2013, the local bank granted the loan and released the first tranche amounting to US\$4 million. The second tranche amounting to US\$10 million was availed of by the Group in 2014. The loan is payable for a period of five years from the initial drawdown date in US\$560,000 quarterly principal installments and any unpaid balance on maturity date, with two quarter grace period, commencing after the second tranche. The loan bears effective interest rate of 5.25% per annum.

Interest incurred on these loans amounted to P29.2 million and P3.3 million in 2014 and 2013, respectively, and is shown as part of Finance Costs under Other Charges (Income) in the consolidated statements of comprehensive income. Related debt issuance costs amounted to P9.6 million of which P1.5 million and P0.1 million was amortized during 2014 and 2013, respectively, using effective interest rate of 5.58% and 5.54%, respectively. Amortized debt issuance cost was also recognized as part of the Finance Costs under Other Charges (Income) in the consolidated statements of comprehensive income (see Note 22.1). Unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

The loan is secured by a chattel mortgage of MT Chelsea Donatela upon its delivery and registration with the Maritime Industry Authority. The carrying amount of MT Chelsea Donatela, presented as part of construction in progress, amounted to P1,091.0 million and P418.6 million as of December 31, 2014 and 2013, respectively (see Note 12.1).

The OLSA requires the Group to maintain debt to equity ratio of not more than 1.5:1 and debt coverage ratio (DCR) of at least 1.20, except on drydocking year where minimum DCR shall be 1.00. The Group filed a waiver with the local bank for the debt covenant ratios.

The outstanding balance of the principal of the note as of December 31, 2014 and 2013 amounted to P595.1 million and P171.6 million, respectively.

(h) Notes Payable

The Group availed of borrowings from various local banks with interest rates ranging from 7.0% to 10.2% per annum and will mature within five to seven years. The loans, which are secured by the Groups's certain buildings, depot and pier facilities and hauling and heavy equipment, is payable quarterly (see Note 12.4).

17.3 Liabilities under Short-term Commercial Papers

On October 23, 2014, the SEC approved the Parent Company's registration, licensing and issuance of short-term commercial papers up to P2.0 billion. The short-term commercial papers bear annual interest rates ranging from 4.0% to 4.5%, which is already deducted in advance from the proceeds, and will mature on various dates until October 31, 2015. In 2014, the Parent Company fully issued and received the proceeds of the P2.0 billion short-term commercial papers, which were used to finance the Parent Company's working capital requirements.

17.4 Bank Loans

The bank loans represent secured loans from local commercial banks for working capital purposes. The loans bear annual interest rates ranging from 7.5% to 14.0% in 2014 and 2013, subject to monthly repricing. These loans are secured by certain vessels (MT Chelsea Intrepid, MT BMI Patricia and MT Ernesto Uno) owned by the Group with net revalued amount of P212.1 million and P201.9 million as of December 31, 2014 and 2013, respectively (see Note 12.4), and by certain stockholders [see Note 26.6(b)].

17.5 Term Loans

(a) Term Loan Agreement (TLA) with Development Bank of the Philippines (DBP)

On September 12, 2007, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the construction of one unit of oil tanker in the amount of US\$15.0 million. In connection with the MOA, the Group entered into a TLA amounting to US\$13.0 million with DBP, the proceeds of which shall be exclusively used to finance the construction of the vessel. In February 2008 and May 2009, DBP granted the loan amounting to US\$3.9 million (P159.0 million) and US\$9.1 million (P432.5 million), respectively. The loan is payable over five years in equal quarterly principal installments, with one quarter grace period on principal, commencing November 2009 and was subject to 10.5% interest rate per annum. The loan was fully settled in 2014.

On October 30, 2014, the Group entered into a loan agreement with DBP amounting to P140.0 million to finance the drydocking and repairs and maintenance expenses of MT Chelsea Resolute, MT Chelsea Cherylyn, MT Chelsea Denise and MT Jasaan. The loan is subject to annual interest rate of 5.0% and is payable in eight equal quarterly installments commencing on the first quarter from the initial drawdown.

In addition, the Group obtained P160.0 million loan for CSC's working capital requirements. The loan bears a fixed interest rate of 5.0% per annum and is payable in ten equal quarterly installments commencing on February 28, 2015.

The loan is secured by a chattel mortgage on certain vessel (MT Chelsea Cherylyn) of the Group with net book value amounting to P824.8 million and P776.5 million as of December 31, 2014 and 2013, respectively. The loan is also secured by certain collateral on receivables of CSC and guaranteed by certain stockholders [see Notes 7 and 26.6(b)].

The outstanding balance of the principal of the note as of December 31, 2014 and 2013 amounted to P300.0 million and P222.1 million, respectively.

(b) Loan Agreement with Robinsons Bank Corporation (RBC)

In 2014, the Group obtained three bank loans from RBC totaling P62.2 million to finance the drydocking costs of MT Chelsea Denise. The loan is subject to annual interest rate of 6.3% and is payable in twelve equal monthly installments commencing on the first month from the initial drawdown.

The loan is secured by a chattel mortgage on one of the vessels (MT Chelsea Denise) of the Group with net book value amounting to P114.7 million and P124.2 million as of December 31, 2014 and 2013, respectively, and receivables of CSC from certain customer (see Note 7). The loan is also guaranteed by certain stockholders [see Note 26.6(b)].

The outstanding balance of the principal of the note as of December 31, 2014 amounted to P56.8 million.

(c) TLA with Maybank Philippines, Inc.

On July 18, 2012, the Parent Company signed with Maybank Philippines, Inc. a five year clean term loan amounting to P300.0 million to be used exclusively for capital expenditure and permanent working capital. The loan is subject to annual interest rate of 6.0% and is payable in twenty equal quarterly installments.

In connection with the TLA, all existing and future advances to the Parent Company by its stockholders or related parties are subordinated to the loan. The Parent Company agrees that any and all of its obligations relative to the TLA shall be settled first before any of its financial obligations to such shareholders' and related parties' advances are paid.

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ratio of at least 1:1 and debt coverage ratio of at least 1.5.

The outstanding balance of the loan as of December 31, 2014 and 2013 amounted to P165.0 million and P225.0 million, respectively.

As of December 31, 2014 and 2013, the Group has complied with its debt covenants with the bank.

On October 28, 2014 and November 4, 2014, the Group obtained unsecured, interest-bearing loans from Maybank Philippines, Inc. amounting to P100.0 million for CSC's working capital requirements.

(d) TLA with Maybank International Ltd.

On November 20, 2012, the Parent Company entered into a TLA amounting to US\$ 24.0 million with Maybank International Ltd. to fund various capital expenditures. The total amount of the loan is broken down into US\$14.0 million (tranche 1) which is due in five years and US\$10.0 million (tranche 2) with a term of three years.

The loan is subject to interest computed at one-year LIBOR plus applicable margin of 4.25% per annum, or cost of funds plus a margin of 2.0% per annum, whichever is higher. Interest payments are to be serviced quarterly in arrears. Maybank International Ltd. reserves the right to vary, at its absolute discretion from time to time, such rate of interest, which variation may take place by varying the LIBOR or the margin or spread above the LIBOR, or both.

The TLA also requires the Parent Company to maintain debt-to-equity ratio of not more than 3:1, current ratio of at least 1:1 and debt coverage ratio of at least 1.5.

Moreover, Maybank International Ltd. has the right of first refusal and right to match any fund raising exercise that may be required to refinance the U.S. dollar-denominated term facility either via follow-on offering of the Parent Company's shares or a syndicated term loan.

The balance of the principal of the loan amounted to P451.2 million and P723.9 million, translated into Philippine Peso using the closing rate as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the Group has complied with its debt covenants with the bank.

(e) TLA with Asia United Bank (AUB)

In 2013, the Group obtained interest-bearing loans from AUB to partially finance the acquisition of tug boats amounting to P100 million. The loan bears fixed interest rate at 7.00% for the first three years from the initial drawdown date, and shall be repriced at the end of the third year from the initial drawdown date (the “Repricing Date”). The repriced rate shall be based on the relevant 2Y PDST-F as of the Repricing Date, plus a spread of 2.00% subject to a floor of 7.00%. The loan is payable in 18 quarterly installments over a period of five years. The first payment will commence on the third interest payment date from the initial drawdown date. The last quarterly installment of the loan is due on November 6, 2018.

The interest-bearing loans amounted to P88.9 million and P100.0 million as of December 31, 2014 and 2013, respectively, of which P22.2 million and P11.1 million, respectively, was presented under current liabilities section in the consolidated statements of financial position.

Interest expense related to the loans amounted to P7.3 million and P1.1 million in 2014 and 2013, respectively, and is shown as part of Finance Cost under Other Charges (Income) in the consolidated statements of comprehensive income.

Certain trade receivables amounting to P20.2 million and P8.2 million as of December 31, 2014 and 2013, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 7).

The outstanding balance of the principal of the note as of December 31, 2014 and 2013 amounted to P88.9 million and P100.0 million, respectively.

(f) Loan Agreement with Multinational Investment Bancorporation (MIB)

On December 29, 2014, the Group obtained an unsecured, interest-bearing loans from MIB totaling to P166.8 million for the CSC’s working capital requirements. The loan is subject to annual interest rate of 4.3% and is payable in 30 days.

The outstanding balance of the principal of the note as of December 31, 2014 amounted to P166.8 million.

17.6 Obligations under Finance Lease

The finance lease liability has an effective interest rate of 5.1% which is equal to the rate implicit in the lease contract (see Note 30.5). Lease payments are made on a monthly basis.

17.7 Mortgage Payable

The mortgage payable represents secured loans which bear interest rates ranging from 7.6% to 11.4% per annum, and with terms ranging from 18 months to 36 months. The mortgages are secured by certain service vehicles of the Group, presented as part of Property and Equipment account in the consolidated statements of financial position (see Note 12.4).

17.8 Credit Line

The Parent Company has an available credit line of P16.3 billion under LC/TR. These lines obtained from various banks are being utilized by the Parent Company for procurement of inventories both local and foreign. The credit line is secured by the following:

- (a) Assignment of future receivables;
- (b) Suretyship of PPHI and pledge of its share in the Parent Company amounting to P46.9 million (at P1 par value);
- (c) Joint several signature of certain stockholders; and,
- (d) Negative pledge over the remaining shares of PPHI in Parent Company in favor of the bank amounting to P1.1 billion.

Interest expense for 2014, 2013 and 2012 presented as part of Finance Costs in the consolidated statements of comprehensive income amounted to P728.2 million, P617.5 million and P467.4 million (see Note 22.1), respectively, net of the capitalized borrowing cost of P70.7 million, P71.4 million and P77.8 million as of December 31, 2014, 2013 and 2012, respectively (see Note 12.3).

18. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Trade payables:			
Third parties		P 3,375,091,069	P 744,975,896
Related parties	26.3, 26.5	<u>9,156,631</u>	<u>1,981,597</u>
		3,384,247,700	746,957,493
Accrued expenses		211,559,670	362,111,496
Retention payable		42,699,144	106,903,516
Advances from customers		19,003,143	290,926,769
Income tax payable		4,236,452	9,608,080
Non-trade payables		2,986,179	22,462,466
Others	30.8	<u>69,837,707</u>	<u>31,457,507</u>
		<u>P 3,734,569,995</u>	<u>P 1,570,427,327</u>

Accrued expenses mostly pertain to payables to various contractors for the construction of retail stations that remain unpaid at the end of the year. In addition, this comprises amounts to be paid in relation to charter hire cost, repairs and maintenance, interest expense arising from loans and professional fees.

Retention payable is the amount withheld by the Group from its contractors for the construction of buildings, depot and pier facilities. The amount of retention, which is equivalent to ten percent of the total contract price, is payable upon the completion and turnover by the contractor of a construction project and the acceptance thereof by the Group.

Advances from customers pertain to the advance payment of the various customers for their fuel purchases. Advances from customers are measured at the amount of cash received from the customers and are offset against trade receivables once the related sales transactions are consummated.

19. OTHER NON-CURRENT LIABILITIES

This account consists of:

	Note	<u>2014</u>	<u>2013</u>
Security deposits		P 158,325,351	P 275,962,723
Unearned rent		48,922,071	49,726,176
Post-employment defined benefit obligation	23.2	<u>76,396,973</u>	<u>51,100,685</u>
		<u>P 283,644,395</u>	<u>P 376,789,584</u>

Security deposits represent deposits received from dealers for the lease of retail stations and equipment that are installed in retail stations. These deposits are refundable at the end of the lease terms and are measured at amortized cost. The fair values on initial recognition of the security deposits were determined by calculating the present value of the estimated future cash flows anticipated until the end of the lease terms using the market interest rate of comparable financial instrument at the inception of the lease. Meanwhile, interest on subsequent amortization of rental deposits using effective interest method amounted to P1.0 million, P0.8 million and P1.0 million in 2014, 2013 and 2012, respectively, and is presented as part of Finance Costs in the consolidated statements of comprehensive income (see Note 22.1).

The excess of the principal amount of the security deposit over its present value is recognized in the consolidated statement of financial position as unearned rent. Subsequent amortization of the unearned rent amounted to P1.1 million, P0.8 million and P0.9 million in 2014, 2013 and 2012, respectively, and is presented as part of Rent and Storage Income in the consolidated statements of comprehensive income.

20. COST OF SALES AND SERVICES

This account is composed of the following as of December 31:

	Notes	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cost of fuels and lubricants sold	20.1	P 30,730,192,895	P 39,785,623,659	P 31,444,710,716
Cost of services	20.2	658,586,006	460,109,294	517,038,697
Cost of real estate sold	21	15,725,034	2,433,131	-
	26.2	<u>P 31,404,503,935</u>	<u>P 40,248,166,084</u>	<u>P 31,961,749,413</u>

20.1 Cost of Fuels and Lubricants Sold

The cost of fuels and lubricants sold are broken down as follows:

	Note	<u>2014</u>	<u>2013</u>	<u>2012</u>
Inventories at beginning of year	8	P 3,812,532,673	P 3,688,759,676	P 2,132,622,405
Net purchases during the year		<u>29,788,489,291</u>	<u>39,909,396,656</u>	<u>33,000,847,987</u>
Goods available for sale		33,601,021,964	43,598,156,332	35,133,470,392
Inventories at end of year	8	(<u>2,870,829,069</u>)	(<u>3,812,532,673</u>)	(<u>3,688,759,676</u>)
		<u>P 30,730,192,895</u>	<u>P 39,785,623,659</u>	<u>P 31,444,710,716</u>

20.2 Cost of Services

Details of cost of services are shown below:

	Notes	<u>2014</u>	<u>2013</u>	<u>2012</u>
Depreciation and amortization	12.6, 15	P 251,458,416	P 194,146,483	P 147,371,900
Salaries and employee benefits		72,059,949	50,522,176	29,065,941
Charter hire fees		69,693,786	34,795,266	71,143,057
Repairs and maintenance		49,642,029	24,474,791	19,611,488
Port expenses		45,644,274	23,934,889	58,257,723
Bunkering		42,813,138	11,540,954	106,973,168
Professional fees		38,960,794	43,989,983	42,067,106
Insurance		36,861,986	34,095,778	25,329,791
Service fees	26.5	33,584,854	20,611,959	-
Taxes and licenses		11,384,037	11,593,974	7,745,126
Outside services		1,772,671	1,487,408	-
Security services		1,755,920	1,644,570	1,210,469
Fuel, gas and lubricants		119,716	4,798,629	4,974,245
Others		2,834,436	2,472,434	3,288,683
		<u>P 658,586,006</u>	<u>P 460,109,294</u>	<u>P 517,038,697</u>

21. COSTS AND EXPENSES BY NATURE

The details of the Group's costs and expenses by nature are shown below.

	Notes	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cost of sales:				
Fuels		P 30,543,127,456	P 39,571,822,572	P 31,046,564,548
Lubricants		187,065,439	213,801,087	398,146,168
Depreciation and amortization	12, 15	660,281,915	528,400,077	405,815,569
Rent	15, 26.3, 30.3	390,370,058	364,369,594	240,876,571
Salaries and employee benefits	23.1	329,362,174	287,613,201	208,734,347
Taxes and licenses		149,610,326	118,231,983	132,946,735
Advertising and promotions		123,571,860	176,373,387	84,473,675
Repairs and maintenance		117,868,813	69,675,294	61,023,908
Rebates		112,198,227	49,470,808	40,802,132
Service fees		105,133,477	81,910,722	81,392,862
Insurance		85,836,811	62,357,917	49,923,821
Charter hire fees		69,693,786	34,795,266	33,546,169
Fuel, oil and lubricants		54,440,905	33,792,075	49,339,252
Utilities		51,773,260	49,221,472	33,806,011
Professional fees		49,116,948	92,185,195	85,399,457
Port expenses		45,644,274	23,559,968	59,299,038
Security fees		45,583,946	33,738,550	26,108,756
Bunkering		42,813,138	13,420,044	62,899,266
Travel and transportation		40,475,571	40,005,732	35,184,779
Outside services		31,638,406	6,853,856	9,585,134
Freight charges		16,800,518	56,992,995	50,386,551
Representation		16,729,142	18,658,934	12,761,925
Cost of real estate sold	20	15,725,034	2,433,131	-
Office supplies		10,052,801	10,668,819	12,775,030
Sales incentives		5,491,456	17,133,225	960,783
Trucking charges		-	267,300,218	130,451,226
Handling and processing fees		-	-	9,285,094
Miscellaneous	26.8	20,924,371	14,840,100	72,922,212
		<u>P 33,321,330,112</u>	<u>P 42,239,626,222</u>	<u>P 33,435,411,019</u>

The expenses are classified in the consolidated statements of comprehensive income as follows:

	<u>Note</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cost of sales and services	20	P 31,404,503,935	P 40,248,166,084	P 31,961,749,413
Selling and administrative expenses		<u>1,916,826,177</u>	<u>1,991,460,138</u>	<u>1,473,661,606</u>
		<u>P 33,321,330,112</u>	<u>P 42,239,626,222</u>	<u>P 33,435,411,019</u>

22. FINANCE INCOME (COSTS)

The breakdown of these accounts follows:

22.1 Finance Costs

	<u>Notes</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Interest expense on bank loans and other borrowings	17	P 728,178,099	P 617,451,997	P 467,358,205
Impairment losses on trade and other receivables	7	40,077,464	17,959,002	37,851,057
Foreign currency exchange losses – net		19,247,244	27,100,014	-
Bank charges		9,455,061	3,343,182	11,969,046
Loss on settlement of insurance claims	7	3,898,441	-	-
Interest expense from post-employment defined benefit obligation – net	23.2	2,296,995	2,413,691	1,499,078
Interest expense from security deposits	19	<u>984,592</u>	<u>762,178</u>	<u>1,043,107</u>
		<u>P 804,137,896</u>	<u>P 669,030,064</u>	<u>P 519,720,493</u>

22.2 Finance Income

	<u>Notes</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Interest income from cash in banks	6	P 2,750,097	P 7,831,603	P 9,406,440
Interest income on amortization of rental deposits	15	644,746	649,974	1,161,552
Foreign currency exchange gains – net		<u>-</u>	<u>-</u>	<u>14,061,359</u>
		<u>P 3,394,843</u>	<u>P 8,481,577</u>	<u>P 24,629,351</u>

23. EMPLOYEE BENEFITS

23.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below.

	<u>Notes</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Short-term benefits:				
Salaries and wages		P 283,624,069	P 225,401,424	P 91,118,445
Employee welfare and other benefits		23,142,795	42,348,608	101,719,266
13 th month pay and bonuses		11,618,034	10,645,506	10,975,301
Post-employment defined benefit	23.2	<u>10,977,276</u>	<u>9,217,663</u>	<u>4,921,335</u>
	21	<u>P 329,362,174</u>	<u>P 287,613,201</u>	<u>P 208,734,347</u>

23.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

In 2014, the Group has maintained a partially funded, tax-qualified, noncontributory post-employment defined benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. Normal retirement benefit is an amount equivalent to 75% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

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

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2014 and 2013.

The amounts of post-employment defined benefit obligation, which is presented as part of Other Non-current Liabilities account (see Note 19) in the consolidated statements of financial position, are determined as follow:

	<u>2014</u>	<u>2013</u>
Present value of obligation	P 88,610,880	P 51,100,685
Fair value of plan assets	(12,213,907)	-
	<u>P 76,396,973</u>	<u>P 51,100,685</u>

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	P 51,100,685	P 36,440,105
Current service cost	10,977,276	9,217,663
Interest expense	2,751,078	2,413,691
Remeasurements:		
Actuarial losses (gains) arising from:		
Experience adjustments	14,461,165	37,016,452
Changes in financial assumptions	6,981,384	7,880,254
Changes in demographic assumptions	3,643,648	(41,748,870)
Benefits paid	(1,304,356)	(118,610)
Balance at end of year	<u>P 88,610,880</u>	<u>P 51,100,685</u>

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

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	P -	P -
Contributions to the plan	18,661,947	-
Return on plan assets (excluding amounts included in net interest)	(6,131,556)	-
Benefits paid	(770,567)	-
Interest income	454,083	-
Balance at end of year	<u>P 12,213,907</u>	<u>P -</u>

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	P 100,624	P -
Quoted equity securities:		
Telecommunications	2,460,120	-
Manufacturing	<u>2,449,440</u>	<u>-</u>
	<u>4,909,560</u>	<u>-</u>
Unit investment trust funds (UITF)	<u>7,203,723</u>	<u>-</u>
	<u>P 12,213,907</u>	<u>P -</u>

The fair value of the above investment is determined based on quoted market prices in active markets (classified as Level 1 in the fair value hierarchy).

The plan assets incurred a negative return of P6.1 million in 2014.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<i>Reported in profit or loss:</i>				
Current service cost	23.1	P 10,977,276	P 9,217,663	P 4,921,335
Net interest expense	22.1	<u>2,296,995</u>	<u>2,413,691</u>	<u>1,499,078</u>
		<u>P 13,274,271</u>	<u>P 11,631,354</u>	<u>P 6,420,413</u>
<i>Reported in other comprehensive income:</i>				
Actuarial losses (gains) arising from changes in:				
Experience adjustments		P 14,461,165	P 37,016,452	P 13,678,177
Financial assumptions		6,981,384	7,880,254	(371,380)
Demographic assumptions		3,643,648	(41,748,870)	-
Return on plan assets (excluding amounts included in net interest expense)		<u>6,131,556</u>	<u>-</u>	<u>-</u>
		<u>P 31,217,753</u>	<u>P 3,147,836</u>	<u>P 13,306,797</u>

Current service cost is presented as part of salaries and employee benefits under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 23.1).

The net interest expense is included as part of Finance Costs under the Other Charges (Income) account (see Note 22.1).

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Discount rates	4.49% to 4.78%	4.60% to 5.32%	5.20% to 6.20%
Expected rate of salary increases	5.00% to 8.00%	5.00% to 8.00%	5.00% to 7.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risk

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investment in cash and cash equivalents, quoted equity securities and UITF.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31:

	<u>2014</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
	<u>Impact on Post-employment Benefit Obligation</u>		
Discount rate	+/- 1.0%	(P 8,001,285)	P 9,813,193
Salary increase rate	+/- 1.0%	8,761,574	(7,364,342)
	<u>2013</u>		
	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
Discount rate	+/- 1.0%	(P 4,520,745)	P 5,438,812
Salary increase rate	+/- 1.0%	4,865,011	(4,166,542)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. A large portion of the plan assets as of December 31, 2014 is allocated to UITF.

(iii) *Funding Arrangements and Expected Contributions*

As of December 31, 2014, the plan is underfunded by P76.4 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the may pose a cash flow risk in about 21 years' time when a significant number of employees is expected to retire.

The Group expects to make contribution of P1.9 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within ten years as of December 31, follows:

	<u>2014</u>	<u>2013</u>
Within one year	P 18,890,357	P 11,722,940
More than one year to five years	21,183,125	10,885,698
More than five years to ten years	<u>39,055,703</u>	<u>34,341,627</u>
	<u>P 79,129,185</u>	<u>P 56,950,265</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years.

24. REGISTRATION WITH THE BOARD OF INVESTMENTS

24.1 BOI Registration as New Industry Participant – Batangas Depot

The Parent Company was registered with the Board of Investments (BOI) on February 26, 2010 as a new industry participant with new investment in storage, marketing and distribution of petroleum products under Republic Act (RA) 8479, *Downstream Oil Industry Deregulation Act*, for its storage tanks in Calaca, Batangas. Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Parent Company is also entitled to certain tax and non-tax incentives as follows:

- (a) Income tax holiday (ITH) for five years from February 26, 2010, without extension or bonus year from the date of registration;
- (b) Additional deduction from taxable income of 50% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to number of workers set by the board of not more than US\$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH;
- (c) The Parent Company may qualify to import capital requirement, spare parts and accessories at zero percent (0%) from the date of registration up to June 16, 2011 pursuant to the Executive Order No. 528 and its implementing rules and regulations.

Special transport equipment such as but not limited to tanks, trucks/lorries may be imported with incentives subject to land transportation operation requirements;

- (d) Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment;
- (e) Importation of consigned equipment for a period of five years from the date of registration, subject to posting of a re-export bond; and,
- (f) Other non-fiscal incentives, which may be applicable.

24.2 BOI Registration as New Industry Participant – Zamboanga Depot

The Parent Company was also registered with the BOI on November 25, 2010 as a new industry participant with new investment in storage, marketing and distribution of petroleum products under RA 8479 for its storage tanks in Talisayan, Zamboanga City. Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Parent Company's transaction relating to Zamboanga Depot is also entitled to certain tax and non-tax incentives as also mentioned in Note 24.1. The ITH will expire five years from November 25, 2010.

24.3 BOI Registration for the New Investment in Downstream Oil Industry Activities – Davao Expansion

On May 14, 2010, the Parent Company was registered with the BOI for the new investment in downstream oil industry activities under RA 8479 for the additional two storage tanks for petroleum products with storage capacity of 7.4 million liters in Davao depot. Under its registration, the Parent Company shall be entitled to avail of the incentives as cited in the previous page. However, ITH for five years from May 14, 2010 is subjected to the base figure of 148.2 million liters representing the Parent Company's highest attained sales volume of its existing depot facilities (in Davao Depot) prior to the filling of application for registration of new investment.

24.4 BOI Registration for New Investment – Bacolod Storage Terminal

On May 10, 2012, the Parent Company was registered with the BOI as a new industry participant with new investment in storage, marketing and distribution and bulk marketing of petroleum products under RA 8479 for its storage terminal in Bacolod City. Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Parent Company's transaction relating to Bacolod storage terminal is also entitled to certain tax and non-tax incentives as also mentioned in the previous page. The ITH will expire five years from May 10, 2012.

24.5 BOI Registration for New Investment – Cagayan De Oro City Storage Terminal

On May 10, 2012, the Parent Company was registered with the BOI as a new industry participant with new investment in storage, marketing and distribution and bulk marketing of petroleum products under RA 8479 for its storage terminal in Bacolod City. Under its registration, the Parent Company is required to observe certain general and specific terms and conditions stated in the provisions of the Omnibus Investments Code of 1987.

Under its registration, the Parent Company's transaction relating Cagayan de Oro City storage terminal is also entitled to certain tax and non-tax incentives as also mentioned in the previous page. The ITH will expire five years from May 10, 2012.

24.6 BOI Registration for MT Chelsea Thelma and MT Cherylyn

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Chelsea Thelma and MT Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, CSC is entitled to tax and non-tax incentives which include a six-year ITH. For MT Cherylyn, the related tax incentives started in April 2009. Meanwhile, the tax incentive for MT Chelsea Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered project.

24.7 BOI Registration for MT Chelsea Donatela

On September 3, 2013, PNX – Chelsea had registered its activity for MT Chelsea Donatela with the BOI under Executive Order No. 226 as a new operator of domestic/inter-island shipping on a pioneer status. As a registered entity, the PNX – Chelsea is entitled to tax and non-tax incentives which include a six-year ITH. The related tax incentives started in January 2014. ITH incentives shall be limited only to the revenues generated by the registered project.

25. TAXES

The components of tax expense as reported in the consolidated profit or loss and in the consolidated other comprehensive income follow:

	<u>2014</u>		<u>2013</u>		<u>2012</u>
<i>Reported in profit or loss:</i>					
Current tax expense:					
Regular corporate income tax (RCIT) at 30%	P 32,174,095	P	28,432,954	P	14,677,522
Minimum corporate income tax (MCIT) at 2%	3,998,694		1,822,943		462,671
Final tax at 20% and 7.5%	<u>610,696</u>		<u>1,509,944</u>		<u>1,564,032</u>
	36,783,485		31,765,841		16,704,225
Deferred tax expense (income) relating to origination and reversal of temporary differences					
	<u>(33,992,758)</u>		<u>(30,386,688)</u>		<u>3,169,323</u>
	P 2,790,727	P	1,379,153	P	19,873,548
<i>Reported in other comprehensive income:</i>					
Deferred tax expense relating to origination and reversal of temporary differences					
	P 29,334,251	P	1,109,855	P	95,550,091

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the consolidated profit or loss is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Tax on pretax profit at 30%	P 185,746,110	P 199,931,027	P 201,355,110
Adjustment for income subjected to lower income tax rates	(330,316)	(839,537)	(1,257,900)
Tax effects of:			
Adjustment for income and expenses under ITH	(189,717,081)	(201,393,953)	(186,809,228)
Derecognition of previously unrecognized deferred tax assets	2,812,324	-	-
Non-deductible expenses	2,554,185	3,633,628	11,600,817
Reversal of net operating loss carry over (NOLCO)	1,097,619	-	354,713
Reversal of MCIT	673,510	-	-
Non-taxable income	(102,149)	-	(5,392,024)
Unrecognized deferred tax asset	56,525	47,988	22,060
Tax expense reported in profit or loss	<u>P 2,790,727</u>	<u>P 1,379,153</u>	<u>P 19,873,548</u>

The net deferred tax liabilities as of December 31, 2014 and 2013 pertain to the following:

	Consolidated Statements of		Consolidated Statements of Comprehensive Income					
	Financial Position		Profit or Loss			Other Comprehensive Income (Loss)		
	2014	2013	2014	2013	2012	2014	2013	2012
Deferred tax assets:								
Post-employment benefit obligation	P 27,678,252	P 15,330,207	P 2,982,720	P 3,453,825	P 1,895,332	P 9,365,325	P 944,352	P 3,992,039
NOLCO	43,156,706	13,662,197	29,494,509	(3,210,247)	4,346,930	-	-	-
Unrealized foreign currency losses (gains) – net	(5,689,016)	10,954,840	(16,643,856)	21,681,377	(11,051,466)	-	-	-
Impairment losses	12,748,029	10,944,461	1,803,568	1,033,927	1,355,842	-	-	-
MCIT	10,520,288	2,696,022	7,824,266	1,441,695	(5,907,021)	-	-	-
Accrued loss on contamination	2,057,831	2,057,831	-	-	-	-	-	-
Accrued rent	65,992	65,992	-	-	-	-	-	-
	<u>90,538,082</u>	<u>55,711,550</u>	<u>25,461,207</u>	<u>24,400,577</u>	<u>(9,360,383)</u>	<u>9,365,325</u>	<u>944,352</u>	<u>3,992,039</u>
Deferred tax liabilities:								
Revaluation reserves of tankers	(154,508,434)	(122,809,003)	7,000,145	5,310,393	5,173,210	(38,699,576)	(2,054,207)	(99,542,130)
Capitalized borrowing cost	(7,901,832)	(8,222,176)	320,344	320,345	320,345	-	-	-
Unamortized debt issuance cost	-	(1,211,062)	1,211,062	355,373	697,505	-	-	-
	<u>(162,410,266)</u>	<u>(132,242,241)</u>	<u>8,531,551</u>	<u>5,986,111</u>	<u>6,191,060</u>	<u>(38,699,576)</u>	<u>(2,054,207)</u>	<u>(99,542,130)</u>
Net deferred tax liabilities	<u>(P 71,872,184)</u>	<u>(P 76,530,691)</u>						
Net deferred tax income (expense)			<u>P 33,992,758</u>	<u>P 30,386,688</u>	<u>(P 3,169,323)</u>	<u>(P 29,334,251)</u>	<u>(P 1,109,855)</u>	<u>(P 99,550,091)</u>

The amounts of NOLCO and the applicable years these are valid and deductible from the taxable income are shown below.

<u>Taxable Years</u>	<u>Original Amount</u>	<u>Tax Effect</u>	<u>Valid Until</u>
2014	P 111,422,978	P 33,426,893	2017
2013	14,139,899	4,241,970	2016
2012	<u>18,714,721</u>	<u>5,614,416</u>	2015
	<u>P 144,277,598</u>	<u>P 43,283,279</u>	

Deferred tax asset on NOLCO of PGMI amounting to P0.1 million and P0.2 million as of December 31, 2014 and 2013, respectively, was not recognized since management assessed that this is not recoverable as PGMI does not expect any taxable income in the coming years.

The Group is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. SPIT's MCIT was higher than RCIT in 2014. PPIPC's MCIT was higher than RCIT for the years 2013 and 2012. PPMI's MCIT was higher than RCIT for all the years presented.

The amounts of MCIT and the applicable years that are valid and deductible from future regular income tax payable are shown below.

<u>Taxable Years</u>	<u>Normal Income Tax</u>	<u>MCIT</u>	<u>Excess of MCIT over Income Tax</u>	<u>Tax Effect</u>	<u>Valid Until</u>
2014	P -	P 3,998,964	P 3,998,964	P 3,998,964	2017
2013	-	6,433,147	6,433,147	6,433,147	2016
2012	-	<u>88,177</u>	<u>88,177</u>	<u>88,177</u>	2015
	<u>P -</u>	<u>P10,520,288</u>	<u>P 10,520,288</u>	<u>P10,520,288</u>	

In 2014, 2013 and 2012, the Group claimed itemized deductions in computing for its income tax due.

26. RELATED PARTY TRANSACTIONS

The Group's related parties include the ultimate parent company, the parent company, stockholders, the Group's key management personnel, entities under common ownership by the ultimate parent company and others as described in the succeeding pages.

The summary of the Group's transactions with its related parties as of December 31, 2014 and 2013, and for the years ended December 31, 2014, 2013 and 2012 is presented below.

Related Party Category	Notes	Amount of Transactions			Outstanding Balance	
		2014	2013	2012	2014	2013
Other related parties under common ownership						
Sale of goods	7, 26.1	P 1,473,214	P 39,139,112	P 125,553,735	P 25,524,583	P 37,334,222
Purchases of services	26.2	-	-	654,413,710	-	-
Advances to suppliers	7, 26.2	10,024,800	-	-	10,024,800	2,000,000
Rentals	18, 26.3	66,398,252	43,119,800	53,004,744	7,145,631	-
Due from related parties	26.4	7,625,362	(5,552,006)	(15,311,686)	10,373,356	2,747,994
Due to related parties	26.4	(46,956,518)	(21,390,502)	24,371,146	17,204,725	62,161,243
Donations	26.8	200,000	1,500,500	5,298,172	-	-
Associate						
Technical ship Services	18, 20.2, 26.5	33,584,854	15,842,825	-	2,011,000	1,981,597
Other related party						
Due to related parties	26.4	-	-	-	-	2,000,000
Key management personnel						
Salaries and employee benefits	26.7	54,692,790	50,027,748	45,610,775	-	-

26.1 Sale of Goods

The Group sells products to certain related parties under common ownership. Goods are sold on the basis of the price lists in force with non-related parties. Revenues arising from these transactions are presented as part of Sale of Goods in the consolidated statements of comprehensive income. The outstanding receivables from sales of goods to other related parties are presented as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from related parties are unsecured, do not bear any interest and collectible in cash on demand. No impairment loss was recognized in 2014, 2013 and 2012 based on management's assessment.

26.2 Purchases of Services

In 2012, the Group purchased services from related parties under common ownership on the basis of price lists in force with non-related parties. The amount of transaction is presented as part of the Cost of Sales and Services account in the consolidated statements of comprehensive income (see Note 20). There is no related outstanding payable as of December 31, 2014 and 2013.

In 2014, the Group advanced a certain amount to a related party under common ownership for the purchase of services. The amount is credited upon the performance of the contractual obligation by the related party. The outstanding advances, which are unsecured and non-interest-bearing, are presented as part of advances to suppliers under Trade and Other Receivables account in the 2014 consolidated statement of financial position (see Note 7).

26.3 Rentals

The Group has the following lease agreements with the following related parties under common ownership:

- (a) Udenna Corporation – of which total rent expense incurred in the years 2014, 2013 and 2012 amounted to P7.4 million, P6.5 million and P6.6 million, respectively. The outstanding rental payable amounting to P7.1 million and nil in 2014 and 2013, respectively, is presented as part of trade payables under Trade and Other Payables in the consolidated statements of financial position (see Note 18).
- (b) Udenna Development (UDEVCO) Corporation – of which total rent expense in 2014, 2013 and 2012 amounted to P47.3 million, P28.5 million and P26.4 million, respectively. Rental deposit for the lease amounted to P6.4 million and P7.1 million as of December 31, 2014 and 2013, respectively, and is presented as part of refundable rental deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 15).
- (c) Valueleases, Inc. – of which total rent expense in 2014, 2013 and 2012 amounted to P11.7 million, P8.1 million and P20.0 million, respectively. Refundable Rental Deposits amounted to P6.1 million and P0.1 million as of December 31, 2014 and 2013, respectively, and is presented as part of refundable rental deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 15).

The rent expenses aforementioned are presented as part of Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Notes 21 and 30.3).

26.4 Due from and Due to Related Parties

The Group grants and obtains unsecured advances to and from related parties under common ownership for working capital requirements and other purposes.

As of December 31, 2014 and 2013, the outstanding receivable and payable balances from these advances are shown as Due From Related Parties and Due to Related Parties, respectively, in the consolidated statements of financial position. Due from Related Parties and Due to Related Parties - current are either receivable in cash or paid through offsetting, unsecured non-interest-bearing liabilities and are expected to be paid within one year. Non-current Due to Related Parties, on the other hand, are unsecured non-interest-bearing liabilities. These are stated at their carrying value since the date of repayment is not currently determinable.

Due from related parties represent outstanding advances to PhoenixPhilippines Foundation, Inc. (PPFI), a foundation created by the Group, amounting to P10.4 million as of December 31, 2014, and outstanding advances to Udenna Environmental Services, Inc., an entity under common ownership, amounting to P2.7 million as of December 31, 2013.

The movement of Due from Related Parties as of December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	P 2,747,994	P 8,300,000
Additions	10,373,356	17,362,078
Collections	(2,747,994)	(22,914,084)
Balance at end of year	<u>P 10,373,356</u>	<u>P 2,747,994</u>

No impairment loss is recognized in 2014, 2013 and 2012 related to advances to related parties.

The breakdown of the Due to Related Parties as of December 31 is as follows:

	<u>2014</u>	<u>2013</u>
Related parties under common ownership	P 17,204,725	P 62,161,243
Other related party	-	2,000,000
	<u>P 17,204,725</u>	<u>P 64,161,243</u>

The movement of Due to Related Parties in 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	P 64,161,243	P 85,551,745
Payments	(46,956,518)	(21,390,502)
Balance at end of year	<u>P 17,204,725</u>	<u>P 64,161,243</u>

26.5 Technical Ship Services Agreement

On April 1, 2013, the Group entered into a Technical Ship Services Agreement (the Agreement) with NPMSC, a newly incorporated associate of CSC. Under the Agreement, NPMSC shall carry out technical services in respect of CSC's tanker vessel as agents for and on behalf of the CSC. NPMSC's responsibilities include crew management, technical management, accounting services, and the arrangement for the supply of provisions.

Total technical ship services fee incurred amounting to P33.6 million and P15.8 million in 2014 and 2013, respectively, is presented as part of Service Fees under the Cost of Sales and Services account in the consolidated statements of comprehensive income (see Note 20.2), while the related outstanding liability (unsecured and non-interest bearing) of P2.0 million as of both December 31, 2014 and 2013 is presented as part of Trade and Other Payables in the consolidated statements of financial position (see Note 18).

26.6 Loan Collateral

- (a) Surety and a negative pledge over the remaining shares of a stockholder secured the liabilities under LC and TR (see Note 17.1).
- (b) The TLA with DBP, OLSA with BDO and PBCComm, loan agreement with RBC and certain banks loans of the Group were guaranteed by certain stockholders through a surety agreement with the respective banks.

26.7 Key Management Compensations

The compensation of key management personnel are broken down as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Salaries and wages	P 43,955,837	P 40,724,453	P 36,822,265
13 th month pay and bonuses	5,567,610	4,586,418	4,129,412
Honoraria and allowances	4,894,118	4,447,058	4,416,398
Post-employment benefits	<u>275,225</u>	<u>269,819</u>	<u>242,700</u>
	<u>P 54,692,790</u>	<u>P 50,027,748</u>	<u>P 45,610,775</u>

26.8 Others

The Group has made donations amounting to P0.2 million, P0.5 million and P1.5 million in 2014, 2013 and 2012, respectively, to Udenna Foundation, Inc., a non-stock, non-profit organization established by the ultimate parent company. In addition, the Group has also made donations amounting to nil, P1.0 million and P3.8 million in 2014, 2013 and 2012, respectively, to PPF, a non-stock non-profit organization established by the Parent Company. The donations are presented as part of miscellaneous under Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Note 21).

27. EQUITY

27.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2014	2013	2012	2014	2013	2012
Preferred – cumulative, nonvoting, non-participating, non-convertible into common shares - P1 par value						
Authorized:	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>
Issued and outstanding	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>P 5,000,000</u>	<u>P 5,000,000</u>	<u>P 5,000,000</u>
Common shares – P1 par value						
Authorized:						
Balance at beginning of year	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>750,000,000</u>	<u>P 2,500,000,000</u>	<u>P 2,500,000,000</u>	<u>P 750,000,000</u>
Increase in authorized stock	<u>-</u>	<u>-</u>	<u>1,750,000,000</u>	<u>-</u>	<u>-</u>	<u>1,750,000,000</u>
Balance at end of year	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>P 2,500,000,000</u>	<u>P 2,500,000,000</u>	<u>P 2,500,000,000</u>
Issued:						
Balance at beginning of year	<u>1,428,777,232</u>	<u>906,059,416</u>	<u>489,872,215</u>	<u>P 1,428,777,232</u>	<u>P 906,059,416</u>	<u>P 489,872,215</u>
Issuance during the year	<u>-</u>	<u>193,000,000</u>	<u>171,250,799</u>	<u>-</u>	<u>193,000,000</u>	<u>171,250,799</u>
Stock dividends	<u>-</u>	<u>329,717,816</u>	<u>244,936,202</u>	<u>-</u>	<u>329,717,816</u>	<u>244,936,202</u>
Reclassification	<u>-</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>-</u>	<u>200</u>
Balance at end of year	<u>1,428,777,232</u>	<u>1,428,777,232</u>	<u>906,059,416</u>	<u>P 1,428,777,232</u>	<u>P 1,428,777,232</u>	<u>P 906,059,416</u>
				<u>P 1,433,777,232</u>	<u>P 1,433,777,232</u>	<u>P 911,059,416</u>

On April 23, 2012, the SEC approved the Parent Company's increase in authorized capital stock from P800.0 million divided into 750.0 million common shares with a par value of P1 and 50.0 million preferred shares with par value of P1 per share into P2,550.0 million divided into 2,500.0 common shares with par value of P1 per share and 50.0 million preferred shares with par value of P1 per share.

The preferred shares shall have the following features:

- (a) Non-convertible into common shares;
- (b) Non-participating in any other corporation activities or other further dividends, non-voting, except in cases specified by law;
- (c) No pre-emptive rights over the holders of common shares as to distribution of net assets in the event of dissolution or liquidation and in the payment of dividends at a specified rate. The BOD shall determine its issued value at the time of issuance and shall determine its dividend rates and the dividends shall be paid cumulatively; and,
- (d) The preferred shares shall be redeemable at the Parent Company's option under such terms as the BOD may provide at the time of issuance. It shall also be re-issuable when fully redeemed.

Moreover, preferred shares have the following features among others as provided in the subscription agreement;

- (a) Dividends on the Preferred Shares shall have a fixed rate of 11.50% per annum calculated in respect of each share with reference to the Issue Price thereof in respect to each dividend period.
- (b) Dividends shall be payable every September 21, December 21, March 21 and June 21 of each year (each a "Dividend Payment Date"). The dividends on the Preferred Shares shall be calculated on a 30/360 day basis and shall be paid quarterly in arrears on the last day of each 3-month dividend period (each a Dividend Payment Date), as and if declared by the BOD. If the Dividend Payment Date is not a banking day, dividends shall be paid on the next succeeding banking day, without adjustment as to the amounts of dividends to be paid.
- (c) The Preferred Shares shall have priority in the payment of dividends at the stipulated rate at the time of issuance and in the distribution of corporate assets in the event of liquidation and dissolution of the Parent Company. As such, the BOD to the extent permitted by law shall declare dividends each quarter sufficient to pay the equivalent dividend. Dividends on the shares shall be cumulative. If for any reason the Parent Company's BOD does not declare a dividend on the Preferred Shares for a particular dividend period, the Parent Company shall not pay a dividend for said dividend period. However, on any future Dividend Payment Date on which dividends are declared, the holders of the shares shall receive the dividends accrued and unpaid to the holders of the Preferred Shares prior to such Dividend Payment Date. Holders of Preferred Shares shall not be entitled to participate in any other further dividends beyond the dividends specifically payable on the Preferred Shares.

Moreover, the subscription agreement requires that the Parent Company undertakes to maintain a long-term debt to equity ratio of 1:1 throughout the life of the preferred shares.

On December 20, 2013, the Parent Company redeemed the preferred shares issued in 2010 and re-issued the same amount and features of preferred shares except for the rate,

which was reduced to 8.25% per annum

Based on its plans, the BOD of the Parent Company will also declare and distribute cash dividends in 2015 out of the Parent Company's retained earnings as of December 31, 2014.

27.2 Listing with PSE

On July 11, 2007, the Parent Company offered a portion of its stocks for listing with the PSE. Number of common shares registered was 29.0 million with an issue price of P9.80. As of December 31, 2014, the number of holders of such securities is 62. The market price of the Parent Company's shares as of December 31, 2014 is P3.09. The total number of issued shares not listed with the PSE amounted to P116.0 million shares.

The history of public offerings and private placements of the shares of the Parent Company lodged at PSE are as follows:

<u>Transaction</u>	<u>Subscriber</u>	<u>Issue Date</u>	<u>Number of Shares</u>
Initial public offering	Various	July 11, 2007	29,000,000
30% stock dividends	Various	August 6, 2008	43,000,198
40% stock dividends	Various	August 3, 2009	73,660,476
Placement	Social Security System	November 13, 2009	7,500,000
40% stock dividends	Various	October 20, 2010	107,664,266
30% stock dividends	Various	May 6, 2011	113,047,475
50% stock dividends	Various	April 26, 2012	244,936,203
Shares issuance for CSC acquisition	UMRC	September 6, 2012	171,250,798
Placement	Various	March 11, 2013	130,000,000
30% stock dividends	Various	June 10, 2013	329,717,816
Payment of subscription	PPHI	October 8, 2013	<u>63,000,000</u>
			<u><u>1,312,777,232</u></u>

27.3 Additional Paid-in Capital

In 2013, the Parent Company issued 130.0 million of its common shares at P9.40 per share and 63.0 million common shares at P5.10 per share. The excess of the par value for such subscriptions amounting to P1,350.3 million was recorded as part of Additional Paid-in Capital account. In addition, direct cost of the share issuances amounting to P34.1 million was deducted from the Additional Paid-in Capital account.

In 2012, the Parent Company issued 171,250.8 million shares in favor of UMRC in relation to the share-for-share swap acquisition of CSC (see Note 1.3). The business combination under common control was accounted for under pooling of interest-type method. The excess of par value of such issuance amounted to P1,248.9 million was recorded as part of the beginning balance of the Additional Paid-in Capital account.

In 2010, the Parent Company issued 5.0 million of its preferred shares at P100 per share. The excess of par value for such subscription amounting to P495.0 million was recorded as part of Additional Paid-in Capital account in the consolidated statements of financial position. In addition, the excess of the selling price over the acquisition cost of the treasury shares sold in 2010 also constitutes the Additional Paid-in Capital account. The preferred shares issued in 2010 were redeemed on December 20, 2013 and on the same date, the same share and value of preferred shares were issued, except for the reduced rate.

In 2009, the Social Security System has bought an initial 2.83% stake in the Parent Company representing 7.5 million subscribed common shares for P42.0 million or at P5.60 per share. The excess of par value for such subscription amounting to P34.5 million was recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

In 2007, the Parent Company listed its shares of stock with PSE. Premiums received in excess of the par value during the public offering amounting to P227.1 million were recorded under Additional Paid-in Capital account in the consolidated statements of financial position.

27.4 Other Reserves

In 2012, the Parent Company issued 171,250.8 million common shares plus cash of P157.8 million in exchange of the net assets of CSC. The acquisition of CSC is accounted for under business combination using pooling-of-interest method wherein the difference between the consideration given up over the carrying value of the net assets of CSC is recognized as Other Reserves (see Note 2.3).

27.5 Revaluation Reserves

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

	<u>Property and Equipment</u>	<u>Defined Benefit Obligation</u>	<u>Total</u>
Balance as of January 1, 2014	P 286,554,327	(P 13,932,556)	P 272,621,771
Remeasurements of defined post-employment obligation	-	(31,217,753)	(31,217,753)
Revaluation of tankers	180,637,550	-	180,637,550
Depreciation transfer to retained earnings – revalued tankers	(29,384,140)	-	(29,384,140)
Other comprehensive income (loss) before tax	151,253,410	(31,217,753)	120,035,657
Tax income (expense)	(29,884,334)	9,365,325	(20,519,009)
Other comprehensive income (loss) after tax	121,369,076	(21,852,428)	99,516,648
Balance as of December 31, 2014	<u>P 407,923,403</u>	<u>(P 35,784,984)</u>	<u>P 372,138,419</u>

	<u>Property and Equipment</u>	<u>Defined Benefit Obligation</u>	<u>Total</u>
Balance as of January 1, 2013	P 294,152,102	(P 11,729,072)	P 282,423,030
Remeasurements of defined post-employment obligation	-	(3,147,836)	(3,147,836)
Revaluation of tankers	6,847,358	-	6,847,358
Depreciation transfer to retained earnings – revalued tankers	(17,701,323)	-	(17,701,323)
Other comprehensive loss before tax	(10,853,965)	(3,147,836)	(14,001,801)
Tax income	<u>3,256,190</u>	<u>944,352</u>	<u>4,200,542</u>
Other comprehensive loss after tax	(7,597,775)	(2,203,484)	(9,801,259)
Balance as of December 31, 2013	<u>P 286,554,327</u>	<u>(P 13,932,556)</u>	<u>P 272,621,771</u>
Balance as of January 1, 2012	<u>P 73,957,965</u>	<u>(P 2,414,314)</u>	<u>P 71,543,651</u>
Remeasurements of defined post-employment obligation	-	(13,306,797)	(13,306,797)
Revaluation of tankers	331,807,097	-	331,807,097
Depreciation transfer to retained earnings – revalued tankers	(17,244,043)	-	(17,244,043)
Other comprehensive income (loss) before tax	314,563,054	(13,306,797)	301,256,257
Tax income (expense)	(94,368,917)	<u>3,992,039</u>	(90,376,878)
Other comprehensive income (loss) after tax	<u>220,194,137</u>	(9,314,758)	<u>210,879,379</u>
Balance as of December 31, 2012	<u>P 294,152,102</u>	<u>(P 11,729,072)</u>	<u>P 282,423,030</u>

27.6 Retained Earnings

On January 29, 2014, the BOD approved the declaration of common share cash dividend of 10 centavos per share totaling to P142.9 million to stockholders of record as of March 17, 2014. In addition, total cash dividends declared and distributed to preferred stockholders amounted to P41.2 million in 2014. No stock dividends were declared and distributed in 2014.

On March 8, 2013, the stockholders ratified the BOD approval of 30% stock dividends (or a total of 329.7 million shares), valued at par and distributed on June 10, 2013 to stockholders of record as of May 15, 2013. Cash dividends of 10 centavos per common shares totaling to P103.6 million were also declared and paid in 2013. In addition, total cash dividends declared and distributed to preferred stockholders amounted to P57.5 million in 2013.

On March 8, 2012, the stockholders ratified the BOD's approval of 50% stock dividends (or a total of 244.9 million shares), valued at par and distributed on April 26, 2012 to stockholders of record as of March 28, 2012. In addition, cash dividends of 10 centavos per common shares totaling to P49.0 million were also declared and paid in 2012. In addition, total cash dividends declared and distributed to preferred stockholders amounted to P57.5 million in 2012.

27.7 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and,
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

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

	<u>2014</u>	<u>2013</u>
Total liabilities	P 17,949,934,696	P 15,839,647,662
Total equity	<u>7,050,226,099</u>	<u>6,497,905,304</u>
Debt-to-equity ratio	<u>2.55 : 1.00</u>	<u>2.44 : 1.00</u>

The increase of the total liabilities in 2014 is the result of the additional borrowings for the procurement of petroleum and construction of depot facilities, tankers and retail stations. The increase in equity is due to the accumulated earnings.

The Group's internal goal in capital management is to maintain a debt-to-equity structure ratio not in excess of 2.7 to 1. All externally imposed key ratios have been complied with in all the years presented, otherwise, bank waivers had been obtained (see Note 17).

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

28. EARNINGS PER SHARE

EPS were computed as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
a) Net profit pertaining to common shares	P 575,112,972	P 608,047,331	P 593,810,152
b) Net profit attributable to common shares and potential common shares	575,112,972	608,047,331	593,810,152
c) Weighted average number of outstanding common shares	1,428,777,232	1,357,005,010	1,235,777,232
d) Weighted average number of outstanding common and potential common shares	1,428,777,232	1,357,005,010	1,235,777,232
Basic EPS (a/c)	<u>P 0.40</u>	<u>P 0.45</u>	<u>P 0.48</u>
Diluted EPS (b/d)	<u>P 0.40</u>	<u>P 0.45</u>	<u>P 0.48</u>

The options and warrants attached on the convertible notes do not have dilutive effect since the average market price of the common shares of the Parent Company during the year does not exceed the exercise price of the options or warrants [see Note 17.2(e)].

29. SEGMENT REPORTING

29.1 Business Segments

In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group, namely fuels, lubricants, depot services and real estate. These are also the bases of the Group in reporting its primary segment information.

- (a) Trading segment is engaged in marketing, merchandising, purchasing, selling, dealing, acquiring, disposing and distribution of goods and wares such as but not limited to petroleum products (on wholesale basis), adhesives, glues, bonding agents, epoxy resins, lubricants and other products.
- (b) Depot and logistics services segment is engaged in operating of oil depots, storage facilities and provides logistics services to various entities.
- (c) Shipping and cargo services segment is engaged in hauling of petroleum products, operation of inter-island going vessels for domestic trade, chartering in and out any such vessels and providing complete marine services, either as principal or agent to ship owners, operators and managers.
- (d) Real estate segment is involved in real estate development, management and operations.

29.2 Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property and equipment, and other assets, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of trade payable, trust receipts, wages, and accrued liabilities. Segment assets and liabilities do not include deferred tax assets or liabilities.

29.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between segments and between geographical segments. Such sales and purchases are eliminated upon combination.

The tables presented in the next pages present revenue and profit information regarding business segments of the Group for the years ended December 31, 2014, 2013 and 2012 and certain asset and liability information regarding industry segments as of December 31, 2014 and 2013 (in thousands).

	<u>Trading</u>			<u>Depot and Logistics</u>			<u>Shipping and Cargo Services</u>			<u>Real Estate</u>			<u>Total</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
TOTAL REVENUES															
Sales to external customers	P 34,103,750	P 43,170,295	P 18,114,762	P 48,566	P 78,080	P 4,991,055	P 410,649	P 220,471	P11,479,735	P 171,419	P 83,140	P -	P 34,734,384	P 43,551,986	P 34,585,552
Intersegment sales	<u>4,042,237</u>	<u>3,672,471</u>	<u>8,247,365</u>	<u>14,227</u>	<u>1,123,486</u>	<u>2,983,599</u>	<u>488,312</u>	<u>539,099</u>	<u>1,023,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,544,776</u>	<u>5,335,056</u>	<u>12,254,439</u>
Total revenues	<u>38,145,987</u>	<u>46,842,766</u>	<u>26,362,127</u>	<u>62,793</u>	<u>1,201,566</u>	<u>7,974,654</u>	<u>898,961</u>	<u>759,570</u>	<u>12,503,210</u>	<u>171,419</u>	<u>83,140</u>	<u>-</u>	<u>39,279,160</u>	<u>48,887,042</u>	<u>46,839,991</u>
COSTS AND OTHER															
OPERATING EXPENSES															
Cost of sales and services excluding															
depreciation and amortization	35,695,544	45,040,855	9,870,315	938,107	1,610,067	27,608,374	481,417	352,475	7,790,861	82,981	60,307	-	37,198,049	47,063,704	45,269,550
Depreciation and amortization	<u>345,953</u>	<u>148,288</u>	<u>228,398</u>	<u>30,330</u>	<u>176,743</u>	<u>69,092</u>	<u>230,906</u>	<u>180,284</u>	<u>108,325</u>	<u>53,093</u>	<u>2,740</u>	<u>-</u>	<u>660,282</u>	<u>508,055</u>	<u>405,815</u>
	<u>36,041,497</u>	<u>45,189,143</u>	<u>10,098,713</u>	<u>968,437</u>	<u>1,786,810</u>	<u>27,677,466</u>	<u>712,323</u>	<u>532,759</u>	<u>7,899,186</u>	<u>136,074</u>	<u>63,047</u>	<u>-</u>	<u>37,858,331</u>	<u>47,571,759</u>	<u>45,675,365</u>
SEGMENT OPERATING															
PROFIT (LOSS)	<u>P 2,104,490</u>	<u>P 1,653,623</u>	<u>P 16,263,414</u>	<u>(P 905,644)</u>	<u>(P 585,244)</u>	<u>(P19,702,812)</u>	<u>P 186,638</u>	<u>P 226,811</u>	<u>P 4,604,024</u>	<u>P 35,345</u>	<u>P 20,093</u>	<u>P -</u>	<u>P 1,420,829</u>	<u>P 1,315,283</u>	<u>P 1,164,626</u>
ASSETS AND LIABILITIES															
Segment assets	P 15,310,682	P 20,369,077		P 6,659,753	P 719,749		P4,659,316	P3,597,560		P 1,224,925	P1,085,589		P 27,854,676	P 25,786,350	
Segment liabilities	16,837,053	14,181,969		662,143	2,603,665		2,696,325	1,987,929		537,057	423,976		20,732,578	19,197,539	

29.4 Reconciliations

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements (in thousands).

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues			
Total segment revenues	P 39,279,160	P 48,887,042	P 46,839,991
Elimination of intersegment revenues	<u>(4,544,776)</u>	<u>(5,335,056)</u>	<u>(12,254,439)</u>
Revenues as reported in profit or loss	<u>P34,734,384</u>	<u>P 43,551,986</u>	<u>P 34,585,552</u>
Profit or loss			
Segment operating profit	P 1,420,829	P 1,315,283	P 1,164,626
Other unallocated income	6,842	22,845	5,863
Other unallocated expense	<u>(7,774)</u>	<u>(11,143)</u>	<u>(4,214)</u>
Operating profit as reported in profit or loss	1,419,897	1,326,985	1,166,275
Finance costs	<u>(804,138)</u>	<u>(669,030)</u>	<u>(519,720)</u>
Finance income	<u>3,395</u>	<u>8,482</u>	<u>24,629</u>
Profit before tax as reported in profit or loss	<u>P 619,154</u>	<u>P 666,437</u>	<u>P 671,184</u>
Assets			
Segment assets	P27,854,676	P 25,771,975	
Elimination of intercompany accounts	<u>(2,854,515)</u>	<u>(3,434,422)</u>	
Total assets reported in the consolidated statements of financial position	<u>P 25,000,161</u>	<u>P 22,337,553</u>	
Liabilities			
Segment liabilities	P20,732,578	P 19,197,539	
Deferred tax liabilities - net	71,872	76,531	
Elimination of intercompany accounts	<u>(2,854,515)</u>	<u>(3,434,422)</u>	
Total liabilities as reported in the consolidated statements of financial position	<u>P17,949,935</u>	<u>P15,839,648</u>	

30. COMMITMENTS AND CONTINGENCIES

30.1 Capital Commitments

As of December 31, 2014, the Group has commitments of more than P1,000.0 million for expansion on petroleum retail network, depot, terminalling and logistics facilities, information technology infrastructure and other major expansions related to its business development. The Group has a network of 418 operating retail service stations as of December 31, 2014. An additional of 61 retail service stations are under various stages of completion as of December 31, 2014.

In 2014, the Group plans to expand further its petroleum retail service stations and carry out its investments in its subsidiaries to put up depot and terminalling facilities in strategic locations and complete its chain of logistical support to strengthen its foothold in the industry.

30.2 Letters of Credits

As of December 31, 2014 and 2013, the Parent Company has unused LCs amounting to P7,131.7 million and P1,021.0 million, respectively.

30.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases. The leases have terms ranging from 2 to 25 years, with renewal options, and include annual escalation rates ranging from 2.00% to 10.00%. The future minimum rentals payable under these cancelable operating leases are presented as follows:

	<u>2014</u>	<u>2013</u>
Within one year	P 306,965,591	P 259,337,311
After one year but not more than five years	1,019,563,212	1,042,366,014
More than five years	<u>3,054,218,327</u>	<u>2,009,559,064</u>
	<u>P4,380,747,130</u>	<u>P 3,311,262,389</u>

Total rent expense for the years 2014, 2013 and 2012 amounted to P390.4 million, P 364.4 million and P240.9 million, respectively (see Note 21).

30.4 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases with third parties. The leases have terms ranging from 2 to 15 years, with renewal options, and include annual escalation rates ranging from 2.00% to 10.00%. The future minimum rentals receivables under these cancelable operating leases are presented below:

	<u>2014</u>	<u>2013</u>
Within one year	P 77,559,213	P 45,535,652
After one year but not more than five years	241,175,866	100,847,748
More than five years	<u>2,254,311</u>	<u>5,499,057</u>
	<u>P 320,989,390</u>	<u>P 151,882,457</u>

Rent income in 2014, 2013 and 2012 amounting to P94.5 million, P47.5 million and P54.3 million, respectively, is presented as part of Rent and Storage Income account in the consolidated statements of comprehensive income.

30.5 Finance Lease Commitments – Group as Lessee

The Group is a lessee under several finance lease covering certain hauling trucks with a lease term of 2 to 5 years. The leases provide options to purchase the transportation equipment at the end of the lease terms. Future minimum lease payments (MLP) under the finance leases together with the present value (PV) of the net minimum lease payments (NMLP) is as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Future MLP</u>	<u>PV of NMLP</u>	<u>Future MLP</u>	<u>PV of NMLP</u>
Within one year	P 8,284,913	P7,462,297	P 9,007,429	P 7,559,190
After one year but not more than five years	<u>5,926,834</u>	<u>5,671,371</u>	<u>14,253,842</u>	<u>13,226,187</u>
	14,211,747	13,133,668	23,261,271	20,785,377
Amounts representing finance charges	<u>(1,078,079)</u>	<u>-</u>	<u>(2,475,894)</u>	<u>-</u>
Present value of MLP	<u>P 13,133,668</u>	<u>P13,133,668</u>	<u>P 20,785,377</u>	<u>P 20,785,377</u>

The liabilities relating to the finance leases are shown as part of Interest-bearing Loans and Borrowings (see Note 17.6).

30.6 Charter Agreements

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

30.7 Purchase Commitments

On September 4, 2014, PNX – Chelsea entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit of oil tanker (MT Chelsea Denise II) for a total consideration of US\$7.3 million. As of December 31, 2014, PNX – Chelsea has made an initial downpayment of US\$ 2.0 million and is presented as part of Advances to suppliers under the Trade and Other Receivables account in the 2014 consolidated statement of financial position (see Note 7).

30.8 Legal Claims

The Group filed a complaint for a sum of money against one of its customers for unpaid charter fees including damages. A Writ of Garnishment on the customer's funds for the amount of P16.0 million has been issued by the trial court in favor of the Group.

The same customer filed a suit against the Group for reimbursement and damages, amounting to P13.7 million, for the loss it incurred from the contamination of its cargo, which was on board on one of the Group's vessels in 2010. In the same year, the Group made a provision in the amount of P6.9 million for the amount of probable liability that it could answer for such claim. The related liability is presented as part of Others under the Trade and Other Payables account in the consolidated statements of financial position (see Note 18). No additional loss was recognized related to this claim in the succeeding years.

30.9 Others

In May 2011, the Bureau of Customs (BOC) filed before the Department of Justice (DOJ) a complaint against the Group's President and Chief Executive Officer and other respondents for alleged violation of Sections 3602, 2501(l)(1) & (5), 1801, 1802 and 3604 of the Tariff and Customs Code of the Philippines. In November 2012, the DOJ dismissed the case for lack of probable cause against all respondents. In April 2013, the DOJ, upon motion for reconsideration filed by the BOC, reversed its earlier resolution and recommended the filing of Criminal Information against the respondents. Criminal Information for alleged violations of Section 3602, in relation to Sections 3601, 2530 1 (l) & 5, 1801 and 3604 of the Tariff and Customs Code of the Philippines were filed before the Regional Trial Courts (RTC) of Batangas and Davao City in August 2013. Separately, in September and October 2013, RTC Batangas and Davao City, respectively, have dismissed all charges against the Parent Company's President and Chief Executive Officer.

On October 7, 2013, the DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge Ruben A. Galvez dated October 7, 2013 with RTC Batangas. On the other hand, on November 15, 2013, the DOJ filed a Motion for Reconsideration with Motion for Inhibition of Judge George A. Omelio dated November 15, 2013 with RTC Davao. On December 6, 2013, RTC Batangas issued an Order dated December 6, 2013 denying the DOJ's Motion for Reconsideration with Motion for Inhibition. On July 7, 2014, RTC Batangas issued a Certificate of Finality of even date stating that its Order dated December 6, 2013 affirming the Order dated September 17, 2013 is now final and executory since no appeal was filed.

On August 18, 2014, RTC Davao issued an order of even date denying the DOJ's Motion for Reconsideration. The Office of the Solicitor General, on behalf of the People of the Philippines, filed the Petition for Certiorari dated October 27, 2014 with the Court of Appeals seeking the reversal of the Orders dated October 4, 2013 and August 18, 2014 issued by public respondents Judges Omelio and Hon. Loida S. Posadas-Kahulugan. The Petition for Certiorari, with Docket No. CA-G.R. SP No. 06500-MIN, is now pending with the Court of Appeals.

There is also a pending Motion for Reconsideration filed by the DOJ and the BOC, seeking the reversal of the decision dated 25 July 2014 of the Court of Appeals' Special Former Special Tenth (10th) Division in the Consolidated Petitions of Dennis Uy, docketed as CA-G.R. SP No. 131702, and Jorlan Cabanes, docketed as CA-G.R. SP No. 129740, with the Court of Appeals, which involve the same basic facts and issues as those raised in CA-G.R. SP No. 06500-MIN.

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not given recognition in the consolidated financial statements. As of December 31, 2014 and 2013, the management believes that losses, if any, that may arise from these commitments and contingencies will not have material effects on the consolidated financial statements.