PHOENIX
Fuels Life

21 February 2014

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

Dear ***Ms. Encarnacion:***

We would like to submit our recently concluded Audited Financial Statement for period ended 31 December 2013 as will be attached to our Definitive Information Statement (SEC Form IS-20). We shall be submitting our Annual Report (Sec Form 17-A) once completed.

Thank you and warm regards.

Very truly yours,

Atty. Socorro Ermac Cabreros
Corporate Secretary

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, 2013, 2012 and 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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 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, 2013, 2012 and 2011, and of their consolidated financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 4225011, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-3 (until Jan. 18, 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 8, 2014

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
A S S E T S				
CURRENT ASSETS				
Cash and cash equivalents	6	**P 357,220,520**	P 438,510,937	P 924,008,515
Trade and other receivables - net	7	**7,343,793,926**	3,557,002,879	2,865,485,431
Inventories	8	**3,812,532,673**	3,688,759,676	2,132,622,405
Land held for sale and land development costs	9	**503,672,474**	502,030,559	451,587,118
Due from related parties	25	**2,747,994**	8,300,000	26,311,686
Restricted deposits	10	**95,419,646**	82,694,029	69,036,837
Input value-added tax - net		**448,838,093**	392,968,622	226,507,521
Prepayments and other current assets	11	**489,913,177**	282,360,522	206,209,945
Total Current Assets		**13,054,138,503**	8,952,627,224	6,901,769,458
NON-CURRENT ASSETS				
Installment contract receivable		**-**	-	9,002,788
Land held for future development	13	**297,942,281**	289,078,227	271,981,834
Property and equipment - net	12	**8,628,490,469**	6,998,785,818	5,572,270,773
Investment in an associate		**2,250,000**	-	-
Goodwill	15	**84,516,663**	84,516,663	85,783,624
Other non-current assets	14	**270,215,050**	167,807,348	117,847,917
Total Non-current Assets		**9,283,414,463**	7,540,188,056	6,056,886,936
TOTAL ASSETS		**P 22,337,552,966**	P 16,492,815,280	P 12,958,656,394
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Interest-bearing loans and borrowings	16	**P 8,207,229,484**	P 4,119,347,152	P 4,031,200,956
Trade and other payables	17	**1,570,427,327**	1,547,105,184	3,083,587,717
Due to related parties	25	**64,161,243**	85,551,745	37,077,904
Total Current Liabilities		**9,841,818,054**	5,752,004,081	7,151,866,577
NON-CURRENT LIABILITIES				
Interest-bearing loans and borrowings	16	**5,544,509,333**	5,795,974,645	1,846,117,207
Due to related parties	25	**-**	-	24,102,695
Deferred tax liabilities - net	24	**76,530,691**	105,807,524	5,934,044
Other non-current liabilities	18	**376,789,584**	356,858,036	216,238,196
Total Non-current Liabilities		**5,997,829,608**	6,258,640,205	2,092,392,142
Total Liabilities		**15,839,647,662**	12,010,644,286	9,244,258,719
EQUITY	26			
Common stock		**1,428,777,232**	906,059,416	661,123,014
Preferred stock		**5,000,000**	5,000,000	5,000,000
Additional paid-in capital		**3,367,916,774**	2,051,723,794	2,051,723,794
Revaluation reserves		**272,621,771**	282,423,030	71,543,651
Other reserves		**(622,952,239)**	(622,952,239)	(622,952,239)
Retained earnings		**2,046,541,766**	1,859,916,993	1,547,959,455
Total Equity		**6,497,905,304**	4,482,170,994	3,714,397,675
TOTAL LIABILITIES AND EQUITY		**P 22,337,552,966**	P 16,492,815,280	P 12,958,656,394

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, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
REVENUES				
Sale of goods	25	**P 43,139,691,819**	P 34,080,171,520	P 27,073,793,112
Charter fees	2	**205,235,733**	201,813,941	133,482,323
Rent and storage income	29	**79,208,786**	113,295,479	76,051,056
Port revenues	2	**65,206,403**	54,385,910	57,579,514
Fuel service and other revenues	2	**62,643,613**	135,885,455	110,071,589
		43,551,986,354	34,585,552,305	27,450,977,594
COST AND EXPENSES				
Cost of sales and services	19	**40,248,166,084**	31,961,749,413	25,327,617,229
Selling and administrative expenses	20	**1,991,460,138**	1,473,661,606	1,252,202,614
		42,239,626,222	33,435,411,019	26,579,819,843
OTHER INCOME (CHARGES)				
Finance costs	21	**(669,030,064)**	(519,720,493)	(347,968,406)
Finance income	21	**8,481,577**	24,629,351	21,928,387
Gain on sale of property and equipment		**-**	-	41,885,044
Others	15	**14,625,113**	16,133,556	15,033,237
		(645,923,374)	(478,957,586)	(269,121,738)
PROFIT BEFORE TAX AND PRE-ACQUISITION INCOME		**666,436,758**	671,183,700	602,036,013
PRE-ACQUISITION INCOME		**-**	-	(3,163,822)
PROFIT BEFORE TAX		**666,436,758**	671,183,700	598,872,191
TAX EXPENSE	24	**1,379,153**	19,873,548	41,160,013
NET PROFIT	27	**665,057,605**	651,310,152	557,712,178
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Revaluation (reversal of revaluation) of tankers	26	**6,847,358**	331,807,097	(55,931,472)
Remeasurements of post-employment defined benefit obligation	22	**(3,147,836)**	(13,306,797)	(166,617)
Tax income (expense)	24	**(1,109,855)**	(95,550,091)	16,829,428
Total Other Comprehensive Income (Loss) - net of tax		**2,589,667**	222,950,209	(39,268,661)
TOTAL COMPREHENSIVE INCOME		**P 667,647,272**	P 874,260,361	P 518,443,517
Basic and Diluted Earnings per share	27	**P 0.45**	P 0.48	P 0.40

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, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	Common Stock	Preferred Stock	Additional Paid-in Capital	Other Reserves	Other Comprehensive Income: Revaluation Reserves	Retained Earnings	Total	Total Equity
Balance at January 1, 2013									
As previously reported		P 906,059,416	P 5,000,000	P 2,051,723,794	(P 622,952,239)	P 294,152,102	P 1,852,093,238	P 2,146,245,340	P 4,486,076,311
Effect of adoption of PAS 19	2	-	-	-	-	(11,729,072)	7,823,755	(3,905,317)	(3,905,317)
As restated		906,059,416	5,000,000	2,051,723,794	(622,952,239)	282,423,030	1,859,916,993	2,142,340,023	4,482,170,994
Issuance of shares during the year		193,000,000	-	1,316,192,980	-	-	-	-	1,509,192,980
Stock dividends	26	329,717,816	-	-	-	-	(329,717,816)	(329,717,816)	-
Cash dividends	26	-	-	-	-	-	(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	26	P 1,428,777,232	P 5,000,000	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
Balance at January 1, 2012									
As previously reported		P 661,123,014	P 5,000,000	P 2,051,723,794	(P 622,952,239)	P 73,957,965	P 1,542,110,417	P 1,616,068,382	P 3,710,962,951
Effect of adoption of PAS 19	2	-	-	-	-	(2,414,314)	5,849,038	3,434,724	3,434,724
As restated		661,123,014	5,000,000	2,051,723,794	(622,952,239)	71,543,651	1,547,959,455	1,619,503,106	3,714,397,675
Stock dividends	26	244,936,202	-	-	-	-	(244,936,202)	(244,936,202)	-
Cash dividends	26	-	-	-	-	-	(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	26	P 906,059,416	P 5,000,000	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
Balance at January 1, 2011									
As previously reported	2	P 548,075,739	P 5,000,000	P 2,051,727,435	(P 854,202,239)	P 121,056,606	P 1,206,957,748	P 1,328,014,354	P 3,078,615,289
Effect of adoption of PAS 19		-	-	-	-	(2,297,682)	4,683,157	2,385,475	2,385,475
As restated		548,075,739	5,000,000	2,051,727,435	(854,202,239)	118,758,924	1,211,640,905	1,330,399,829	3,081,000,764
Reclassification		3,641	-	(3,641)	-	-	-	-	-
Change due to the increase in capital stock of merged subsidiary prior to merger		-	-	-	231,250,000	-	-	-	231,250,000
Stock dividends	26	113,043,634	-	-	-	-	(113,043,634)	(113,043,634)	-
Cash dividends	26	-	-	-	-	-	(108,349,994)	(108,349,994)	(108,349,994)
Total comprehensive income (loss) for the year		-	-	-	-	(39,268,661)	557,712,178	518,443,517	518,443,517
Transfer of revaluation reserves absorbed through depreciation, net of tax		-	-	-	-	(6,845,545)	-	(6,845,545)	(6,845,545)
Reversal of revaluation reserve of assets sold during the year		-	-	-	-	(1,101,067)	-	(1,101,067)	(1,101,067)
Balance at December 31, 2011	26	P 661,123,014	P 5,000,000	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

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, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 666,436,758**	P 671,183,700	P 598,872,191
Adjustments for:				
Interest expense	21	**617,451,997**	467,358,205	305,402,087
Depreciation and amortization	12, 14	**528,400,077**	405,815,569	299,109,747
Impairment losses	21	**17,959,002**	37,851,057	27,252,323
Interest income	21	**(8,481,577)**	(9,406,440)	(7,834,039)
Gain on sale of property and equipment		**-**	-	(41,885,044)
Operating profit before working capital changes		**1,821,766,257**	1,572,802,091	1,180,917,265
Increase in trade and other receivables		**(3,804,750,049)**	(729,368,304)	(336,349,201)
Increase in inventories		**(123,772,997)**	(1,556,137,271)	(1,080,963,476)
Increase in land held for sale and land development costs		**(1,641,915)**	(50,443,441)	-
Decrease (increase) in restricted deposits		**(12,725,617)**	(13,657,192)	4,385,879
Increase in input value-added tax		**(55,869,471)**	(166,461,101)	(198,968,411)
Increase in prepayments and other current assets		**(207,552,655)**	(76,150,578)	(120,170,018)
Decrease in installment contract receivable		**-**	9,002,788	9,002,852
Increase (decrease) in trade and other payables		**23,322,143**	(1,536,482,533)	1,157,484,239
Cash generated from (used in) operations		**(2,361,224,304)**	(2,546,895,541)	615,339,129
Cash paid for income taxes		**(1,635,260)**	(564,033)	(512,582)
Net Cash From (Used in) Operating Activities		**(2,362,859,564)**	(2,547,459,574)	614,826,547
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	12	**(2,125,320,072)**	(1,478,870,447)	(2,064,121,108)
Increase in other non-current assets		**(149,078,003)**	(184,693,102)	(30,120,106)
Collections from related parties	25	**22,914,084**	27,479,102	39,440,905
Advances to related parties	25	**(17,362,078)**	(9,467,416)	(45,743,477)
Decrease (increase) in land held for future development		**(8,864,054)**	(17,096,393)	43,892,916
Interest received		**8,481,577**	9,406,440	7,834,039
Proceeds from disposal of property and equipment		**1,834,386**	2,734,603	73,640,008
Net Cash Used in Investing Activities		**(2,267,394,160)**	(1,650,507,213)	(1,975,176,823)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in interest-bearing loans and borrowings		**3,836,417,020**	4,038,003,634	1,843,094,039
Proceeds from issuance of shares of stock		**1,509,192,980**	-	-
Interest paid		**(617,451,997)**	(467,358,205)	(305,402,087)
Payments of cash dividends	26	**(161,105,942)**	(106,487,242)	(108,349,994)
Repayments to related parties	25	**(21,390,502)**	(153,064,039)	(141,049,161)
Increase in other non-current liabilities		**3,301,748**	223,939,876	91,791,319
Proceeds from borrowings from related parties	25	**-**	177,435,185	57,164,052
Decrease (increase) in other reserves		**-**	-	231,250,000
Net Cash From Financing Activities		**4,548,963,307**	3,712,469,209	1,668,498,168
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(81,290,417)**	(485,497,578)	308,147,892
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**438,510,937**	924,008,515	615,860,623
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	**P 357,220,520**	P 438,510,937	P 924,008,515

Supplemental Information on Non-cash Investing and Financing Activities

1) Stock dividends declared and distributed by the Group amounted to P329.7 million in 2013, P244.9 million in 2012 and P113.0 million in 2011 (see Note 26.6).

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 Udenna Management & Resources Corp., a related party under common control. The acquisition of CSC is accounted for as business combination using pooling-of-interest method.

3) Certain hauling and heavy equipment with carrying amount of P23.7 million, P25.5 million and nil as of December 31, 2013, 2012 and 2011, respectively, are carried under finance leases (see Notes 12.6, 16.6 and 29.5).

4) The Group's tankers were revalued by an independent appraiser in each year from 2009. Revaluation reserves amounted to P286.6 million, P294.1 million and P74.0 million as of December 31, 2013, 2012 and 2011, respectively (see Notes 12.3 and 26.5).

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, 2013, 2012 AND 2011
(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% and 53% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines, as of December 31, 2013 and 2012, respectively.

The Parent Company's shares of stocks 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 368 operating service stations, including 112 service stations in Luzon, 47 in the Visayas and 209 in Mindanao and a total of 70 service stations under construction as of December 31, 2013.

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"):

	2013	2012
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%**	-
Norse/Phil Marine Services Corp. (NPMSC)**	**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. As of December 31, 2012, PNX - Chelsea has not yet started commercial operations.

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 Pampanga, 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 Pampanga, 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. The acquisition was initially approved by the Parent Company's Board of Directors (BOD) on July 6, 2012.

1.4 Approval of Consolidated Financial Statements

The financial statements of the Group as of and for the year ended December 31, 2013 (including the comparatives as of and for the years ended December 31, 2012 and 2011) were authorized for issue by the Parent Company's President and Chief Executive Officer on February 8, 2014.

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 from the pronouncements issued by the International Accounting Standards Board (IASB).

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

The Group's adoption of PAS 19 (Revised), *Employee* Benefits, resulted in material retrospective restatements on certain accounts as of December 31, 2012 and 2011 [see Note 2.2(a)(ii)]. Accordingly, the Group presented a third consolidated statement of financial position as of December 31, 2011 without the related notes, except for disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

(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, the currency of the primary economic environment in which the Group operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2013 that are Relevant to the Group

In 2013, the Group adopted for the first time the following new PFRS and revisions, amendments and improvements thereto that are relevant to the Group and effective for consolidated financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 10	:	Consolidated Financial Statements
PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosure of Interests in Other Entities
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10, 11 and PFRS 12 (Amendment)	:	Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12

PFRS 13	:	Fair Value Measurement
Annual Improvements	:	Annual Improvements to PFRS (2009-2011 Cycle)

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

(i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively; hence, the presentation of other comprehensive income has been modified to reflect the changes.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all actuarial gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Group has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative amounts disclosed in prior years and adjusted the cumulative effect of the changes against the 2012 and 2011 balances of the affected equity components as shown below.

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in liabilities:			
Other non-current liabilities	(P 344,755,293)	(P 12,102,743)	(P 356,858,036)
Deferred tax liabilities – net	(114,004,950)	8,197,426	(105,807,524)
Net decrease in equity		(P 3,905,317)	
Changes in components of equity:			
Revaluation reserves, net of tax	P 294,152,102	(P 11,729,072)	P 282,423,030
Retained earnings	1,852,093,238	7,823,755	1,859,916,993
Net decrease in equity		(P 3,905,317)	

	December 31, 2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in liabilities:			
Other non-current liabilities	(P 216,689,055)	P 450,859	(P 216,238,196)
Deferred tax liabilities – net	(8,917,909)	2,983,865	(5,934,044)
Net increase in equity		P 3,434,724	
Changes in components of equity:			
Revaluation reserves, net of tax	P 73,957,965	(P 2,414,314)	P 71,543,651
Retained earnings	1,542,110,417	5,849,038	1,547,959,455
Net increase in equity		P 3,434,724	

The effect of the adoption of PAS 19 (Revised) on the 2012 and 2011 consolidated statements of comprehensive income is presented below.

	2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Selling and administrative expenses	P 1,475,913,877	(P 2,252,271)	P 1,473,661,606
Finance costs	518,221,415	1,499,078	519,720,493
Tax expense	21,095,072	(1,221,524)	19,873,548
Net decrease in net profit	P 2,015,230,364	(P 1,974,717)	P 2,013,255,647
Changes in other comprehensive income:			
Remeasurements on retirement benefit obligation	P -	(P 13,306,797)	(P 13,306,797)
Tax expense	(99,542,130)	3,992,039	(95,550,091)
	(P 99,542,130)	(P 9,314,758)	(P 108,856,888)

	2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Selling and administrative expenses	P 1,253,550,743	(P 1,348,129)	P 1,252,202,614
Finance costs	346,537,077	1,431,329	347,968,406
Tax expense	42,409,094	(1,249,081)	41,160,013
Net decrease in net profit	P 1,642,496,914	(P 1,165,881)	P 1,641,331,033
Changes in other comprehensive income:			
Remeasurements on retirement benefit obligation	P -	(P 166,617)	(P 166,617)
Tax income	16,779,443	49,985	16,829,428
	P 16,779,443	(P 116,632)	P 16,662,811

The adoption of PAS 19 (Revised) have the following effects on the Group's consolidated statements of cash flows for the years ended December 31, 2012 and 2011:

	2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Profit before tax	P 646,829,165	P 24,354,535	P 671,183,700
Increase in other non-current liabilities	248,294,411	(24,354,535)	223,939,876

	2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Profit before tax	P 598,955,391	(P 83,200)	P 598,872,191
Increase in other non-current liabilities	91,708,119	83,200	91,791,319

The retrospective restatements caused an increase in the basic and diluted earnings per share in 2012, from P0.46 to P0.48, after adjustment for stock dividends (see Note 27). The adoption of PAS 19 (Revised) did not affect the basic and diluted earnings per share in 2011.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. This amendment did not have a significant impact on the Group's consolidated financial statements as the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements.

(iv) Consolidation, Joint Arrangements, Associates and Disclosures

In 2013, the Group has adopted the following consolidation standards that are relevant to the Group and effective as of January 1, 2013:

- PFRS 10 (Amendment), *Consolidated Financial Statements*, changes the definition of control focusing on three elements which determines whether the investor has control over the investee such as the (a) power over the investee, (b) exposure or rights to variable returns from involvement with the investee; and (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining controls when this is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.

- PFRS 11 (Amendment), *Joint Arrangements*, deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.

- PFRS 12 (Amendment), *Disclosures of Interest in Other Entities*, integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosure about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements*, deals with the requirements solely to separate financial statements while PAS 28 (revised), *Investments in Associates and Joint Ventures*, includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method.

Subsequent to the issuance of these standards, amendments to PFRS 10, PFRS 11 and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirements to present comparatives for disclosure relating to unconsolidated structure entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and have determined that the adoption of the foregoing standards had no material impact on the amounts recognized in the consolidated financial statements.

(v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRSs require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. The amendment applies prospectively from annual period beginning January 1, 2013; hence, disclosure requirements need not be presented in the comparative information in the first year of operation. The application of this new standard had no significant impact on the amounts recognized in the consolidated financial statements.

(vi) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosures of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position are not required to be presented.

Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' consolidated financial statements, the Group has presented a third consolidated statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it has been recognizing those servicing equipment in accordance with the recognition criteria under PAS 16.

(c) PAS 32 (Amendment), *Financial Instruments: Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's consolidated financial statements as it did not make any distributions to holders of equity instruments.

(b) *Effective in 2013 that are not Relevant to the Group*

The following amendments and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Group's consolidated financial statements:

Annual Improvements 2009-2011 Cycle		
PAS 34 (Amendment)	:	Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities
PFRS 1 (Amendments)	:	First-time Adoption of PFRS – Government Loans, and Repeated Application of PFRS 1 and Borrowing Cost
Philippine Interpretation International Financial Reporting Interpretation Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine

(c) *Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans - Employee Contributions* (effective from January 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. Management has initially determined that this amendment will have no impact on the Group's consolidated financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to 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 the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement -Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). 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 it applies hedge accounting, the amendment will not have impact on the consolidated financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement.* This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 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 arrangement, 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 main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and 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. The amendment also now 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 in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9 and PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model

The Group does not expect to implement and adopt 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 plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(vi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect 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* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets 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 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 amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the consolidated financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(c) 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 Improvement to PFRS (2011-2013 Cycle)

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 definitions of financial assets or financial liabilities as defined in PAS 32.

2.3 Basis of Consolidation

The Group obtains and exercises control through voting rights. 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 balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Group, 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 until such time that such 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 acquiree's 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 previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill (see Note 15). If this 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.

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 recognized previously. The difference between the consideration transferred and the net assets of the subsidiary acquired is recognized as Other Reserves as part of the equity.

(b) Investment in an Associate

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

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 fair value through profit or loss (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 transaction costs related to it 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 maturities greater than 12 months after the 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 (presented as part of Current Assets and part of Other Non-Current Assets in the consolidated statement of financial position), Installment Contract Receivable, and Refundable Rental Deposits (presented as part of Other Non-Current Assets in the consolidated statement of financial position). Cash and cash equivalents are defined as cash on hand, savings and demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Costs or Finance Income in the consolidated statement of comprehensive income.

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.

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 up to 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 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; 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 less any subsequent accumulated depreciation and any accumulated impairment losses.

Revalued amounts represent fair values determined by external professional valuers unless market-based factors indicate immediate impairment risk. Fair value is determined on the replacement cost of an asset with an equally satisfactorily substitute asset, which is normally derived from the current acquisition cost of a similar asset, new or used, or of an equivalent productive capacity or service potential. In estimating the fair value of the properties, it takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use.

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 related depreciation relating to the revaluation increment. Upon disposal of the revalued assets, amounts included in Revaluation Reserves is transferred to Retained Earnings.

Revaluations are performed at least every two years ensuring that the carrying amount does not materially differ from that which would be determined using fair value at the end of reporting period, unless circumstances require annual revaluation.

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

Tankers	30 years
Buildings, depot and pier facilities	5-25 years
Vessel equipment	5 years
Transportation and other equipment	1-10 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 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 and applicable borrowing costs (see Note 2.19). 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 and estimated useful lives of property and equipment are reviewed, and adjusted, if appropriate, at the end of each reporting period.

An item of property and equipment 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 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 of this period, any remaining unamortized balance of the original drydocking costs is expensed in the month of subsequent drydocking.

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

The carrying amount of drydocking costs, 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).

2.11 Financial Liabilities

Financial liabilities, which include interest-bearing loans and borrowings, trade and other payables (excluding income tax payable), 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.

Trade and other payables, due to related partiess 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.

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 29.5).

Dividend distributions to shareholders are recognized as financial liabilities upon declaration of the Parent Company.

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

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 net 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, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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 issued (shares 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. 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 its tankers, is recognized based on the type of charter arrangement entered into, either under a time charter (TC) or a continuing voyage charter (CVC). Under a TC, revenue is recognized based on the terms of the contract [see Note 3.1(d)]. 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) *Interest income* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

(e) *Rent income* – Revenue is recognized on a straight-line basis over the lease term (see Note 2.15).

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 are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as 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 and goodwill 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.

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.

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

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. 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, as well as a defined contribution plan.

(a) 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 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. 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 bonds 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 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) 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 are 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 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 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.

2.22 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 28 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 is the same as those used in its consolidated financial statements, except that the following, if there is any, are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses; and,
- expenses relating to share-based payments.

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.

2.23 Equity

Capital 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 arise from the actuarial gains or losses on the remeasurements of post-employment defined benefit plan and gains and losses arising from the revaluation of the Group's tankers, net of applicable taxes.

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

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.

2.24 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 outstanding during the period.

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

2.25 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 Group's consolidated financial statements prepared in accordance with PFRS require 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 risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. 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 and disclosure of provision and disclosure of contingencies are discussed in Note 2.12 and relevant disclosure is presented in Note 29.

(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 and tankers are qualifying assets as the management assesses that it takes substantial period of time for the completion of those assets.

(d) Revenue Recognition for TC Arrangements

In determining the appropriate method to use in recognizing the Group's revenue from TC, 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).

(e) Functional Currency

The Group has determined that its functional currency is the Philippine peso which is the functional currency of the primary economic environment in which the Group operates.

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 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 25.4. The Group has determined that no impairment loss on Due from Related Parties account is recognized in 2013, 2012 and 2011.

(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 year.

(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 times the estimates are made. Future realization of the carrying amounts of land held for sale and development costs and land held for future development are 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 year.

(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 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 14, respectively. Based on management's assessment as of December 31, 2013 and 2012, 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

In determining the fair value of the Group's tankers, the Group engages the services of professional and independent appraisers. Fair value is determined on the replacement cost of an asset with an equally satisfactorily substitute asset which is normally derived from the current acquisition cost of a similar asset, new or used, or of an equivalent productive capacity or service potential. In estimating the fair value of the properties, it takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g. size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and value of the assets.

Based on management's review of the recorded fair value of the tankers as of December 31, 2013 and 2012, such fair value reasonably approximates the fair value based on the latest appraisal report or of those dates as determined by an independent appraisers (see Notes 5.4 and 12.3).

(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, 2013 and 2012 will be fully utilized in the coming years. The carrying value of deferred tax assets as of December 31, 2013 and 2012 is disclosed in Note 24.

(g) Estimating Liability for Land Development

Obligations to complete development of real estate are based on actual costs and project estimates of contractors and Group's technical staff. 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, 2013 and 2012, are presented as part of accrued expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 17).

(h) Valuation of Post-employment Defined Benefit

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22 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 22.2.

(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 includes estimated costs for future development. The development cost of the project is estimated by the Group's technical staff. 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 2013, 2012 and 2011.

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 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 importation, which are primarily denominated in U.S. dollars. The liability covering the 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 16). 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 liabilities, translated into Philippine pesos at the closing rate follow:

	2013	2012
Financial assets	**P 1,174,762,469**	P 224,957,030
Financial liabilities	**(1,465,688,449)**	(2,107,635,570)
Exposure	**(P 290,925,980)**	(P 1,882,696,540)

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.

	2013	2012
Reasonably possible change in rate	**16.7%**	18.0%
Effect in profit before tax	**P 48,584,639**	P 338,885,377
Effect in equity after tax	**34,009,247**	237,219,764

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, 2013 and 2012, 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 16). All other financial assets and liabilities have fixed rates.

Cash in banks are tested on a reasonably possible change of +/-1.1% and +/- 1.4% in 2013 and 2012, respectively. Banks loans subject to variable interest rates are tested on a reasonably possible change of +/-1.67% and +/- 1.82% for Philippine peso and +/-0.69% and +/- 0.88% for U.S. dollar in 2013 and 2012, 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 +/-P85.9 million and +/- P96.7 million for the years ended December 31, 2013 and 2012, 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 on the face of the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below.

	Notes	**2013**	2012
Cash and cash equivalents	6	**P 357,220,520**	P 438,510,937
Trade and other receivables – net	7	**7,343,793,926**	3,557,002,879
Due from related parties	25.4	**2,747,994**	8,300,000
Restricted deposits	10, 14	**96,683,441**	83,946,941
Refundable rental deposits and deferred minimum lease payments	14	**215,505,911**	101,580,768
		P 8,015,951,792	P4.189,341,525

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:

	2013	2012
Not more than one month	**P 182,306,369**	P 49,229,451
More than one month but not more than two months	**149,532,251**	59,529,182
More than two months but not more than six months	**120,856,868**	26,448,069
More than six months but not more than one year	**69,157,737**	54,931,311
More than one year	**45,598,603**	37,288,853
	P 567,451,828	P 227,426,866

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 period. 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, 2013, the Group's liabilities have contractual maturities which are summarized as follows:

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years
Interest-bearing loans and borrowings	P6,050,573,611	P2,726,331,756	P6,007,722,903
Trade and other payables (excluding income tax payable)	1,109,068,989	451,750,258	-
Due to related parties	33,991,925	30,169,318	-
Security deposits and unearned rent	-	-	325,688,899
	P7,193,634,525	**P3,208,251,332**	**P6,333,411,802**

This compares to the maturity of the Group's financial liabilities as of December 31, 2012 as presented below:

	Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years
Interest-bearing loans and borrowings	P3,351,292,811	P 800,872,304	P5,841,294,690
Trade and other payables (excluding income tax payable)	636,433,027	903,350,245	-
Due to related parties	45,299,380	40,252,365	-
Security deposits and unearned rent	-	-	319,422,536
	P4,033,025,218	P1,744,474,914	P6,160,717,226

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 AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUE MEASUREMENTS AND DISCLOSURES

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	2013 Carrying Values	2013 Fair Values	2012 Carrying Values	2012 Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	6	**P 357,220,520**	**P 357,220,520**	P 438,510,937	P 438,510,937
Trade and other receivables-net	7	**7,343,793,926**	**7,343,793,926**	3,557,002,879	3,557,002,879
Due from related parties	25.4	**2,747,994**	**2,747,994**	8,300,000	8,300,000
Restricted deposits	10, 14	**96,683,441**	**96,683,441**	83,946,941	83,946,941
Refundable rental deposits and deferred minimum lease payments	14	**215,505,911**	**215,505,911**	101,580,768	101,580,768
		P 8,015,951,792	**P 8,015,951,792**	P 4,189,341,525	P 4,189,341,525
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	16	**P 13,751,738,817**	**P 13,751,738,817**	P 9,915,321,797	P 9,915,321,797
Trade and other payables*	17	**1,560,819,247**	**1,560,819,247**	1,539,783,272	1,539,783,272
Due to related parties	25.4	**64,161,243**	**64,161,243**	85,551,745	85,551,745
Security deposits and unearned rent	18	**325,688,899**	**325,688,899**	319,422,536	319,422,536
		P 15,702,408,206	**P 15,702,408,206**	P 11,860,079,350	P 11,860,079,350

**Excludes income tax payable*

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 non-financial assets which are measured at fair value on a 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 2013 consolidated statement of financial position but for which fair value is disclosed.

	Notes	Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	6	P 357,220,520	P -	P -	P 357,220,520
Trade and other receivables - net	7	-	-	7,343,793,926	7,343,793,926
Due from related parties	25.4	-	-	2,747,994	2,747,994
Restricted deposits	10, 14	-	-	96,683,441	96,683,441
Refundable rental deposits and deferred minimum lease payments	14	-	-	215,505,911	215,505,911
		P 357,220,520	**P -**	**P7,658,731,272**	**P8,015,951,792**

	Notes	Level 1	Level 2	Level 3	Total
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	16	P -	P -	P 13,751,738,817	P 13,751,738,817
Trade and other payables	17	-	-	1,560,819,247	1,560,819,247
Due to related parties	25.4	-	-	64,161,243	64,161,243
Security deposits and unearned rent	18	-	-	325,688,899	325,688,899
		P -	P -	**P 15,702,408,206**	**P 15,702,408,206**

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 above 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 table below shows the Level within the hierarchy of non-financial asset measured at fair value on a recurring basis as of December 31, 2013.

	Note	Level 1	Level 2	Level 3	Total
Property and Equipment					
Tankers	12	P -	P -	P 2,692,719,034	P2,692,719,034

The fair value of the Group's tankers (see Note 12.3) was determined based on the appraisal report of professional and independent appraisers. Management obtains appraisal reports on its tanker from independent appraisers at least every two years. The latest appraisal report obtained covers the year ended December 31, 2012.

Fair value was determined based on the replacement cost of an asset with an equally satisfactorily substitute asset, which is normally derived from the current acquisition cost of a similar asset, new or used, or of an equivalent productive capacity or service potential. In estimating the fair value of tankers, the highest and best use of the tanker is its current use.

b) Other Fair Value Information

The reconciliation of the carrying amount of tankers included in Level 3 is presented in Note 12.

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 2013.

5.5 Offsetting of Financial Assets and Financial Liabilities

The Group is not setting off financial instruments and does not have relevant offsetting arrangements as of December 31, 2013 and 2012.

6. CASH AND CASH EQUIVALENTS

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

	2013	2012
Cash on hand	**P 7,731,306**	P 5,104,365
Cash in banks	**249,585,435**	293,191,196
Revolving fund	**21,213,984**	20,000
Short-term placements	**78,689,795**	140,195,376
	P 357,220,520	P 438,510,937

Cash accounts with the banks generally earn interest based on daily bank deposit rates ranging from 0.03% to 3.00% per annum in 2013 and 2012. Short-term placements have maturity ranging from 7 to 90 days and earn effective interest ranging from 2.1% to 4.8% per annum in 2013 and 2012. Interest income earned amounted to P8.5 million, P9.4 million and P7.8 million in 2013, 2012 and 2011, respectively, and is included as part of Finance Income in the statements of comprehensive income (see Note 21.2).

The balances of the cash on hand and in banks as of December 31, 2013 and 2012 exclude restricted cash amounting to P96.7 million and P83.9 million, respectively, which are shown as Restricted Deposits account (see Note 10) and restricted time deposits under Other Non-current Assets (see Note 14) 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 16.3).

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	2013	2012
Trade receivables:			
Third parties		**P6,323,073,299**	P 2,561,932,974
Related parties	25.1	**37,334,222**	88,444,125
		6,360,407,521	2,650,377,099
Advances to suppliers		**926,304,898**	881,428,714
Non-trade receivables		**237,344,364**	189,816,532
Advances subject to liquidation		**14,793,393**	10,648,302
Other receivables		**49,257,584**	51,087,064
		7,588,107,760	3,783,357,711
Allowance for impairment		**(244,313,834)**	(226,354,832)
		P7,343,793,926	P 3,557,002,879

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, 2013 and 2012. Impairment losses amounted to P18.0 million, P37.9 million and P27.3 million in 2013, 2012 and 2011, respectively, and are presented as part of Finance Costs under the Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 21.1).

A reconciliation of the allowance for impairment at the beginning and end of 2013 and 2012 is shown below:

	Note	2013	2012
Balance at beginning of year		**P 226,354,832**	P 188,503,775
Impairment loss during the year	21.1	**17,959,002**	37,851,057
Balance at end of year		**P 244,313,834**	P 226,354,832

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

Other Receivables as of December 31, 2013 and 2012 include P23.8 million partial claims from an insurance company related to an incident encountered by one of the Group's vessels. The amount represents the costs of towing and repairs incurred for the vessel, net of the applicable deductible clause. In addition, this account includes P18.2 million and P12.3 million as of December 31, 2013 and 2012, respectively, worth of reimbursable costs incurred by the Group in relation to its TC agreement with certain third party.

Certain trade receivables amounting to P15.5 million and P43.4 million as of December 31, 2013 and 2012, respectively, were used as collateral to the Group's interest-bearing loans and borrowings [see Notes 16.3(a), 16.3(b) and 16.3(e)].

8. INVENTORIES

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

	2013	2012
Fuel	**P 3,589,175,766**	P 3,500,956,712
Lubricants	**223,353,772**	187,791,452
Others	**3,135**	11,512
	P 3,812,532,673	P 3,688,759,676

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of P3,589.2 million and P2,838.9 million as of December 31, 2013 and 2012, respectively, have been released to the Group in trust for the bank. The Group is accountable to the bank for the trusteed inventories or their sales proceeds (see Note 16.1). 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 for the year is presented in Note 19.1.

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:

	2013	2012
Land held for sale	**P 483,927,707**	P 483,927,707
Land development costs	**19,744,767**	18,102,852
	P 503,672,474	P 502,030,559

The land held for sale was used as security for the Group's installment payable with Land Bank of the Philippines (LBP) [see Note 16.2(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, 16.1 and 16.3) amounting to P95.4 million and P82.7 million as of December 31, 2013 and 2012, 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 16.1). Interest rates for this type of deposit range from 2.40% to 5.975% 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:

	Note	**2013**	2012
Creditable withholding tax		**P 174,300,564**	P 96,343,991
Prepayments		**167,721,208**	109,010,019
Supplies		**144,038,688**	67,601,838
Others	29.8	**3,852,717**	9,404,674
		P 489,913,177	P 282,360,522

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2013 and 2012 are shown below.

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Tankers	Vessel Equipment	Land	Construction in Progress	Total
December 31, 2013											
Cost	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	**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**
December 31, 2012											
Cost	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	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
January 1, 2012											
Cost	P 2,448,096,169	P 55,242,472	P 343,448,606	P 64,838,151	P 188,602,020	P 59,218,964	P 1,573,097,981	P 8,144,218	P 294,582,257	P 1,369,210,820	P 6,404,481,658
Accumulated depreciation and amortization	(287,466,953)	(26,720,521)	(84,390,166)	(51,227,279)	(115,771,597)	(50,707,700)	(214,235,251)	(1,691,418)	-	-	(832,210,885)
Net carrying amount	P 2,160,629,216	P 28,521,951	P 259,058,440	P 13,610,872	P 72,830,423	P 8,511,264	P 1,358,862,730	P 6,452,800	P 294,582,257	P 1,369,210,820	P 5,572,270,773

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 of property and equipment is shown below.

	Buildings, Depot and Pier Facilities	Leasehold and Land Improvements	Gasoline Station Equipment	Office Furniture and Equipment	Hauling and Heavy Equipment	Transportation and Other Equipment	Tankers	Vessel Equipment	Land	Construction in Progress	Total
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	(146,518,905)	(8,339,940)	(110,243,998)	(9,324,520)	(75,347,791)	(4,823,419)	(104,234,401)	(25,146,802)	-	-	(483,979,776)
Balance at December 31, 2013, 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**
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 2,160,629,216	P 28,521,951	P 259,058,440	P 13,610,872	P 72,830,423	P 8,511,264	P 1,358,862,730	P 6,452,800	P 294,582,257	P 1,369,210,820	P 5,572,270,773
Additions	277,171,382	916,669	64,971,675	11,202,741	56,929,002	4,395,476	136,041,924	93,530,147	30,490,875	803,220,556	1,478,870,447
Revaluation increment	-	-	-	-	-	-	331,807,097	-	-	-	331,807,097
Transfers	359,647,830	(503,008)	(1,137,573)	(299,581)	96,174,777	56,465	894,886,847	7,696,995	(10,255,919)	(1,346,266,833)	-
Cost of asset disposed	-	-	(190,000)	(278,384)	(3,591,490)	(475,895)	-	-	-	-	(4,535,769)
Accumulated depreciation of asset disposed		-	-	97,633	1,703,533	-	-	-	-	-	1,801,166
Depreciation and amortization charges for the year	(200,875,943)	(7,926,081)	(5,865,806)	(8,349,502)	(47,660,847)	(8,001,391)	(91,809,951)	(10,938,375)	-	-	(381,427,896)
Balance at December 31, 2012, 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

12.1 Acquisition of Vessel – MT Donatella

In 2013, the Group entered into a Memorandum of Agreement (MOA) with a foreign corporation for the importation of one unit of oil tank vessel (MT Donatella) from China for US$21.2 million [see Note 16.2(g)]. As of December 31, 2013, the vessel is still under construction. Since the vessel is not yet ready for use as of December 31, 2013, 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.

MT Donatella is used as collateral to secure the payment of interest-bearing loan obtained to finance the acquisition of the vessel [see Note 16.2(g)].

12.2 Double Hull Conversion of Vessels

On December 14, 2010, Philippine Maritime Industry Authority (MARINA) issued Circular 2010-01, mandating all owners and operators of oil tankers and tanker-barges with 600 deadweight tonnage and above must be double hulled within twelve months from the effectivity of the Circular. However, oil tankers carrying petroleum black products shall continue to be covered under Circular 2007-01 regardless of size.

As of December 31, 2012, MT Chelsea Resolute, MT Chelsea Denise and MT Ernesto Uno have completed their double hulling. Total costs that were capitalized as part of tanker amounted to P32.3 million, P30.3 million and P27.3 million, respectively. After the completion of the double hulling of these tankers in 2012, all of the Group's tankers are double-hulled. There was no double hulling of the Group's tankers in 2013.

12.3 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 26.5).

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 at cost model, the cost, accumulated depreciation and net carrying amount as of December 31 would be as follows:

	2013	2012
Cost	**P4,965,854,382**	P 2,479,523,748
Accumulated depreciation	**(648,495,535)**	(269,952,387)
	P 4,317,358,847	P 2,209,571,361

12.4 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 P71.4 million and P77.8 million as of December 31, 2013 and 2012, 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 2013 and 2012.

12.5 Collaterals

Port expansion facilities with carrying value of P192.9 million and P211.6 million as of December 31, 2013 and 2012, respectively, are used to secure the Group's installment payable with LBP [see Note 16.2(a)].

Two of the tankers of the Group with net revalued amount of P317.5 million and P331.5 million as of December 31, 2013 and 2012, respectively, are used to secure a loan with Philippine Bank of Communication (PBComm) [see Note 16.2(c)].

Certain property and equipment with an aggregate carrying value of P24.2 million and P42.5 million as of December 31, 2012, 2011 and 2010, respectively, are mortgaged with local banks [see Note 16.2(h)].

As of December 31, 2013 and 2012, certain tankers owned by the Group were used as collaterals for the interest-bearing loans from various local commercial banks (see Note 16.4).

Moreover, certain service vehicle of the Group with carrying value of P40.9 million and P18.4 million as of December 31, 2013 and 2012, respectively, was used as collateral for mortgage payable (see Note 16.5).

12.6 Finance Lease

The carrying amount of hauling and heavy equipment held under finance lease amounted to P23.7 million and P25.5 million as of December 31, 2013 and 2012, respectively (see Note 16.6).

12.7 Depreciation

The amount of depreciation and amortization is allocated as follows:

	Notes	**2013**	2012	2011
Cost of services	19.2	**P 149,726,182**	P 122,984,227	P 78,484,830
Selling and administrative expenses		**334,253,594**	258,443,669	203,427,098
	20	**P 483,979,776**	P 381,427,896	P 281,911,928

As of December 31, 2013 and 2012, the cost of fully-depreciated property and equipment still used in operations amounted to P146.7 million and P81.6 million, respectively.

13. 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 16.2(a)].

14. OTHER NON-CURRENT ASSETS

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

	Notes	2013	2012
Refundable rental deposits	25.3	**P 180,951,286**	P 69,234,807
Drydocking costs		**46,588,245**	64,433,228
Deferred minimum lease payments		**34,554,625**	32,345,961
Restricted time deposits	6	**1,263,795**	1,252,912
Others		**6,857,099**	540,440
		P 270,215,050	P 167,807,348

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 total day one loss is determined by calculating the present value of the cash flows anticipated until the end of the lease terms using the related market interest-free rates and is amortized over the lease term. As the refundable rental deposits do not have an active market, the underlying interest rates were determined by reference to market interest rate of comparable financial instrument.

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 2013 and 2012 of drydocking costs.

	Notes	2013	2012
Balance at beginning of year		**P 64,433,228**	P 31,556,905
Additions		**26,597,993**	57,263,996
Amortization during the year	19.2, 20	**(44,420,301)**	(24,387,673)
Disposal		**(22,675)**	-
		P 46,588,245	P 64,433,228

Amortization pertaining to drydocking costs is presented as part of Depreciation and Amortization account under Cost of Sales and Services account in the consolidated statements of comprehensive income (see Note 19.2).

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

15. GOODWILL

Goodwill amounting to P84.5 million as of December 31, 2013 and 2012, 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, impairment loss amounting to P1.3 million was recognized and is presented as part of Others under Other Income (Charges) account in the 2012 consolidated statement of comprehensive income.

16. INTEREST-BEARING LOANS AND BORROWINGS

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

	2013	2012
Current:		
Liabilities under letters of credits and trust receipts	**P6,777,195,674**	P 2,838,941,626
Installment and notes payable	**1,104,979,911**	927,181,333
Term loans	**255,841,741**	297,156,898
Bank loans	**55,923,184**	41,696,363
Mortgage payable	**5,729,784**	6,692,616
Obligations under finance lease	**7,559,190**	7,678,316
	P8,207,229,484	P 4,119,347,152
Non-current:		
Installment and notes payable	**P4,678,622,549**	P 5,140,949,740
Term loans	**799,094,377**	587,482,550
Bank loans	**50,012,446**	37,384,848
Mortgage payable	**3,553,774**	9,842,589
Obligations under finance lease	**13,226,187**	20,314,918
	P5,544,509,333	P 5,795,974,645

16.1 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 6.50% per annum in 2013, 2012 and 2011.

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 10 and 25.6).

16.2 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 and P320.2 million as of December 31, 2013 and 2012, respectively, which is presented as part of land held for sale (see Note 9) and land held for future development (see Note 13), and port expansion facilities with carrying value of P192.9 million and P211.6 million as of December 31, 2013 and 2012, respectively, which is presented as part of buildings, depot and pier facilities (see Note 12.5).

(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.

(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 thirty-six 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 of the Group with net book value amounting to P317.5 million and P331.5 million as of December 31, 2013 and 2012, respectively (see Note 12.5).

The loan agreement requires the Group to maintain a debt-to-equity ratio of not more than 4:1. As of December 31, 2013 and 2012, the Group has complied with its debt covenants with the bank.

(d) OLSA with BDO

On April 26, 2011, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit of oil tank (MT 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 twenty-seven consecutive equal quarterly principal installments starting in August 2012. The loan is subject to interest computed at one-year LIBOR plus applicable margin of 3.5% per annum.

In connection with the OLSA, certain advances made by certain stockholders are subordinated to the loan. Based on said agreement, the obligation of the Group to pay the stockholders' advances shall be fully subordinated, junior and subject in right of payment to the prior indefeasible payment and performance in full of the OLSA. The Group affirms that any and all obligations of the Group relative to the OLSA shall be settled first before any of its financial obligations to such shareholders' advances are paid. Accordingly, portion of the advances from shareholders are treated as non-current liabilities (see Note 25.6). In 2012, however, upon the increase in the Group's capitalization, subordination agreement was lifted by the bank in 2012.

The loan is secured by a chattel mortgage on certain tanker (MT Thelma) of the Group with a net carrying amount of P924.7 million as of December 31, 2013, and of certain tankers (MT Thelma and MT Excellence) with net revalued amount totaling P1,059.8 million as of December 31, 2012.

Related debt issuance costs amounted to P8.2 million of which P2.3 million was amortized during both 2013 and 2012, 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 Income (Charges) account in the consolidated statements of comprehensive income (see Note 21.1). The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

(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 any time 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 availment 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.

As of December 31, 2013 and 2012, 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 need 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. As of December 31, 2012, the total amount of the loan has already been drawn down.

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.

As of December 31, 2013 and 2012, the Group has complied with its debt covenants.

(g) OLSA with BDO – MT Donatella

In 2013, the Group entered into a MOA with China Shipbuilding & Exports Corporation for the importation of one unit oil tank (MT Donatella) 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 shall be availed of by the Group in 2014. The loan is payable for a period of five years in equal quarterly principal installments, 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 P3.3 million and is shown as part of Finance Costs under Other Income (Charges) in the 2013 consolidated statement of comprehensive income. Related debt issuance costs amounted to P6.2 million of which P0.1 million was amortized during 2013 using effective interest rate of 5.54%. Amortized debt issuance cost was also recognized as part of the Finance Costs under Other Income (Charges) in the 2013 consolidated statement of comprehensive income. 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 Donatella upon its delivery and registration with the Maritime Industry Authority. The carrying amount of MT Donatella, presented as part of construction in progress, amounted to P418.6 million as of December 31, 2013 (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. Management believes that the DCR will be met once PNX – Chelsea starts operations; hence, the application for the waiver will be approved by the local bank. Accordingly, the Group still classified the liability as non-current.

(h) Notes Payable

The Group availed of various borrowings from 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 12.5).

16.3 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 tank (vessel) 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.

In 2010, DBP approved the reduction of interest rate from 10.5% to 9% subject to annual review effective September 14, 2010. The agreement also stipulated for interest-bearing hold-out deposits amounting to at least P10.0 million. The Hold-out Deposits were agreed to be released by the DBP in 2012. Hold-out deposit earns interest at the rate of 2.5% per annum. In the 2012, DBP further reduced the interest rate to 7.5% effective March 23, 2012.

The loan is secured by a chattel mortgage on certain vessel of the Group with net book value amounting to P777.8 million and P808.1 million as of December 31, 2013 and 2012, respectively. The loan is also secured by certain collateral on receivables of CSC and guaranteed by certain stockholders of the Group (see Notes 7 and 25.6).

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

On November 23, 2011, the Group entered into a loan agreement with RBC amounting to P65.0 million to partly finance the double hulling and drydocking of certain vessel of the Group (see Note 12.2). The loan is subject to annual interest rate of 8.0% and is payable in twenty-four equal monthly installments.

The loan is secured by a chattel mortgage on one of the vessels of the Group with net book value amounting to P124.2 million and P130.7 million as of December 31, 2013 and 2012, respectively, and receivables of CSC from certain customer (see Note 7). The loan is also guaranteed by certain stockholders of CSC.

The loan agreement requires CSC to maintain debt-to-equity ratio of not more than 3:1 and debt coverage ratio of at least 1.20. CSC filed a waiver with RBC for the debt covenant ratios. No response was received from RBC. However, management believes that its application for the waiver will be approved by RBC. Accordingly, the Group still classified certain portion of liability as non-current (see Note 29.7).

(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 ration of at least 1:1 and debt coverage ratio of at least 1.5.

As of December 31, 2013 and 2012, the Group has complied with its debt covenants with the bank.

(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 ration 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 P794.8 million and P987.2 million, translated into Philippine Peso using the closing rate as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, 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.

As of December 31, 2013, the interest-bearing loans amounted to P100 million, of which P11.1 million was presented under current liabilities section in the consolidated statement of financial position.

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

Certain trade receivables amounting to P8.3 million were assigned to secure the payment of these interest-bearing loans (see Note 7).

16.4 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 2013 and 2012, subject to monthly repricing. These loans are secured by certain vessels (MT Chelsea Intrepid, Patricia and Ernesto Uno) owned by the Group with net book value, amounting to P201.9 million and P349.8 million as of December 31, 2013 and 2012, respectively (see Note 12.5), and by certain stockholders (see Note 25.6).

16.5 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 12.5).

16.6 Obligations under Finance Lease

The finance lease liability has an effective interest rate of 5.07% which is equal to the rate implicit in the lease contract (see Note 29.5). Lease payments are made on a monthly basis.

16.7 Credit Line

The Parent Company has an available credit line of P11.0 billion and P10.0 billion under LC and TR, respectively. 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 2013, 2012 and 2011presented as part of Finance Costs account in the statements of comprehensive income amounted to P617.5 million, P467.4 million and P305.4 million (see Note 21.1), respectively, net of the capitalized borrowing cost of P71.4 million, P77.8 million and P91.2 million as of December 31, 2013, 2012 and 2011, respectively (see Note 12.4).

17. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	**2013**	2012
Trade payables	25.2, 25.5	**P 746,957,493**	P 565,867,953
Accrued expenses		**362,111,496**	417,054,888
Advances from customers		**290,926,769**	410,478,006
Retention payable		**106,903,516**	62,783,769
Non-trade payables		**22,462,466**	51,390,519
Income tax payable		**9,608,080**	7,321,912
Others	29.8	**31,457,507**	32,208,137
		P1,570,427,327	P 1,547,105,184

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.

The advances from customers include option money from two different locators amounting to P0.1 million as of December 31, 2013 and 2012. The said locators have the right and option to purchase subject properties under the terms and condition agreed by the said locator and the Group. However, in the event that the said locator does not exercise its right to purchase the subject properties, the option money shall be refunded to the said locator plus interest at the rate equivalent to the prevailing treasury bill rate plus 2% per annum.

In addition, the 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.

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.

18. OTHER NON-CURRENT LIABILITIES

This account consists of:

	Note	2013	2012 (As Restated – see Note 2.2)
Security deposits		**P 275,962,723**	P 270,272,999
Post-employment defined benefit obligation	22.2	**51,100,685**	36,440,105
Unearned rent		**49,726,176**	49,149,537
Others		**-**	995,395
		P 376,789,584	P 356,858,036

Security deposits represent deposits received from dealers for the lease of retail stations and equipment that are installed in retail stations and are refundable at the end of the lease terms. The deposits are carried at amortized cost using the effective interest rates at the inception of the lease contracts. The day one gain is determined by calculating the present value of the cash flows anticipated until the end of the lease term using certain risk-free rates and is amortized over the lease terms. As the deposits do not have an active market, the underlying interest rates were determined by reference to market interest rate of comparable financial instrument.

19. COST OF SALES AND SERVICES

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

	Notes	2013	2012	2011
Cost of fuels and lubricants sold	19.1	**P 39,785,623,659**	P 31,444,710,716	P 24,646,048,111
Cost of services	19.2	**460,109,294**	517,038,697	426,399,961
Cost of real estate sold	20	**2,433,131**	-	255,169,157
	20, 25.2	**P 40,248,166,084**	P 31,961,749,413	P 25,327,617,229

19.1 Cost of Fuels and Lubricants Sold

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

	Note	2013	2012	2011
Inventories at beginning of year	8	**P 3,688,759,676**	P 2,132,622,405	P 1,051,658,928
Net purchases during the year		**39,909,396,656**	33,000,847,987	25,727,011,588
Goods available for sale		**43,598,156,332**	35,133,470,392	26,778,670,516
Inventories at end of year	8	**(3,812,532,673)**	(3,688,759,676)	(2,132,622,405)
		P 39,785,623,659	P 31,444,710,716	P 24,646,048,111

19.2 Cost of Services

Details of cost of services are shown below:

	Notes	2013	2012	2011
Depreciation and amortization	12, 14	**P 194,146,483**	P 147,371,900	P 95,682,649
Salaries and employees benefits		**50,522,176**	29,065,941	39,170,418
Professional fees		**43,989,983**	42,067,106	19,219,086
Charter hire fees		**34,795,266**	71,143,057	52,127,126
Insurance		**34,095,778**	25,329,791	23,277,799
Repairs and maintenance		**24,474,791**	19,611,488	18,785,445
Port expenses		**23,934,889**	58,257,723	58,067,686
Service fees	25.5	**20,611,959**	-	-
Taxes and licenses		**11,593,974**	7,745,126	8,508,543
Bunkering		**11,540,954**	106,973,168	97,707,682
Fuel, gas and lubricants		**4,798,629**	4,974,245	9,630,985
Security services		**1,644,570**	1,210,469	1,022,920
Outside services		**1,487,408**	-	760,118
Others		**2,472,434**	3,288,683	2,439,504
		P 460,109,294	P 517,038,697	P 426,399,961

20. COSTS AND EXPENSES BY NATURE

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

	Notes	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Cost of sales:				
Fuels		**P 39,571,822,572**	P 31,046,564,548	P 24,388,755,788
Lubricants		**213,801,087**	398,146,168	257,292,323
Depreciation and amortization	12, 14	**528,400,077**	405,815,569	299,109,747
Rent	25.3, 29.3	**364,369,594**	240,876,571	170,267,139
Salaries and employee benefits	22.1	**287,613,201**	208,734,347	209,605,521
Trucking charges		**267,300,218**	130,451,226	45,371,313
Advertising and promotions		**176,373,387**	84,473,675	92,164,872
Taxes and licenses		**118,231,983**	132,946,735	102,745,421
Professional fees		**92,185,195**	85,399,457	52,580,571
Service fees		**81,910,722**	81,392,862	14,221,848
Repairs and maintenance		**69,675,294**	61,023,908	50,722,433
Insurance		**62,357,917**	49,923,821	48,880,236
Freight charges		**56,992,995**	50,386,551	109,270,579
Rebates		**49,470,808**	40,802,132	36,277,742
Utilities		**49,221,472**	33,806,011	27,489,547
Travel and transportation		**40,005,732**	35,184,779	32,378,270
Charter hire fees		**34,795,266**	33,546,169	50,427,126
Fuel, oil and lubricants		**33,792,075**	49,339,252	54,281,743
Security fees		**33,738,550**	26,108,756	14,807,846
Port expenses		**23,559,968**	59,299,038	58,067,687
Representation		**18,658,934**	12,761,925	12,596,174
Bunkering		**13,420,044**	62,899,266	97,707,682
Office supplies		**10,668,819**	12,775,030	12,341,093
Outside services		**6,853,856**	9,585,134	1,369,795
Cost of real estate sold	19	**2,433,131**	-	255,169,157
Handling and processing fees		**-**	9,285,094	8,634,724
Miscellaneous	25.8	**31,973,325**	73,882,995	77,283,466
		P 42,239,626,222	P 33,435,411,019	P 26,579,819,843

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

	Note	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Cost of sales and services	19	**P 40,248,166,084**	P 31,961,749,413	P 25,327,617,229
Selling and administrative expenses		**1,991,460,138**	1,473,661,606	1,252,202,614
		P 42,239,626,222	P 33,435,411,019	P 26,579,819,843

21. FINANCE INCOME (COSTS)

The breakdown of these accounts follows:

21.1 Finance Costs

	Notes	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Interest expense on bank loans and other borrowings	16	**P 617,451,997**	P 467,358,205	P 305,402,087
Foreign currency exchange losses – net		**27,100,014**	-	-
Impairment losses on trade and other receivables	7	**17,959,002**	37,851,057	27,252,323
Bank charges		**4,105,360**	9,033,059	13,882,667
Interest expense from post-employment defined benefit obligation	22.2	**2,413,691**	1,499,078	1,431,329
Others		**-**	3,979,094	-
		P 669,030,064	P 519,720,493	P 347,968,406

21.2 Finance Income

	Note	2013	2012	2011
Interest income from cash in banks	6	**P 8,481,577**	P 9,406,440	P 7,834,039
Foreign currency exchange gains – net		**-**	14,061,359	781,821
Day one gain – net		**-**	1,161,552	13,312,527
		P 8,481,577	P 24,629,351	P 21,928,387

22. EMPLOYEE BENEFITS

22.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below.

	Notes	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Short-term benefits:				
Salaries and wages		**P 225,401,424**	P 91,118,445	P 96,927,785
Employee welfare and other benefits		**42,348,608**	101,719,266	105,726,194
13th month pay and bonuses		**10,645,506**	10,975,301	3,062,638
Post-employment defined benefit	22.2	**9,217,663**	4,921,335	3,888,904
	20	**P 287,613,201**	P 208,734,347	P 209,605,521

22.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Group has an unfunded and noncontributory post-employment defined benefit plan. 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 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 2.2(a)(ii).

The amount of post-employment defined benefit obligation, which is presented as part of Other Non-current Liabilities account (see Note 18) in the consolidated statements of financial position pertains to the present value of the obligation amounting to P51.1 million and P36.4 million as of December 31, 2013 and 2012, respectively.

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows (see Note 18):

	2013	2012 (As Restated - see Note 2.2)
Balance at beginning of year	**P 36,440,105**	P 16,815,536
Current service cost	**9,217,663**	4,921,335
Interest expense	**2,413,691**	1,499,078
Remeasurements:		
Actuarial losses (gains) arising from:		
- changes in financial assumptions	**7,880,254**	(371,380)
- changes in demographic assumptions	**(41,748,870)**	-
- experience adjustments	**37,016,452**	13,678,177
Benefits paid	**(118,610)**	(102,641)
Balance at end of year	**P 51,100,685**	P 36,440,105

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:

	Notes	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Reported in profit or loss:				
Current service cost	22.1	**P 9,217,663**	P 4,921,335	P 3,888,904
Interest expense	21.1	**2,413,691**	1,499,078	1,431,329
		P 11,631,354	P 6,420,413	P 5,320,233
Reported in other comprehensive income:				
Actuarial losses arising from changes in:				
- financial assumptions		**P 7,880,254**	(P 371,380)	P -
- demographic assumptions		**(41,748,870)**	-	-
- experience adjustments		**37,016,452**	13,678,177	166,617
		P 3,147,836	P 13,306,797	P 166,617

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 22.1).

The interest expense is included as part of Finance Costs under the Other Income (Charges) account (see Note 21.1).

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

	2013	2012	2011
Discount rates	**4.60% to 5.32%**	5.20% to 6.20%	5.20% to 10.44%
Expected rate of salary increases	**5.00% to 8.00%**	5.00% to 7.00%	5.00% to 10.00%

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 bonds 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 interest rate risk, longevity risk and salary risk.

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 bonds will increase the plan obligation.

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.

Sensitivity Analysis

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
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.

Funding Arrangements and Expected Contributions

The plan is currently unfunded. While there are no minimum funding requirement in the country, the unfunded status of the plan may pose a cash flow risk in about 21 years' time when a significant number of employees is expected to retire.

The Group does not expect to make contribution to the plan during the next financial year.

The maturity profile of undiscounted expected benefit payments from the plan within ten years as of December 31, 2013, follows:

Within one year	P 11,722,940
More than one year to five years	39,511,615
More than five years to ten years	34,341,627
	P 85,576,182

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

23. REGISTRATION WITH THE BOARD OF INVESTMENTS

23.1 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 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.

23.2 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 (Downstream Oil Industry Deregulation Act) 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 23.1. The ITH will expire five years from November 25, 2010.

23.3 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 (Downstream Oil Industry Deregulation Act) 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.

23.4 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 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.

23.5 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.

23.6 BOI Registration for MT Thelma and MT Cherylyn

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT 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 Thelma started in November 2011. ITH incentives shall be limited only to the revenues generated by the registered project.

24. TAXES

The components of tax expense as reported in the consolidated profit or loss follow:

	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 28,307,638**	P 14,677,522	P 34,644,588
Final tax at 20% and 7.5%	**1,635,260**	1,564,032	1,558,077
Minimum corporate income tax (MCIT) at 2%	**1,822,943**	462,671	3,357,172
	31,765,841	16,704,225	39,559,837
Deferred tax expense (income) relating to origination and reversal of temporary diffferences	**(30,386,688)**	3,169,323	1,600,176
	P 1,379,153	P 19,873,548	P 41,160,013
Reported in other comprehensive income:			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 1,109,855**	P 95,550,091	(P 16,829,428)

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:

	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Tax on pretax profit at 30%	**P 199,931,027**	P 201,355,110	P 179,661,657
Adjustment for income subjected to lower income tax rates	**(909,213)**	(1,257,900)	(792,135)
Tax effects of:			
Adjustment for income and expenses under income tax holiday	**(201,324,277)**	(186,809,228)	(138,176,875)
Unrecognized deferred tax asset	**47,988**	22,060	97,997
Non-deductible expenses	**3,633,628**	11,600,817	3,274,649
Non-taxable income	**-**	(5,392,024)	(3,144,198)
Reversal of net operating loss carry over (NOLCO)	**-**	354,713	238,918
Tax expense reported in profit or loss	**P 1,379,153**	P 19,873,548	P 41,160,013

The net deferred tax liabilities as of December 31, 2013 and 2012 pertain to the following:

	Consolidated Statements of Financial Position		**Consolidated Statements of Comprehensive Income**					
			Profit or Loss			**Other Comprehensive Income (Loss)**		
	2013	2012 (As Restated - see Note 2.2)	**2013**	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	**2013**	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Deferred tax assets:								
Retirement benefit obligation	**P 15,330,207**	P 10,932,030	**P 3,453,825**	P 1,895,332	P 2,716,851	**P 944,352**	P 3,992,039	P 49,985
NOLCO	**13,662,197**	16,872,444	**(3,210,247)**	4,346,930	(17,297,124)	**-**	-	-
Unrealized foreign currency losses (gains) – net	**10,954,840**	(10,726,537)	**21,681,377**	(11,051,466)	(338,289)	**-**	-	-
Impairment losses	**10,944,461**	9,910,534	**1,033,927**	1,355,842	1,207,465	**-**	-	-
MCIT	**2,696,022**	1,254,327	**1,441,695**	(5,907,021)	10,582,833	**-**	-	-
Accrued loss on contamination	**2,057,831**	2,057,831	**-**	-	-	**-**	-	-
Accrued rent	**65,992**	65,992	**-**	-	65,992	**-**	-	-
	55,711,550	30,366,621	**24,400,577**	(9,360,383)	(3,062,272)	**944,352**	3,992,039	49,985
Deferred tax liabilities:								
Revaluation reserves of tanker	**(122,809,003)**	(126,065,189)	**5,310,393**	5,173,210	3,405,691	**(2,054,207)**	(99,542,130)	16,779,443
Capitalized borrowing cost	**(8,222,176)**	(8,542,521)	**320,345**	320,345	320,345	**-**	-	-
Unamortized debt issuance cost	**(1,211,062)**	(1,566,435)	**355,373**	697,505	(2,263,940)	**-**	-	-
	(132,242,241)	(136,174,145)	**5,986,111**	6,191,060	1,462,096	**(2,054,207)**	(99,542,130)	16,779,443
Net deferred tax liabilities	**(P 76,530,691)**	(P 105,807,524)						
Net deferred tax income (expense)			**P 30,386,688**	(P 3,169,323)	(P 1,600,176)	**(P 1,109,855)**	(P 95,550,091)	P 16,829,428

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

Taxable Years	Original Amount	Tax Effect	Valid Until
2013	P 22,765,974	P 6,829,792	2016
2012	17,268,978	5,180,693	2015
2011	6,065,855	1,819,757	2014
	P 46,100,807	**P 13,830,242**	

Deferred tax asset on NOLCO of PGMI amounting to P168,045 and P350,965 as of December 31, 2013 and 2012, 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. PPMI and PPIPC's MCIT was higher than RCIT for the years 2013, 2012 and 2011. The Parent Company's MCIT was higher than RCIT in 2011.

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

Taxable Years	Normal Income Tax	MCIT	Excess of MCIT Over Income Tax	Tax Effect	Valid Until
2013	P -	P 1,822,943	P 1,822,943	P 1,822,943	2016
2012	-	719,079	719,079	719,079	2015
2011	-	154,000	154,000	154,000	2014
	P -	P 2,696,022	P 2,696,022	P 2,696,022	

In 2013, 2012 and 2011, the Group opted to claim itemized deductions in computing for its income tax due.

25. 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 significant transactions with its related parties as of December 31, 2013 and 2011, and for the years ended December 31, 2013, 2012 and 2011:

Related Party Category	Notes	Amount of Transactions 2013	2012	2011	Outstanding Balance 2013	2012
Other related parties under common ownership						
Sales of goods	7, 25.1	**P 39,139,112**	P 125,553,735	P 128,664,820	**P 37,334,222**	P 88,444,125
Purchases of services	17, 25.2	**-**	654,413,710	391,133,996	**-**	4,963,791
Rentals	25.3	**43,119,800**	53,004,744	6,695,421	**-**	-
Due from related parties	25.4	**(5,552,006)**	(15,311,686)	6,302,572	**2,747,994**	8,300,000
Due to related parties	25.4	**(21,390,502)**	24,371,146	(83,885,109)	**62,161,243**	83,551,745
Donations	25.8	**1,500,500**	5,298,172	5,100,000	**-**	-
Associate						
Technical ship Services	17, 19.2, 25.5	**20,611,959**	-	-	**3,205,287**	-
Other related party						
Due to related parties	25.4	**-**	-	-	**2,000,000**	2,000,000
Key management personnel						
Salaries and employee benefits	25.7	**50,027,748**	45,610,775	37,955,020	**-**	-

25.1 Sales of Goods

The Group sells products to certain related parties. 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 and do not bear any interest. No impairment loss was recognized in 2013, 2012 and 2011 based on Management's assessment.

25.2 Purchases of Services

The Group purchased services from related parties on the basis of price lists in force with non-related parties. The amounts of transactions are presented as part of the Cost of Sales and Services account in the consolidated statements of comprehensive income (see Note 19.1) while the related outstanding payables for services obtained as of December 31, 2013 and 2012 are presented as part of Trade Payables under the Trade and Other Payables account (see Note 17).

25.3 Rentals

The Group has the following lease agreements with the following related parties:

(a) Udenna Corporation – of which total rent expense incurred in the years 2013, 2012 and 2011 amounted to P6.5 million, P6.6 million and P6.3 million, respectively. There is no outstanding payable as of all the years presented.

(b) Udenna Development (UDEVCO) Corporation – of which total rent expense in 2013 and 2012 amounted to P28.5 million and P26.4 million, respectively and nil in 2011. Rental deposit for the lease amounted to P7.1 million and P7.4 million as of December 31, 2013 and 2012, respectively, and is presented as Refundable Rental Deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 14).

(c) Valueleases, Inc. – of which total rent expense in 2013, 2012 and 2011 amounted to P8.1 million, P20.0 million and P0.4 million, respectively. Refundable Rental Deposits amounted to P0.1 million as of December 31, 2013 and 2012, and is presented as part of Other Non-current Assets in the consolidated financial statements (see Note 14).

The rent expenses aforementioned are presented as part of Selling and Administrative Expenses in the consolidated statements of comprehensive income (see Notes 20 and 29.3).

25.4 Due from and Due to Related Parties

The Group grants and obtains unsecured advances to and from PPHI and other unconsolidated related companies for working capital requirements and other purposes.

As of December 31, 2013 and 2012, 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 noninterest-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 Udenna Environmental Services, Inc. amounting to P2.7 million and P8.3 million as of December 31, 2013 and 2012, respectively.

The movement of due from related parties as of December 31 is as follows:

	2013	2012
Balance at beginning of year	**P 8,300,000**	P 26,311,686
Additions	**17,362,078**	9,467,416
Collections	**(22,914,084)**	(27,479,102)
Balance at end of year	**P 2,747,994**	P 8,300,000

No impairment loss is recognized in 2013, 2012 and 2011 related to advances to related parties.

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

	2013	2012
Related parties under common ownership:		
UMRC	**P 62,161,243**	P 83,551,745
Other related party:		
Global International (Subic) Phils, Corp.	**2,000,000**	2,000,000
	P 64,161,243	P 85,551,745

The movement of Due to Related Parties in 2013 and 2012 follows:

	2013	2012
Balance at beginning of year	**P 85,551,745**	P 61,180,599
Additions	**-**	177,435,185
Payments	**(21,390,502)**	(153,064,039)
Balance at end of year	**P 64,161,243**	P 85,551,745

25.5 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 in 2013 is presented as Service Fees under the Cost of Sales and Services account in the 2013 consolidated statement of comprehensive income (see Note 19.2), while the related outstanding liability is presented as part of Trade and Other Payables in the 2013 consolidated statement of financial position (see Note 17).

25.6 Loan Collateral

(a) Surety and a negative pledge over the remaining shares of a stockholder secured the liabilities under letters of credits and trust receipts (see Note 16.1).

(b) The TLA with DBP, OLSA with BDO and PBComm, loan agreement with RBC and certain banks loans of the Group were guaranteed by certain stockholders through a surety agreement with the respective banks. The vessels owned by the Group were also used as security on particular loans.

25.7 Key Management Compensations

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

	2013	2012	2011
Salaries and wages	**P 40,724,453**	P 36,822,265	P 31,121,478
13th month pay and bonuses	**4,586,418**	4,129,412	3,625,681
Honoraria and allowances	**4,447,058**	4,416,398	3,000,011
Post-employment benefits	**269,819**	242,700	207,850
	P 50,027,748	P 45,610,775	P 37,955,020

25.8 Others

The Group has made donations amounting to P0.5 million, P1.5 million and P0.5 million in 2013, 2012 and 2011, 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 P1.0 million, P3.8 million and P4.6 million 2013, 2012 and 2011, respectively, to PhoenixPhilippines Foundation, Inc., 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 20).

26. EQUITY

26.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2013	2012	2011	**2013**	2012	2011
Preferred – cumulative, nonvoting, non-participating, non-convertible into common shares – P1 par value						
Authorized:	**50,000,000**	50,000,000	50,000,000	**P 50,000,000**	P 50,000,000	P 50,000,000
Issued and outstanding	**5,000,000**	5,000,000	5,000,000	**P 5,000,000**	P 5,000,000	P 5,000,000
Common shares – P1 par value						
Authorized:						
Balance at beginning of year	**2,500,000,000**	750,000,000	750,000,000	**P2,500,000,000**	P 750,000,000	P400,000,000
Increase in authorized stock	**-**	1,750,000,000	-	**-**	1,750,000,000	350,000,000
Balance at end of year	**2,500,000,000**	2,500,000,000	750,000,000	**P2,500,000,000**	P2,500,000,000	P750,000,000
Issued:						
Balance at beginning of year	**906,059,416**	661,123,014	548,075,739	**P 906,059,416**	P 661,123,014	P548,075,739
Issuance during the year	**193,000,000**	-	-	**193,000,000**	-	-
Stock dividends	**329,717,816**	244,936,202	113,043,634	**329,717,816**	244,936,202	113,043,634
Reclassification	**-**	200	3,641	**-**	200	3,641
Balance at end of year	**1,428,777,232**	906,059,416	661,123,014	**P1,428,777,232**	P 906,059,416	P661,123,014
				P1,433,777,232	P 911,059,416	P666,123,014

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 Board of Directors 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 Board of Directors 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 Board of Directors. 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 Board of Directors 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 Board of Directors 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 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.

In 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

The Parent Company has 45 and 41 stockholders owning 100 or more shares each of the Parent Company's capital stock as of December 31, 2013 and 2012, respectively.

Based on its plans, the Board of Directors of the Parent Company will also declare and distribute in 2014 cash dividends out of the Parent Company's retained earnings as of December 31, 2013.

26.2 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 145.0 million with an issue price of P9.80. As of December 31, 2013, the number of holders of such securities is 53. The market price of the Parent Company's shares as of December 31, 2013 is P4.50.

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

Transaction	Subscriber	Issue Date	Number of Shares
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	63,000,000
			1,312,777,232

26.3 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. The excess of par value of such issuance amounted to P1,248.9 million was recorded as part of 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.

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.

26.4 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.

26.5 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.

	Property and Equipment	Defined Benefit Obligation	Total
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	3,256,190	944,352	4,200,542
Other comprehensive loss after tax	(7,597,775)	(2,203,484)	(9,801,259)
Balance as of December 31, 2013	**P 286,554,327**	**(P 13,932,556)**	**P 272,621,771**

	Property and Equipment	Defined Benefit Obligation	Total
Balance as of January 1, 2012	P 73,957,965	(P 2,414,314)	P 71,543,651
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)	3,992,039	(90,376,878)
Other comprehensive income (loss) after tax	220,194,137	(9,314,758)	210,879,379
Balance as of December 31, 2012	P 294,152,102	(P 11,729,072)	P 282,423,030
Balance as of January 1, 2011	P 121,056,606	(P 2,297,682)	P 118,758,924
Remeasurements of defined post-employment obligation	-	(166,617)	(166,617)
Reversal of revaluation of tankers	(55,931,472)	-	(55,931,472)
Revaluation reserves of tankers sold	(1,101,067)	-	(1,101,067)
Depreciation transfer to retained earnings – revalued tankers	(9,779,350)	-	(9,779,350)
Other comprehensive loss before tax	(66,811,889)	(166,617)	(66,978,506)
Tax income	19,713,248	49,985	19,763,233
Other comprehensive loss after tax	(47,098,641)	(116,632)	(47,215,273)
Balance as of December 31, 2011	P 73,957,965	(P 2,414,314)	P 71,543,651

26.6 Retained Earnings

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.

On March 11, 2011, the stockholders ratified the BOD's approval of 30% stock dividends (or a total of 113.0 million shares), valued at par and distributed on May 6, 2011 to stockholders of record as of April 8, 2011. In addition, cash dividends of 10 centavos per common share totaling to P37.7 million were also declared and paid in 2011.
On March 21, 2011, June 21, 2011, September 21, 2011 and December 1, 2011, the BOD declared and approved the payment of cash dividend to preferred shareholders totaling to P70.7 million.

26.7 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:

	2013	2012 (As Restated – see Note 2.2)
Total liabilities	**P 15,839,647,662**	P 12,010,644,286
Total equity	**6,497,905,304**	4,482,170,994
Debt-to-equity ratio	**2.44 : 1.0**	2.68 : 1.0

The increase of the total liabilities in 2013 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 and premiums received on the issuance of shares.

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of 2.7 to 1.

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.

27. EARNINGS PER SHARE

EPS were computed as follows:

	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
a) Net profit pertaining to common shares	**P 608,047,331**	P 593,810,152	P 500,212,178
b) Net profit attributable to common shares and potential common shares	**608,047,331**	593,810,152	500,212,178
c) Weighted average number of outstanding common shares	**1,357,005,010**	1,235,777,232	1,235,777,032
d) Weighted average number of outstanding common and potential common shares	**1,357,005,010**	1,235,777,232	1,235,777,032
Basic EPS (a/c)	**P 0.45**	P 0.48	P 0.40
Diluted EPS (b/d)	**P 0.45**	P 0.48	P 0.40

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 16.2(e)].

The 2012 and 2011 basic and diluted EPS were restated for the changes brought about by the Group's adoption of PAS 19 (Revised) and the stock dividends declared which is considered as a bonus issue under PAS 33, *Earnings per Share*. PAS 33 requires to treat stock dividends issued as if it occurred at the beginning of 2011, the earliest period presented for EPS computation.

28. SEGMENT REPORTING

28.1 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.

28.2 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 accounts payable, trust receipts, wages, and accrued liabilities. Segment assets and liabilities do not include deferred tax assets or liabilities.

28.3 Intersegment Transactions

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

The tables presented in the next pages present revenue and profit information regarding business segments of the Group for the years ended December 31, 2013, 2012 and 2011 and certain asset and liability information regarding industry segments as of December 31, 2013 and 2012 (in thousands).

	Trading			Depot and Logistics			Shipping and Cargo Services			Real Estate			Total		
	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	**2013**	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	**2013**	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	**2013**	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)	**2013**	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
TOTAL REVENUES															
Sales to external customers	**P 43,170,295**	P 18,114,762	P 9,417,563	**P 78,080**	P4,991,055	P 1,773,215	**P 220,471**	P11,479,735	P 9,619,020	**P 83,140**	P -	P 6,641,180	**P 43,551,986**	P 34,585,552	P 27,450,978
Intersegment sales	**3,672,471**	8,247,365	5,763,241	**1,123,486**	2,983,599	3,560,728	**539,099**	1,023,475	800,742	**-**	-	-	**5,335,056**	12,254,439	10,124,711
Total revenues	**46,842,766**	26,362,127	15,180,804	**1,201,566**	7,974,654	5,333,943	**759,570**	12,503,210	10,419,762	**83,140**	-	6,641,180	**48,887,042**	46,839,991	37,575,689
COSTS AND OTHER OPERATING EXPENSES															
Cost of sales and services excluding depreciation and amortization	**45,040,855**	9,870,315	8,462,003	**1,610,067**	27,608,374	19,074,505	**352,475**	7,790,861	5,497,187	**60,307**	-	3,368,206	**47,063,704**	45,269,550	36,401,901
Depreciation and amortization	**148,288**	228,398	120,842	**176,743**	69,092	42,459	**180,284**	108,325	82,944	**2,740**	-	52,865	**508,055**	405,815	299,110
	45,189,143	10,098,713	8,582,845	**1,786,810**	27,677,466	19,116,964	**532,759**	7,899,186	5,580,131	**63,047**	-	3,421,071	**47,571,759**	45,675,365	36,701,011
SEGMENT OPERATING PROFIT (LOSS)	**P 1,653,623**	P 16,263,414	P 6,597,959	**(P 585,244)**	(P19,702,812)	(P13,783,021)	**P 226,811**	P 4,604,024	P 4,839,631	**P 20,093**	P -	P 3,220,109	**P 1,315,283**	P 1,164,626	P 874,678
ASSETS AND LIABILITIES															
Segment assets	**P 20,383,452**	P 13,260,050		**P 719,749**	P1,898,562		**P3,597,560**	P 741,817		**P 1,085,589**	P 647,561		**P 25,786,350**	P 16,547,990	
Segment liabilities	**14,181,969**	9,346,534		**2,603,665**	937,088		**1,987,929**	987,884		**423,976**	674,130		**19,197,539**	11,945,636	

28.5 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).

	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Revenues			
Total segment revenues	**P48,887,042**	P 46,839,991	P 37,575,689
Elimination of intersegment revenues	**(5,335,056)**	(12,254,439)	(10,124,711)
Revenues as reported in profit or loss	**P43,551,986**	P 34,585,552	P 27,450,978
Profit or loss			
Segment operating profit	**P 1,315,283**	P 1,164,626	P 874,678
Other unallocated income	**22,845**	5,863	58,754
Other unallocated expense	**(11,143)**	(4,214)	(8,520)
Operating profit as reported in profit or loss	**1,326,985**	1,166,275	924,912
Finance costs	**(669,030)**	(519,720)	(347,968)
Finance income	**8,482**	24,629	21,928
Profit before tax as reported in profit or loss	**P 666,437**	P 671,184	P 598,872
Assets			
Segment assets	**P25,786,350**	P 16,547,990	
Elimination of intercompany accounts	**(3,434,422)**	(40,800)	
Total assets reported in the consolidated statements of financial position	**P22,351,928**	P 16,507,190	
Liabilities			
Segment liabilities	**P 19,197,539**	P 11,945,636	
Deferred tax liabilities - net	**76,531**	105,808	
Elimination of intercompany accounts	**(3,434,422)**	(40,800)	
Total liabilities as reported in the consolidated statements of financial position	**P15,839,648**	P 12,010,644	

29. COMMITMENTS AND CONTINGENCIES

29.1 Capital Commitments

As of December 31, 2013, 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 368 operating retail service stations as of December 31, 2013. An additional of 70 retail service stations are under various stages of completion as of December 31, 2013.

In 2012, 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.

29.2 Letters of Credits

As of December 31, 2013, 2012 and 2011, the Parent Company has unused LCs amounting to P1,021.0 million, P4,430.0 million and P1,200.0 million, respectively.

29.3 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 of 2% to 10%. The future minimum rentals payable under these cancelable operating leases are presented as follows:

	2013	2012
Within one year	**P 259,337,311**	P 187,663,835
After one year but not more than five years	**1,042,366,014**	670,823,252
More than five years	**2,009,559,064**	808,176,037
	P 3,311,262,389	P 1,666,663,124

Total rent expense for the years 2013, 2012 and 2011 amounted to P 364.4 million, P240.9 million and P170.3 million, respectively (see Note 20).

29.4 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 of 2% to 10%. The future minimum rentals receivables under these cancelable operating leases are presented below:

	2013	2012
Within one year	**P 45,535,652**	P 38,530,088
After one year but not more than five years	**100,847,748**	84,012,963
More than five years	**5,499,057**	4,003,448
	P 151,882,457	P 126,546,499

Rent income in 2013, 2012 and 2011 amounting to P47.5 million, P54.3 million and P22.3 million, respectively, is presented as part of Rent and Storage Income account in the consolidated statements of comprehensive income.

29.5 Finance Lease Commitments – Group as Lessee

The Group is a lessor 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:

	2013		2012	
	Future MLP	**PV of NMLP**	Future MLP	PV of NMLP
Within one year	**P 9,007,429**	**P 7,559,190**	P 10,393,611	P 7,678,316
After one year but not more than five years	**14,253,842**	**13,226,187**	23,521,664	20,314,918
	23,261,271	**20,785,377**	33,915,275	27,993,234
Amounts representing finance charges	**(2,475,894)**	**-**	(5,922,041)	-
Present value of MLP	**P 20,785,377**	**P20,785,377**	P 27,993,234	P 27,993,234

The liabilities relating to the finance leases are shown as part of Interest-bearing Loans and Borrowings (see Note 16.6).

29.6 TC Agreement

The Group has existing commitments to charterers under TC agreements for the use of its tankers in transporting oil products for a fixed period. Also associated with these TC 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 MARINA.

29.7 Loan Agreement with RBC

The loan agreement with RBC requires CSC to maintain debt-to-equity ratio of not more than 3:1 and debt coverage ratio of at least 1.20. CSC filed a waiver with RBC for the debt covenant ratios. No response was received from RBC. However, management believes that its application for the waiver will be approved by RBC. Accordingly, the Group still classified certain portion of liability as non-current [see Note 16.3 (b)].

29.8 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 P15.9 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 one of the Group's vessels in 2010. In the same year, the MI 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 17). No additional loss was recognized related to this claim in 2011 and 2012.

In 2012, certain bank account of the Group was garnished. The remaining balance on such bank accounts as of December 31, 2012 was presented as part of Prepayments and other current assets in the 2012 consolidated statement of financial position (see Note 11).

29.9 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 Informations against the respondents. Criminal Informations 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 Group's President and Chief Executive Officer.

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, 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.