LEADING THE WAY IN THE TUG INDUSTRY

2013 ANNUAL REPORT

HARBOR STAR
SHIPPING SERVICES, INC.

COMPANY PROFILE

HARBOR STAR SHIPPING SERVICES, INC., a publicly listed company, is a leading name in the marine services industry in the Philippines. The company offers a wide range of indispensable maritime services such as harbor assistance, towage, lighterage, ship salvage, wreck removal, fire fighting, oil spill abatement and recovery, handling hazardous chemical, ship management, diving and underwater services.

With strategically deployed tugs in Luzon, Visayas, and Mindanao, Harbor Star is renowned as having the widest area coverage of tug services in the Philippine archipelago. The company services over 5,000 domestic and international vessels annually.

After years of stellar operations in the major ports around the Philippine Archipelago, Harbor Star maintains a fleet of over 30 domestically and internationally classed tug boats, barges and vessels, oil spill response vessel, and an Anchor Handling Tug Supply (AHTS) vessel.

It has geared its energy towards the acquisition of modern and higher powered vessels, manned by crews with wealthy sea faring experience in order to provide prompt, safe, and speedy services to the utmost satisfaction of its customers.

Harbor Star is a leader of change, and is constantly shining its way as a maritime industry leader.

The **COMPANY'S MISSION** is to provide total marine services:

Safely, promptly and efficiently.

Taking care of the environment.

Assuring equitable returns to shareholders.

Responsive to employees and stakeholder's welfare.

Strictly observing good corporate governance.

COMPANY VISION

In 2020, Harbor Star Shipping Services, Inc., the leading tug and marine services provider in the Philippines, will be a major player in South East Asia.

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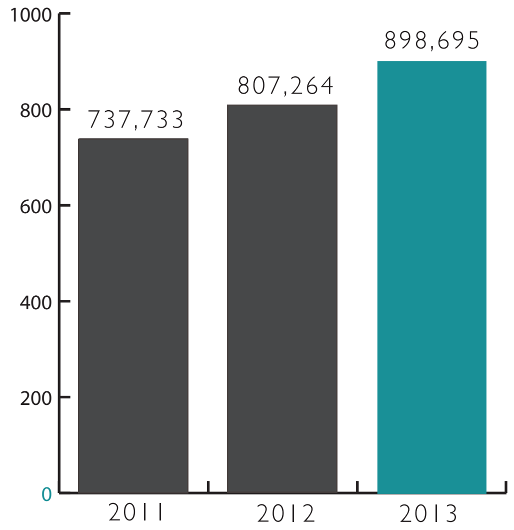
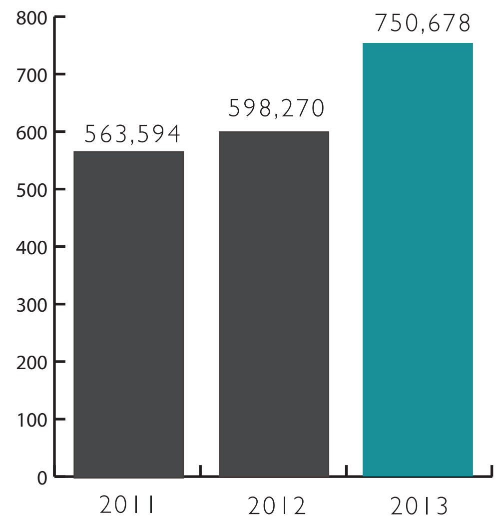
FINANCIAL HIGHLIGHTS

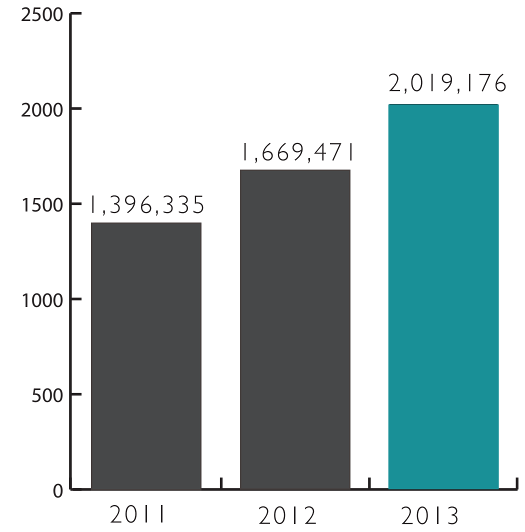
SERVICE INCOME
(In Thousand Pesos)



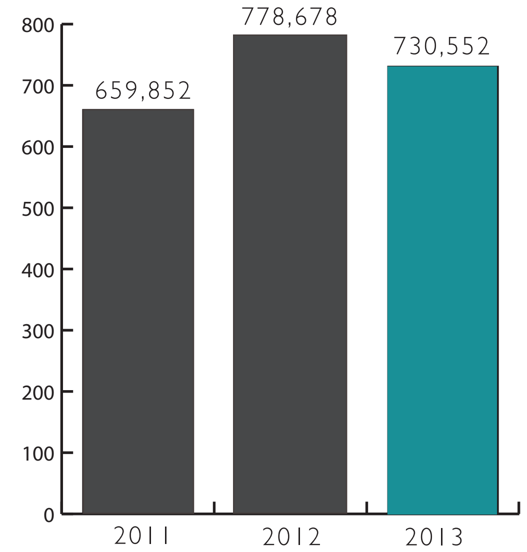
TOTAL EXPENSES
(In Thousand Pesos)



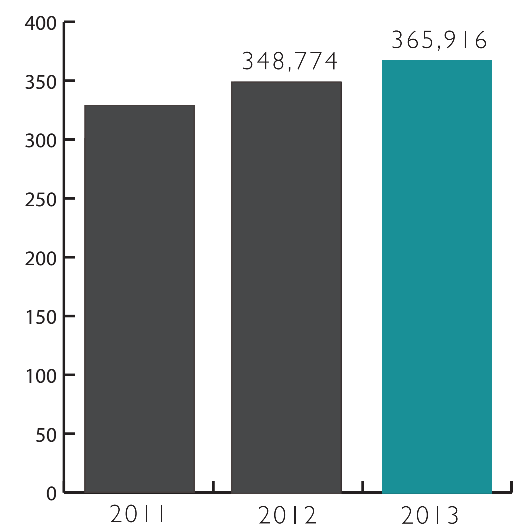
TOTAL ASSESTS
(In Thousand Pesos)



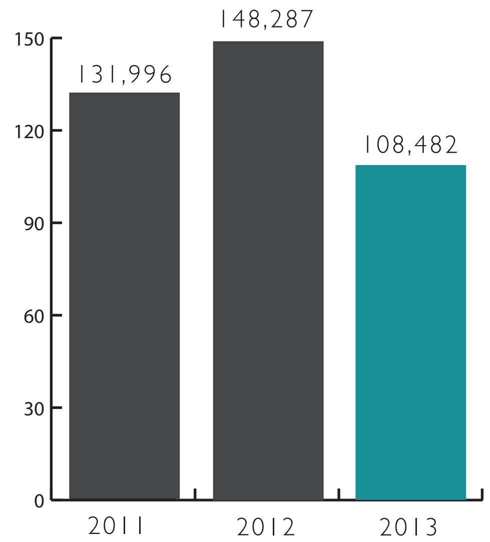
TOTAL LIABILITIES
(In Thousand Pesos)



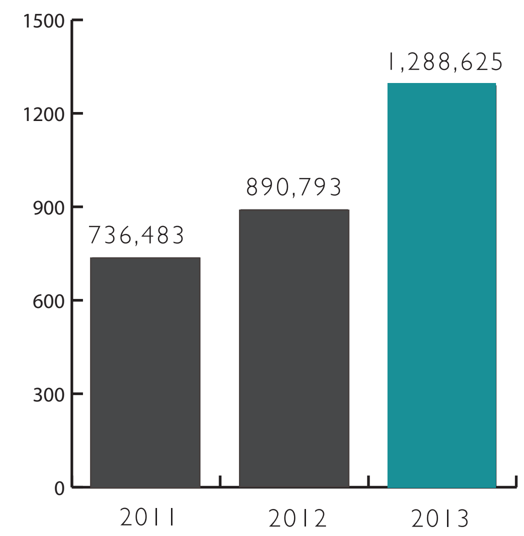
EBITDA
(In Thousand Pesos)



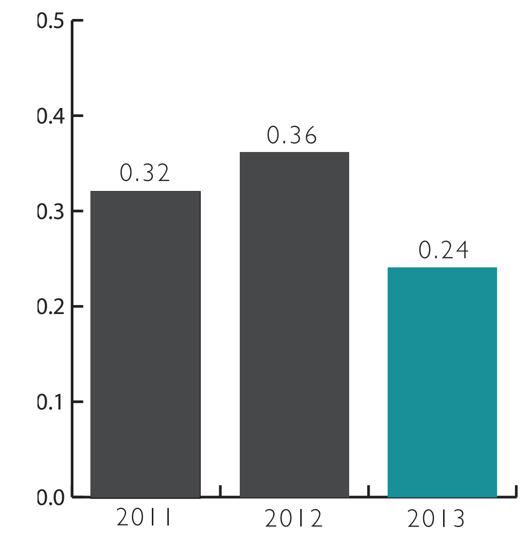
NET INCOME
(In Thousand Pesos)



TOTAL EQUITY
(In Thousand Pesos)



EARNINGS PER SHARE
(Actual)



MESSAGE TO OUR

STOCKHOLDERS

2013 was a milestone year for Harbor Star Shipping Services, Inc. As we celebrated our 15th year of operations, our company grew from a one tug company in 1998 operating in one port, to a fleet of 34 tugs, barges and vessels operating in 66 ports and terminals throughout the Philippines. And in October 2013, we fortified our place as the country's leading and most progressive tug and marine services provider with the listing of our common shares in the Philippine Stock Exchange.

The road leading to our achievements did not come easy. It was a result of knowledge of the business inherited from a previous generation, determination, hard work, planning, and prayers. Faced with tough challenges, we remained strong and committed – maintaining strong business fundamentals while constantly looking ahead for greater possibilities and new opportunities

WE ARE HERE FOR THE LONG TERM

As the country experienced major economic strides in 2013, we too shared the same amount of success.

We were able to generate a total service income amounting to P898.7 million at yearend, an 11.3% increase from the previous year. This was a result of our previous investments in assets, which serviced the mining sector, hitting full stride. We also successfully negotiated the increase of our tariff in several ports, relying on our intimate relationship with our customers and our reputation as providing safe and reliable service.

Our asset base increased to P2.02 billion from the previous year's P1.67 billion. We acquired three (3) additional tugboats and an Anchor Handling Tug and Supply (AHTS) vessel. For these new acquisitions, we incurred upfront costs for initial fuel inventory and securing vessel classifications. We likewise increased our crew who included international licensed master mariners and engineers.

In anticipation of the Philippine's economic growth in the coming years, we also spent heavily in the repair and maintenance of our fleet. This was to ensure that we continue the quality of service we provide our customers. Thus, we can confidently say that the increase in total expenses by 25.5% from P598.3 million in 2012 to P750.7 million in 2013 was an investment in the future. The 26.8% decrease in the company's net income of P108.5 million from P148.3 million in 2012, was a sacrifice of today's profits for tomorrows' opportunities.

Despite such sacrifices, our EBITDA still improved from P348.8 million to P365.9 million.

THE IPO EFFECT

As a result of our IPO listing in October 2013, the company's capitalization grew by P181.6 million from P423.6 million to P605.2 million. Our retained earnings likewise increased by 60.2% from P193.0 million to P309.2 million due to our generated income within the year.

Cash at year-end amounted to P69.5 million which was a 35.1% increase.

But most important, the Company's debt-to-equity ratio was improved from an already healthy 0.87:1 in 2012 to an astounding 0.57:1 by yearend 2013.

BRIGHTER FUTURE AHEAD

As our IPO proceeds of P303.2 million was received only in the last quarter of 2013, the effect of the tugboats and barges purchases we will make using the IPO funds, will be felt in 2014 and onwards.

In 2014, we plan to seal our place as the tug and marine services company with the widest coverage of serviced ports by starting operations in Cebu City, Iloilo, and General Santos. Combined, roughly 1,350 foreign vessels call ports in these provinces annually. In 2013, we serviced approximately 5,113 foreign vessels.

We intend to aggressively market the IPO-proceeds-purchased M/V Rho Cas for towing jobs here and in South East Asia, Japan, and Korea. M/V Rho Cas is the most powerful Philippine-flagged vessel of its kind. It can also do jobs for salvage and the offshore industry.

We are looking at further expanding our lighterage business. Our income from lighterage increased from P48.6 million in 2012 to P120.6 million in 2013. We continue to eye the mining sector for the tug and barge tandems we will acquire.

Finally, we are exploring several business opportunities in our neighboring countries such as Indonesia, Malaysia, and Vietnam. We have identified a number of developing ports in these countries that have no adequate harbor tugboats to service their needs.

Fifteen years is indeed a great accomplishment for us and we could not have reached this far without the support of everyone. To our partners and associates, we are grateful for your confidence in us. To our management team and Board of Directors, we thank you for your continuous guidance and advice. To our officers, employees and crew, thank you for your commitment to excellence. And to you our shareholders, we thank you for believing in the business and people of Harbor Star Shipping Services, Inc.

GERONIMO P. BELLA, JR.
Chairman of the Board and President

OPERATIONAL HIGHLIGHTS

In 2013, Harbor Star invested heavily in the acquisition of modern and higher powered vessels and the strategic development of its services as it intends to expand to both the international and domestic markets.

OVERVIEW OF OPERATIONS

Harbor Star is known for having the widest area of coverage of tug services in the Philippine archipelago with strategically deployed tugs in Luzon, Visayas and Mindanao. As of December 2013, the company services around 66 ports within the country of which 12 are base ports, providing services to approximately 5,113 ship calls.

VESSEL FLEET

With the purchase of four vessels in 2013, the company now maintains a fleet of 28 domestically and internationally classed tug boats, three barges, a cargo vessel, an oil spill response vessel, and an AHTS vessel.

TUG BOATS

M/T ACHERNAR
M/T ADARA
M/T AGENA
M/T ALPHARD
M/T ARCTURUS
M/T ARNEB
M/T ATRIA
M/T AVIOR
M/T CANOPUS
M/T CAPELLA
M/T DENEB
M/T GREAT EAGLE
M/T GIEDI
M/T MERGA
M/T MINKAR
M/T MIRA
M/T MIZAR
M/T PROCYON
M/T REGULUS
M/T RIGEL
M/T SADR
M/T SARGAS
M/T SCHEDAR
M/T SIRIUS
M/T SPICA
M/T VEGA
M/T WEZEN
M/T ZANIAH

AHTS

M/V RHO CAS

BARGES

Barge CENTAURUS
Barge HYDRUS
Barge LYNX

OTHER MARINE VESSELS

M/V CASSOPEIA
M/V WISE

SERVICES

The bulk of Harbor Star's revenues in 2013 came from its five main service lines, namely: (a) harbor assistance, (b) lighterage, (c) towing, (d) salvage, and (e) other marine services like oil and chemical spill response, diving and underwater services, and ship and crew management.

HARBOR ASSISTANCE

Harbor Star continues to increase and modernize its fleet with more maneuverability and power, capable of precise movements for pushing, turning and pulling. The company provides prompt, reliable, and without fault tug assistance at ports with heavy vessel traffic in the country like the Manila International Container Terminal (MICT), and the ports of Bataan, Batangas, CDO, and Davao as well as a number of private ports managed by corporations engaged in the oil and gas, power, and mining industries.

As of year-end, revenues from harbor assistance grew to P728.1 million, a P22.7 million or 3.2% increase from the previous year. The slight increase in volume of assists within the existing ports it serviced explains the slower growth despite the addition of new vessels. Harbor assistance comprises 81% of Harbor Star's total revenue.


HARBOR ASSISTANCE


LIGHTERAGE

LIGHTERAGE

Harbor Star's tug and barge tandems are capable of transporting different types of cargo domestically and within the region. For lighterage services, the company charges the client a fixed charter rate that is used to cover the use and maintenance of the vessel, crewing, insurance and administrative costs incurred during operations.

The significant growth in Harbor Star's service income in 2013 is primarily due to the higher earnings from its lighterage services amounting to P120.6 million, equivalent to 13.4% of the company's total revenue. Earnings from lighterage services increased by P72.0 million or 148% from that of last year as the company was only able to reflect full revenue in 2013 since this particular service was only offered in May 2012.

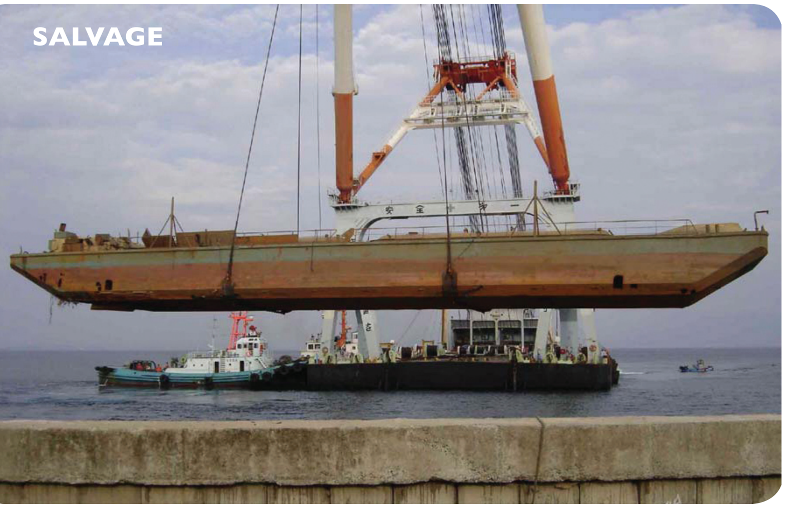
TOWAGE

Harbor Star provides services in various stages of the towing cycle, from planning activities to the actual towage operation. The company provides two types of towing services: Regular Towing, when a tugboat is chartered to tow a vessel or barge from one port to another; and Emergency Towing, when a vessel in distress needs a towing service.

The company takes pride in its experienced towage team and expertise to tow vessels of all sizes during different weather conditions and natural perils. As a result, revenues from towing services increased by P15.9 million or four times the previous year due to the additional towing projects during the latter part of the year with the addition of the new tugboats. Total revenue for towing services amounted to P20.9 million in 2013.


EMERGENCY TOWAGE


OCEAN TOWAGE


SALVAGE


OIL AND CHEMICAL SPILL RESPONSE


FIRE FIGHTING


DIVING SERVICES

SALVAGE

Salvage is any act or activity undertaken to assist a vessel or any other property in danger in navigable waters or in any other waters. Using international methods and standards, Harbor Star offers the following salvage services: Vessels in distress, wreck removal and wayward vessels.

Income from salvage services declined by 48.6% from P40.8 million to P21.0 million in 2013. Revenues from salvage operations pertain to the additional income from the Barge Wantas VII salvage project as there were no salvage projects undertaken by the company during the year.

OTHER MARINE SERVICES

Harbor Star's marine and other ancillary services include: (a) Oil and Chemical Spill Response, (b) Ship repairs, (c) Buoy construction deployment and maintenance, (d) Diving services, (e) Ship and crew management, (f) Fire fighting and (g) Offshore tug services. For 2013, total revenues from other marine services amounted to P8.1 million, a 9.3% increase from its previous record of P7.4 million in 2012.


OFFSHORE TUG SERVICES


GIEDI TUG BOAT

ACCREDITATIONS AND MEMBERSHIPS

Harbor Star is recognized for being at par with international standards proven by its accreditation from various domestic and international associations. The company has obtained international accreditations for its integrated management systems, specifically for Quality (ISO 9001:2008); Environment (ISO 14001:2004), and Occupational Health Safety (OSHAS 18001:2007), from DNV Business Assurance under Det Norske Veritas.

To ensure the safety and security concerns of the vessels and terminals, its crew also complies with the International Ship and Port Facility Security (ISPS) code. In addition, Harbor Star is an accredited member of the International Marine contractors Association (IMCA), an international trade association representing offshore, marine and underwater companies that helps promote the improvement of international quality, health, safety, and environmental and technical standards among its members.

Having engaged in a number of significant historic marine salvages in the Philippines, Harbor Star belongs to one of the 59 members of the International Salvage Union (ISU), an association of salvors worldwide that restricts members to entities with a track record of successful salvage operations.

Harbor Star is also a good standing member of the following organizations: Philippine Interisland Shipping Association (PISA); the Harbor Tugowners Association of the Philippines, Inc. (HTAP); the Philippine Maritime League; the Philippine Chamber of Commerce and Industry (PCCI); the People Management Association of the Philippines (PMAP); the Employers' Confederation of the Philippines (ECOP); and the Maritime Golf Association of the Philippines.

The accreditations and memberships in the organizations which impose very stringent entry requirements bolster Harbor Star's image of focusing on quality of service and safety of operations, both of which are of paramount importance when dealing with multinational clients.

GOVERNMENT REGULATIONS AND LICENSES

In 2013, the company obtained its Certificate of Public Convenience from the Maritime Industry Authority and Permits to Operate in MICT Pier, Private Ports in Batangas, Bataan Ports, Cebu, Cagayan de Oro, Davao, Surigao, and General Santos from the Philippine Ports Authority.


HARBOR STAR CREW


HARBOR STAR TUG BOATS

CORPORATE GOVERNANCE

The Board of Directors adopted a "Manual on Corporate Governance" (the "Manual") in order to monitor and assess the compliance by the Company with leading practices on good corporate governance as specified in the Manual and relevant SEC circulars and memoranda.

The Chairman of the Board is responsible for designating a Compliance Officer to ensure that the Company adheres to the Manual and to corporate best practices. The Compliance Officer shall report directly to the Chairman of the Board.

Compliance Officer - Ms. Adelia D. Vasquez

INDEPENDENT DIRECTORS

The SEC Code of Corporate Governance defines an independent director as a person other than an officer or employee of a Company, its parents or subsidiaries, or any other individual who has a relationship with the Company which would interfere with the exercise of independent judgment in fulfilling the duties of a director.

The By-Laws of the Company provide that an independent director means a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director of the Company and includes, among others, any person who: (a) is not a director or officer of the Company or of its related companies or any of its substantial stockholders except when an independent director of any of the foregoing; (b) does not own more than 2% of the shares of the Company and/or its related companies or any of its substantial stockholders; (c) is not related to any director, officer or substantial shareholder of the Company, any of its related companies or any of its substantial stockholders, provided that for this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister; (d) is not acting as a nominee or representative of any director or substantial shareholder of the Company, and/or any of its related companies and/or any of its substantial stockholders, pursuant to a Deed of Trust or under any contract or arrangement; (e) has not been employed in any executive capacity by the Company, any of its related companies and/or by any of its substantial stockholders within the last five (5) years; (f) is not retained, either personally or through his firm or any similar entity, as professional adviser, by the Company, any of its related companies and/or any of its substantial stockholders, within the last five (5) years; or (g) has not engaged and does not engage in any transaction with the Company and/or with any of its related companies and/or with any of its substantial stockholders, whether by himself and/or with other persons and/or through a firm of which he is a partner and/or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial. A related company shall mean another company which is: (a) the holding company of the Company; (b) the Company's subsidiary; or (c) a subsidiary of the Company's holding company. A substantial shareholder shall mean any person who is directly or indirectly the beneficial owner of more than 10% of any class of the Company's equity security.

Under the SEC Code of Corporate Governance, an independent director is required to attend board meetings for quorum requirements, unless he has a justifiable cause for failing to attend the meeting despite due notice. Justifiable causes are limited to grave illness or death of immediate family and serious accidents.

Any controversy or issue arising from the selection, nomination or election of independent directors shall be resolved by the SEC by appointing independent directors from the list of nominees submitted by the stockholders.

AUDIT COMMITTEE

COMMITTEE MEMBERS
Mr. Jose S. Navarro – Chairman
Mr. Ignatius A. Rodriguez
Mr. Damian L. Carlos

RESPONSIBILITIES
The Company has adopted an Audit Committee Charter which sets out the purpose, membership and qualifications, structure and operations, duties and responsibilities of the Audit Committee of the Company, and the procedures which guide the conduct of its functions. The Board of Directors of the Company constituted the Audit Committee to assist the Board in fulfilling its oversight responsibility of the Company's corporate governance processes relating to the:

- Company's financial statements and financial reporting process;
- Company's internal control systems;
- Company's internal and external auditors;
- Compliance by the Company with accounting standards, legal and regulatory requirements, including the Company's disclosure policies and procedures;
- Risk management policies and processes; and
- Business practices and ethical standards.

The Audit Committee shall be composed of at least three (3) members of the Board, who shall preferably have accounting and finance backgrounds, one of whom shall be an independent director and another with audit experience. The Chairman of the Committee shall be an Independent Director.

The Company shall maintain an independent internal audit function which shall be performed by an Internal Auditor, through which the Board, senior management and stockholders shall be provided with reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate and complied with. The Internal Auditor shall report to the Audit Committee.

The minimum internal control mechanisms for management's operational responsibility shall center on the President, being ultimately accountable for the Company's organizational and procedural controls.

The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: (a) the nature and complexity of the business and the business culture; (b) the volume, size and complexity of the transactions; (c) the degree of risk; (d) the degree of centralization and delegation of authority; (e) the extent and effectiveness of information technology; and (f) the extent of regulatory compliance.

The Company's policy with respect to external auditors is set forth below:

(a) An external auditor enables an environment of good corporate governance as reflected in the financial records and reports of the Company;

(b) An external auditor shall be selected and appointed by the stockholders of the Company upon the recommendation of the Audit Committee.

(c) The reasons for the resignation, dismissal or cessation from service of an external auditor and the date thereof shall be reported in the Company's annual and current reports. These reports shall include a discussion of any disagreement with the former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

(d) The external auditor of the Company shall not at the same time provide the services of an internal auditor to the Company. The Company shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.

(e) The external auditor of the Company shall be rotated or the handling partner shall be changed every five (5) years or earlier.

(f) If an external auditor believes that the statements made in the Company's annual report, information statement or proxy statement filed during his engagement are incorrect or incomplete, he shall present his views in said reports.

NOMINATION COMMITTEE

COMMITTEE MEMBERS

Mr. Geronimo P. Bella, Jr. - Chairman
Mr. Ricardo Rodrigo P. Bella
Mr. Ryota Nagata

RESPONSIBILITIES

The Nomination Committee is responsible for ensuring transparency in the selection of the members of the Board of Directors. By pre-screening all candidates nominated to become a member of the Company's Board of Directors in accordance with the procedures and guidelines prescribed in the Manual, it shall provide shareholders with an independent and objective assurance regarding the competency and ability of the Directors to contribute the long-term success and competitiveness of the Company. The Nomination Committee shall report directly to the Company's Board of Directors.

COMPENSATION AND REMUNERATION COMMITEE

COMMITTEE MEMBERS

Mr. Manuel H. Puey – Chairman
Mr. Geronimo P. Bella, Jr.
Mr. Ignatius A. Rodriguez

RESPONSIBILITIES

The Compensation and Remuneration Committee is responsible for objectively recommending a formal and transparent framework of remuneration and evaluation for the members of the Board and the Company's executive officers.

CORPORATE SOCIAL RESPONSIBILITY

Supporting environmentally sustainable programs, particularly the conservation and restoration of the country's marine resources, has always been one of the company's priorities as it continues to give back to the environment where it operates. The company does this through its own mangrove rehabilitation initiative dubbed as the Adopt-a-Mangrove project.

ENVIRONMENTAL STEWARDSHIP

Aiming to plant a total of 20,000 propagules starting February 2011, the project is being done in partnership with the Coastal Conservation and Education Foundation, Inc. (CCEF). It is ongoing at Barangay Banoyo in San Luis, Batangas.

The company also enlisted provincial and local government units, and schools in San Luis, Batangas to help ensure that the program's objectives will be met.

As of July 2013, 8,244 mangrove seedlings out of the 15,012 planted are already in the surviving stage. Compared to other government-led mangrove projects, the percentage of survival of the company's Adopt-a-Mangrove is relatively higher with an equivalent of 55% versus 10% to 20%.

By the end of November 2013, a total of 6,600 mangroves were added, thus bringing the number to 21,612 mangroves planted. Through the collaborative efforts of all parties involved, the project has already exceeded its target of 20,000 mangroves. Two species of mangroves are currently being replanted in the area – rhizophora sps. and avicennia sps.

Aside from mangrove reforestation, the program also promotes the creation of mangrove nurseries for biodiversity enhancement in the planting sites. Recently, a learning visit with several volunteers to a community-managed nursery was organized as part of the sustainability planning process.

EDUCATING THE YOUTH AND THE COMMUNITY

Imparting knowledge on the importance of protecting the country's marine resources to the youth also plays a crucial role in the development and sustainability of the Adopt-a-Mangrove project.

An information caravan was rolled out in various elementary and high school institutions in Barangay Banoyo. Materials like posters and bookmarks to raise awareness on the protection of mangroves were distributed to the students.

Special community-based activities like the production of mangrove protection signs and the mounting of a community exhibit were also held. In addition to this, the company is also involved in mentoring activities with the community mangrove management group in terms of project implementation and evaluation.

BOARD OF DIRECTORS

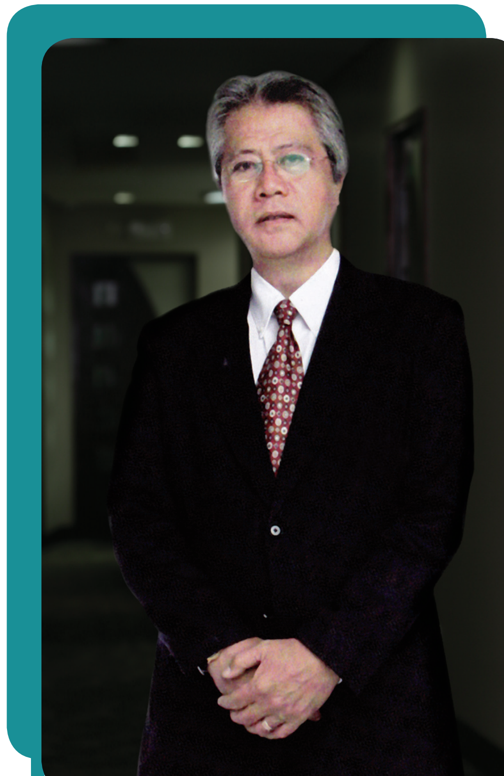
GERONIMO P. BELLA, JR.
CHAIRMAN OF THE BOARD AND PRESIDENT

RICARDO RODRIGO P. BELLA
DIRECTOR
VICE PRESIDENT FOR OPERATIONS

IGNATIUS A. RODRIGUEZ
DIRECTOR
CORPORATE SECRETARY
CHIEF OF STAFF
CORPORATE INFORMATION OFFICER

DAMIAN L. CARLOS
DIRECTOR

RYOTA NAGATA
DIRECTOR



JOSE S. NAVARRO
INDEPENDENT DIRECTOR

MANUEL H. PUEY
INDEPENDENT DIRECTOR

PRINCIPAL OFFICERS

DANY CLEO B. USON
CORPORATE PLANNING MANAGER
INVESTOR RELATIONS OFFICER

ADELIA D. VASQUEZ
CHIEF FINANCE OFFICER
COMPLIANCE OFFICER

IGNATIUS A. RODRIGUEZ
CORPORATE SECRETARY
CHIEF OF STAFF
CORPORATE INFORMATION OFFICER

EDWIN G. AMEJANA
COMMERCIAL MANAGER

MARICEL V. BLANCO
INTERNAL AUDIT MANAGER

ELIONARDA L. REFIL
GENERAL SERVICES
DEPARTMENT MANAGER

LORENZO C. CARANZO
SAFETY MANAGER

RICARDO RODRIGO P. BELLA
VICE PRESIDENT FOR OPERATIONS

GERONIMO P. BELLA, JR.
PRESIDENT

ANNALIE N. VENTURA
ASSISTANT VICE PRESIDENT
ADMINISTRATIVE SERVICES

VIRGINIA MAY P. BELLA
LEGAL MANAGER
SPECIAL SERVICES MANAGER

GERONIMO P. BELLA, JR.
PRESIDENT

RICARDO RODRIGO P. BELLA
VICE PRESIDENT FOR OPERATIONS

IGNATIUS A. RODRIGUEZ
CORPORATE SECRETARY
CHIEF OF STAFF
CORPORATE INFORMATION OFFICER

ADELIA D. VASQUEZ
CHIEF FINANCE OFFICER
COMPLIANCE OFFICER

ANNALIE N. VENTURA
ASSISTANT VICE PRESIDENT
ADMINISTRATIVE SERVICES

LORENZO C. CARANZO
SAFETY MANAGER

EDWIN G. AMEJANA
COMMERCIAL MANAGER

DANY CLEO B. USON
CORPORATE PLANNING MANAGER
INVESTOR RELATIONS OFFICER

VIRGINIA MAY P. BELLA
LEGAL MANAGER
SPECIAL SERVICES MANAGER

MARICEL V. BLANCO
INTERNAL AUDIT MANAGER

ELIONARDA L. REFIL
GENERAL SERVICES DEPARTMENT MANAGER

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **HARBOR STAR SHIPPING SERVICES, INC**. is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013, 2012 and 2011, including the additional components attached therein (Reconciliation of Retained Earnnings Available for Dividend Declaration and Schedule of All the Effective Standards and Interpretations), in accordance with Philippine Financial Reporting Standards (PFRS). This responsibility includes designing and implementing iternal controls relevant to the preparation and fair presentation of financial statements that are free from material mistatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Sycip Gomes Velayo & Co., the independent auditors, appointed by the stockholders and the Board of Directors has examined the financial statements of the company in accordance with the Philippne Standards Auditing, and in its report to the stockholders and Board of Directors, has expressed its opinion on the fairness of the presentation upon completion of such examination.

MR. GERONIMO P. BELLA, JR.
CHAIRMAN / PRESIDENT

MR. RICARDO RODRIGO P. BELLA
CHIEF OPERATING OFFICER

MS. ADELIA D. VASQUEZ
CHIEF FINANCIAL OFFICER

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Harbor Star Shipping Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Star Shipping Services, Inc.,which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Harbor Star Shipping Services, Inc. as atDecember 31, 2013 and 2012, and its financial performance and its cash flows for each of the threeyears in the period ended December 31, 2013, in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 28 and 29to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Harbor Star Shipping Services, Inc.The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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April 11, 2012, valid until April 10, 2015
PTR No. 4225183, January 2, 2014, Makati City

March 14, 2014

HARBOR STAR SHIPPING SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31, 2013	December 31, 2012 (As restated, Note 2)	January 1, 2012 (As restated, Note 2)
ASSETS			
Current Assets			
Cash (Note 4)	**₱69,530,676**	₱51,482,125	₱35,206,378
Trade and other receivables (Note 5)	**254,502,987**	202,373,127	162,321,506
Advances to related parties (Note 20)	**9,383,619**	39,858,784	91,820,090
Prepayments and other current assets (Note 6)	**59,409,812**	56,809,516	39,212,145
Total Current Assets	**392,827,094**	350,523,552	328,560,119
Noncurrent Assets			
Investments in associates (Note 7)	**15,085,894**	15,473,110	6,995,054
Property and equipment at revalued amounts (Note 8)	**1,152,311,354**	654,907,965	682,965,461
Property and equipment at cost (Note 9)	**265,531,010**	554,911,620	300,132,195
Investment property (Note 10)	**5,879,413**	5,879,413	–
Other noncurrent assets (Note 11)	**187,541,497**	87,775,057	77,682,309
Total Noncurrent Assets	**1,626,349,168**	1,318,947,165	1,067,775,019
TOTAL ASSETS	**₱2,019,176,262**	₱1,669,470,717	₱1,396,335,138
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans (Note 13)	**₱185,222,076**	₱40,400,000	₱–
Current portion of:			
Interest-bearing loans and borrowings (Note 13)	**113,319,118**	237,491,894	151,693,722
Finance lease liabilities	**–**	–	31,359,363
Trade and other payables (Note 12)	**144,715,021**	90,230,251	90,165,878
Advances from related parties (Note 20)	**10,368,736**	2,806,449	–
Income tax payable	**36,591,942**	47,227,487	23,868,381
Total Current Liabilities	**490,216,893**	418,156,081	297,087,344
Noncurrent Liabilities			
Interest-bearing loans and borrowings - net of current portion (Note 13)	**97,065,010**	207,938,911	214,719,424
Deferred income tax liabilities - net (Note 22)	**106,133,309**	120,814,740	128,954,524
Retirement benefits obligation (Note 18)	**37,136,500**	31,768,400	19,090,351
Total Noncurrent Liabilities	**240,334,819**	360,522,051	362,764,299
Total Liabilities	**730,551,712**	778,678,132	659,851,643
Equity			
Capital stock (Note 14)	**605,238,580**	423,638,580	40,000,000
Additional paid-in capital (Note 14)	**121,632,762**	–	–
Deposits for future stock subscription (Note 14)	**–**	–	110,000,000
Revaluation increment on property and equipment (Note 8)	**252,511,350**	274,113,152	320,823,262
Retained earnings (Note 14)	**309,241,858**	193,040,853	265,660,233
Total Equity	**1,288,624,550**	890,792,585	736,483,495
TOTAL LIABILITIES AND EQUITY	**₱2,019,176,262**	₱1,669,470,717	₱1,396,335,138

See accompanying Notes to Financial Statements.

HARBOR STAR SHIPPING SERVICES, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
SERVICE INCOME (Note 15)	**₱898,695,497**	₱807,263,889	₱737,733,318
COSTS OF SERVICES (Note 16)	**577,199,936**	416,427,848	392,229,734
GROSS PROFIT	**321,495,561**	390,836,041	345,503,584
GENERAL AND ADMINISTRATIVE EXPENSES (Note 17)	**128,512,785**	134,295,122	137,613,953
OPERATING INCOME	**192,982,776**	256,540,919	207,889,631
OTHER INCOME (CHARGES)			
Interest expense (Notes 13, 18 and 21)	**(44,577,929)**	(36,473,649)	(33,239,200)
Foreign exchange gains(losses) - net	**2,127,016**	(5,431,557)	(511,389)
Share in net earnings (loss) of associates (Note 7)	**(387,216)**	1,272,332	788,360
Interest income (Notes 4 and 11)	**351,244**	883,875	902,806
Others - net	**4,942,614**	(5,641,940)	12,319,009
	(37,544,271)	(45,390,939)	(19,740,414)
INCOME BEFORE INCOME TAX	**155,438,505**	211,149,980	188,149,217
PROVISION FOR INCOME TAX (Note 22)	**46,956,742**	62,863,053	56,152,954
NET INCOME	**108,481,763**	148,286,927	131,996,263
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to profit or loss in subsequent period:			
Re-measurement gain (loss) on retirement benefits obligation (Notes 2 and 18)	**1,349,700**	(8,542,625)	(5,494,967)
Revaluation increment on property and equipment (Note 8)	**–**	–	458,318,946
Tax effect relating to the components of other comprehensive income	**(404,910)**	2,562,788	(135,847,193)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**944,790**	(5,979,837)	316,976,786
TOTAL COMPREHENSIVE INCOME	**₱109,426,553**	₱142,307,090	₱448,973,049
EARNINGS PER SHARE (Note 14)			
Basic	**₱0.24**	₱0.36	₱0.44
Diluted	**₱0.24**	₱0.36	₱0.32

See accompanying Notes to Financial Statements.

HARBOR STAR SHIPPING SERVICES, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Deposits for Future Stock Subscription (Note 14)	Revaluation Increment on Property and Equipment (Note 8)	Other Comprehensive Income	Retained Earnings (Note 14)	Total
Balances at January 1, 2013, as previously reported	₱423,638,580	₱–	₱–	₱274,113,152	₱–	₱205,192,210	₱902,943,942
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	(12,151,357)	(12,151,357)
Balances at January 1, 2013, asrestated	423,638,580	–	–	274,113,152	–	193,040,853	890,792,585
Net income	–	–	–	–	–	108,481,763	108,481,763
Other comprehensive income on re-measurement of retirement benefits obligation	–	–	–	–	944,790	–	944,790
Total comprehensive income	–	–	–	–	944,790	108,481,763	109,426,553
Amortization of revaluation increment through depreciation transferred toretained earnings	–	–	–	(21,601,802)	–	21,601,802	–
Gain on re-measurement of retirement benefits obligation transferred to retained earnings	–	–	–	–	(944,790)	944,790	–
Issuance of capital stock (Note 14)	181,600,000	146,203,891	–	–	–	–	327,803,891
Transaction costs of issuing capital stock (Note 6)	–	(24,571,129)	–	–	–	–	(24,571,129)
Cash dividends (Note 14)	–	–	–	–	–	(14,827,350)	(14,827,350)
Balances at December 31, 2013	₱605,238,580	₱121,632,762	₱–	₱252,511,350	₱–	₱309,241,858	₱1,288,624,550

See accompanying Notes to Financial Statements.

	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Deposits for Future Stock Subscription (Note 14)	Revaluation Increment on Property and Equipment (Note 8)	Other Comprehensive Income	Retained Earnings (Note 14)	Total
Balances at January 1, 2012, as previously reported	₱40,000,000	₱–	₱110,000,000	₱320,823,262	₱–	₱272,307,061	₱743,130,323
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	(6,646,828)	(6,646,828)
Balances at January 1, 2012, as restated	40,000,000	–	110,000,000	320,823,262	–	265,660,233	736,483,495
Net income, as previously reported	–	–	–	–	–	147,811,619	147,811,619
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	475,308	475,308
Net income, as restated	–	–	–	–	–	148,286,927	148,286,927
Other comprehensive loss on re-measurement of retirement benefits obligation(Note 2)	–	–	–	–	(5,979,837)	–	(5,979,837)
Total comprehensive income	–	–	–	–	(5,979,837)	148,286,927	142,307,090
Amortization of revaluation increment through depreciation transferred to retained earnings (Note 8)	–	–	–	(46,710,110)	–	46,710,110	–
Loss on re-measurement of retirement benefits obligation transferred to retainedearnings	–	–	–	–	5,979,837	(5,979,837)	–
Issuance of capital stock (Note 14)	12,002,000	–	–	–	–	–	12,002,000
Conversion of deposits for future stock subscription to capital stock (Note 14)	110,000,000	–	(110,000,000)	–	–	–	–
Stock dividend (Note 14)	261,636,580	–	–	–	–	(261,636,580)	–
Balances at December 31, 2012	₱423,638,580	₱–	₱–	₱274,113,152	₱–	₱193,040,853	₱890,792,585

	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Deposits for Future Stock Subscription (Note 14)	Revaluation Increment on Property and Equipment (Note 8)	Other Comprehensive Income	Retained Earnings (Note 14)	Total
Balances at January 1, 2011, as previously reported	₱40,000,000	₱–	₱110,000,000	₱–	₱–	₱140,542,171	₱290,542,171
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	(3,031,725)	(3,031,725)
Balances at January 1, 2011, asrestated	40,000,000	–	110,000,000	–	–	137,510,446	287,510,446
Net income, as previously reported	–	–	–	–	–	131,764,890	131,764,890
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	231,373	231,373
Net income, as restated	–	–	–	–	–	131,996,263	131,996,263
Other comprehensive loss on re-measurement of retirement benefits obligation (Note 2)	–	–	–	–	(3,846,476)	–	(3,846,476)
Revaluation increment on property and equipment (Note 8)	–	–	–	320,823,262	–	–	320,823,262
Total comprehensive income	–	–	–	320,823,262	(3,846,476)	131,996,263	448,973,049
Loss on re-measurement of retirement benefits obligation transferred to retainedearnings	–	–	–	–	3,846,476	(3,846,476)	–
Balances at December 31, 2011	₱40,000,000	₱–	₱110,000,000	₱320,823,262	₱–	₱265,660,233	₱736,483,495

HARBOR STAR SHIPPING SERVICES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012 (As restated)	2011 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱155,438,505**	₱211,149,980	₱188,149,217
Adjustments for:			
Depreciation (Notes 8 and 9)	**165,899,386**	101,150,653	79,485,844
Interest expense (Note 13)	**42,807,029**	35,284,331	32,281,034
Retirements benefits expense (Note 18)	**6,717,800**	4,135,424	3,035,428
Gain on disposals of property and equipment	**(698,794)**	(3,664,966)	(6,539,286)
Unrealized foreign exchange losses (gains) -net	**474,660**	1,890,065	(621,761)
Share in net losses (earnings) of associates (Note 7)	**387,216**	(1,272,332)	(788,360)
Interest income (Note 4)	**(351,244)**	(883,875)	(902,806)
Operating income before working capital changes	**370,674,558**	347,773,998	294,007,061
Increasein:			
Trade and other receivables	**(51,788,173)**	(40,051,621)	(93,092,996)
Prepayments and other current assets	**(38,633,902)**	(23,175,454)	(20,852,705)
Increase in trade and other payables	**38,788,114**	64,373	7,356,860
Net cash generated from operations	**319,040,597**	284,611,296	187,418,220
Income taxes paid	**(61,216,151)**	(39,502,861)	(32,884,908)
Interest paid	**(42,807,029)**	(35,284,331)	(32,281,034)
Interest received	**351,244**	883,875	286,747
Benefits paid	**–**	–	(2,250,000)
Net cash flows from operating activities	**215,368,661**	210,723,262	120,381,275
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisitions of:			
Property and equipment (Notes 8 and 9)	**(373,936,592)**	(300,639,710)	(160,211,557)
Investment property (Note 10)	–	(5,879,413)	–
Proceeds from disposals of property and equipment	**713,221**	23,432,094	7,700,000
Decrease (increase) in:			
Investment in an associate (Note 7)	**–**	(7,205,724)	–
Advances to related parties	**30,475,165**	4,961,306	(6,360,062)
Other noncurrent assets	**(99,766,440)**	(10,092,748)	(19,311,056)
Net cash flows used in investing activities	**(442,514,646)**	(295,424,195)	(178,182,675)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of interest-bearing loans and borrowings	**310,073,106**	311,889,596	211,837,252
Payments of:			
Interest-bearing loans and borrowings	**(400,297,707)**	(192,471,937)	(88,619,312)
Finance lease liabilities	**–**	(31,359,363)	(53,933,867)
Proceeds from issuance of capital stocks	**327,803,891**	12,002,000	–
Increase (decrease) in advances from related parties	**7,562,287**	2,806,449	(85,119)
Net cash flows from financing activities	**245,141,577**	102,866,745	69,198,954
EFFECTS OF EXCHANGE RATE CHANGES IN CASH	**52,959**	(1,890,065)	245,013
NET INCREASE IN CASH	**18,048,551**	16,275,747	11,642,567
CASH AT BEGINNING OF THE YEAR	**51,482,125**	35,206,378	23,563,811
CASH AT END OF THE YEAR (Note 4)	**₱69,530,676**	₱51,482,125	₱35,206,378

See accompanying Notes to Financial Statements.

HARBOR STAR SHIPPING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Harbor Star Shipping Services, Inc. (the Company) was incorporated in the Philippines on July5, 1988. The Company is primarily engaged in harbor assistance (docking and undocking), ship salvage, towage/lighterage and specialized cargo handling operations and other marine services.

The Company's registered office, which is also its principal place of business, is located at 2224 A. Bonifacio St., and Pres. Sergio Osmeña, Bangkal, Makati City.

In July 2012, the Company commenced activities for an initial public offering (IPO) of its common shares in the Philippines. On October 29, 2012, the Company submitted its Registration Statement to the Philippine Securities and Exchange Commission (SEC).

On October 30, 2013,the Company has completed its listing in the Philippine Stock Exchange (PSE) for which the final offer price was set at ₱1.88 per share.

The financial statements of the Company as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were approved and authorized for issue by the Board of Directors (BOD) on March 14, 2014.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

Basis of Preparation

The financial statements of the Company have been prepared under the historical cost basis, except for property and equipment - tugboats which have been measured at revalued amount, being its fair value at the date of the revaluation less accumulated depreciation and accumulated impairment losses as at December 31, 2013 and 2012. The financial statements are presented in Philippine peso, the Company's functional currency under the Philippine Financial Reporting Standards (PFRS). All amounts are rounded to the nearest peso, except as otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these financial statements due to retrospective application of PAS 19, *Employee Benefits* (Revised 2011) as discussed below in changes in accounting policies and disclosures. The specific accounting policies followed by the Company are disclosed in the following section.

Statement of Compliance

The financial statements have been prepared in compliance with PFRS.

Changes in Accounting Policies and Disclosures

There were a number of new standards and interpretations effective from January 1, 2013, that the Company applied for the first time in the current year. These include PAS 19, *Employee Benefits* (Revised), PAS 28 *Investment in Associatesand Joint Ventures* and PFRS 13, *Fair Value Measurement*. Other than Revised PAS 19, while none of these standards required a restatement of previous financial statements, they did result in certain disclosures being updated.

Several other amendments apply for the first time in 2013. However, they do not impact the annual financial statements of the Company.

The nature and the impact of each new standard and amendment are described below. Other than the changes described below, the accounting policies adopted are consistent with those of previous financial years.

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendments affect disclosures only and have no impact on the Company's financial position or performance. As the Company is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Company.

- PFRS 10, *Consolidated Financial Statements*
  The Company adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The amendment does not have an impact on the Company since the Company has no subsidiary or associate.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The amendment does not have an impact on the Company since the Company has no related joint venture arrangement.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The Company has no subsidiary and unconsolidated structured entities.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Company has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance.

- PAS 19, *Employee Benefits* (Revised)
  On January 1, 2013, the Company adopted the Revised PAS 19, *Employee Benefits*.

  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Company recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised PAS 19, the Company changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Company's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

	As at December 31, 2013		
	Under PAS 19	Increase (decrease)	Under Revised PAS 19
Statements of financial position:			
Net defined benefit liability	₱20,101,181	₱17,035,319	₱37,136,500
Deferred income tax asset	6,030,354	5,110,596	11,140,950
Retained earnings	14,070,827	11,924,723	25,995,550

	As at December 31, 2012		
	As previously reported	Increase (decrease)	As restated
Statements of financial position:			
Net defined benefit liability	₱14,409,319	₱17,359,081	₱31,768,400
Deferred income tax liability	126,022,464	(5,207,724)	120,814,740
Retained earnings	205,192,210	(12,151,357)	193,040,853

	As at January 1, 2012		
	As previously reported	Increase (decrease)	As restated
Statements of financial position:			
Net defined benefit liability	₱9,594,882	₱9,495,469	₱19,090,351
Deferred income tax liability	131,803,165	(2,848,641)	128,954,524
Retained earnings	272,307,061	(6,646,828)	265,660,233

	As at January 1, 2011		
	As previously reported	Increase (decrease)	As restated
Statements of financial position:			
Net defined benefit liability	₱8,478,920	₱4,331,036	₱12,809,956
Deferred income tax asset	21,167,780	(1,299,311)	(19,868,469)
Retained earnings	140,542,171	(3,031,725)	137,510,446

Statement of comprehensive income:	December 31, 2012	December 31, 2011
Increase(decrease)		
Net retirement benefits expense	(₱679,012)	(₱330,536)
Provision for income tax	203,704	99,163
Net income	475,308	231,373
Remeasurements of retirement benefit obligation	(₱8,542,625)	(₱5,494,967)
Income tax effects	2,562,788	1,648,490
Other comprehensive loss	(5,979,837)	(3,846,477)

The net effect of all transition adjustments are closed to retained earnings on the transition date.

The Revised PAS 19 has been applied retrospectively from January 1, 2011, in accordance with its transitional provisions. Consequently, the Company has restated its reported results throughout the comparative periods presented and reported the cumulative effect as at January 1, 2011 as adjustment to opening balances.

The application of Revised PAS 19 did not have a material effect on the statement of cash flows and on the earnings per share for the years ended December 31, 2013 and 2012.

The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

Change of presentation
Upon adoption of the Revised IAS 19, the presentation of the income statement was updated to reflect these changes. Net interest is now shown under the finance income/expense line item (previously under personnel expenses under general and administrative expenses). This presentation better reflects the nature of net interest since it corresponds to the compounding effect of the long-term net defined benefit liability (net defined benefit asset). In the past, the expected return on plan assets reflected the individual performance of the plan assets, which were regarded as part of the operating activities.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The amendment does not have an impact on the Company.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment has no impact on the Company.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Company.

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)
  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, Financial Instruments: Recognition and Measurement, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Company.

Annual Improvements to PFRSs (2009-2011 cycle)
The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Company adopted these amendments for the current year.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
  These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any impact on the Company's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax effect of Distribution to Holders of Equity Instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any impact on the Company's financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

<u>Standards and Interpretation Issued but not yet Effective</u>

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires

investment entities to account for subsidiaries at fair value through profit or loss (FVPL). This amendment is not relevant to the Company.

- Philippine Interpretation IFRIC 21, *Levies*
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. This amendment is not relevant to the Company.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendment is not relevant to the Company.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it has no share-based payments.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Company's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is

required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of "Effective PFRSs"*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no impact on the Company's financial position or performance.

required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of "Effective PFRSs"*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no impact on the Company's financial position or performance.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Company's financial position or performance.

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

Presentation of Financial Statements
The Company has elected to present all items of recognized income and expense in one single statement of comprehensive income.

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

Financial Instruments
Date of Recognition
Financial instruments are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial Recognition of Financial Instruments
All financial assets, including loans and receivables, are initially measured at fair value. Except for securities valued at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired and whether they are quoted in an active market.

Financial liabilities are classified as either at financial liabilities at FVPL or as other financial liabilities. Management determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each financial reporting period.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets are in the nature of loans and receivables and financial liabilities are in the nature of other financial liabilities. As at December 31, 2013 and 2012, the Company has no financial assets classified as financial assets at FVPL, HTM investments, AFS financial assets and no financial liabilities at FVPL.

Subsequent Measurement
The subsequent measurement of financial assets and liabilities depends on their classification as follows:

Loans and Receivables
These are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as “financial assets held for trading”, HTM investments and AFS financial assets or “financial assets designated at FVPL”.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in the “Interest income” in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income included in “General and administrative expenses”.

Loans and receivables are classified as current assets if maturity is within twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

This accounting policy applies primarily to the Company’s cash, trade and other receivables, advances to related parties, rental deposits andothers as included under “Prepayments and other current assets”, and escrow funds included under “Other noncurrent assets” (see Notes 4, 5, 6, 11 and 20).

Loans and Borrowings
This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g., accounts payable, accrued liabilities).

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction cost.

This accounting policy applies primarily to the Company’strade and other payables, interest-bearing loans and borrowings, and advances from related parties (see Notes 12, 13 and20).

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

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

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

Financial instruments recognized at fair value are analyzed based on:

- Level 1 - Quoted prices in active markets for identical asset or liability
- Level 2 - Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 - Those with inputs for asset or liability that are not based on observable market data (unobservable inputs)

When fair values of listed equity and debt securities as well as publicly traded derivatives at the end of the reporting date are based on quoted market prices or binding dealer price quotations without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using other valuation techniques. Other valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models. For these financial instruments, inputs into models are market observable and are therefore included within Level 2.

Instruments included in Level 3 include those for which there is currently no active market. Investment property is included in the Level 3 category (see Note 10).

<u>Impairment of Financial Assets</u>
The Company assesses at each end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one (1) or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e. the EIR computed at initial recognition). The carrying amounts of the financial assets of the Company are reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of comprehensive income included in "General and administrative expenses".

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

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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

Offsetting of Financial Instruments
Financial assets and liabilities are only offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Prepayments and Other Current Assets
Input VAT
Input VAT represents VAT imposed on the Company by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is stated at its net realizable value.Classified under the account are those that are claimable within one (1) year from the end of the reporting period.

Other Current Assets
Other current assets include prepaid insurance, rental deposits, deferred IPO costs and other prepayments. Other assets are classified as noncurrent when it is not probable to be realized within one (1) year from the end of the reporting period.

Other Noncurrent Assets
Other noncurrent assets include escrow fundsrepresenting proceeds from the IPO that are restricted as to withdrawal, escrow fund used as collateral for loans and input VAT on capitalized assets subject to amortization and any excess which (1) may be utilized against output VAT, if any, beyond twelve (12) months from the end of the reporting period.

These are classified as noncurrent since the Company expects to utilize the assets beyond twelve (12) months from the end of the reporting period.

Investment in Associates
An associate is an entity over which the Company is able to exert significant influence but which is neither a subsidiary nor a joint venture. Investment in associates is initially recognized at cost and subsequently accounted for using the equity method.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognize the Company's share of the net earnings (losses) of the associates after the date of acquisition. The Company's share in the net earnings (losses) of the associates is recognized in the Company's profit or loss. Items that have been directly recognized in the associates' equity are recognized in equity of the Company. Distributions received from the associates reduce the carrying amount of the investment.

If the Company's share in net losses of associates equals or exceeds its interest in the associates, the Company will discontinue recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the Company's net investment in the associate.

After the Company's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognizing its share of those net earnings only after its share of the earnings equals the share of losses not recognized.

Property and Equipment

Property and equipment, except for tugboats, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of such property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the statement of comprehensive income as incurred.

Land is stated at cost, less any accumulated impairment in value.

Tugboats are stated at revalued amounts less accumulated depreciation and any impairment in value. Any increase in the valuation of a property shall be recognized in OCI, net of deferred income tax liability and accumulated in equity under revaluation increment on property and equipment. The revaluation increment on property and equipment included in equity is directly transferred to retained earnings when the tugboats are derecognized. Some of the revaluation increment is transferred to retained earnings as the tugboats are used by the Company. The amount of the revaluation increment transferred is the difference between depreciation based on revalued carrying amount and depreciation based on the tugboats' original cost. Transfers from revaluation increment are not made through profit or loss.

Depreciationof property and equipment, except for land, begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases when the assets are fully depreciated or at the earlier of the date that the item is classified as held for sale (or included in the disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the item is derecognized.

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years		
Asset Category	2013	2012	2011
Tugboats	8-26	8-26	5-10
Barges	10	10	10
Building and building improvements	10	10	10
Transportation equipment	5	5	5
Diving and oil spill equipment	3-5	3-5	3-5
Furniture, fixtures and leasehold improvements	3-4	3-4	3-4

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Construction in-progress is not depreciated until such time as the relevant assets are completed and are available for use.Tugboats under construction is classified as"Property and equipment at cost" and subsequently transferred to "Property and equipment atrevalued amounts" upon completion.

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Fully-depreciated assets are maintained in the accounts until these are no longer in use.

Investment Property

Investment property is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at cost.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Under the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Impairment of Nonfinancial Assets

Prepayments and Other Current Assets and Input VAT

At each end of the reporting period, these assets are reviewed to determine whether there is any indication that those assets have suffered impairment loss. If there is an indication of possible impairment, the recoverable amount of assets are estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statement of comprehensive income.

Investments in Associates

After application of the equity method for investment in associates, the Company determines whether it is necessary to recognize an additional impairment loss of the Company's investments in its associates. The Company determines at each reporting period whether there is any objective evidence that the investment in associates is impaired. If this is the case, the Company calculates the amount of impairment as being the difference between the recoverable amount of the associate and the acquisition cost and recognizes the amount in the statement of comprehensive income. Recoverable amount is determined as the higher between fair value less cost to sell and value in use.

Property and Equipment and Investment Property
Property and equipment, and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for which the asset belongs. Impairment losses are recognized in the statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined had no impairment loss been recognized for that asset in prior years.

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

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

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of taxable temporary differences associated with investments in foreign subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of deductible temporary differences associated with investments in foreign subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

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

Other Comprehensive Income
Other comprehensive income comprises items of income and expense (including items previously presented under the statement of changes in equity) that are not recognized in the statement of income for the year in accordance with PFRS.

Capital Stock
Capital stock is determined using the nominal value shares that have been issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

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

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to additional paid-in capital.

Deposits for Future Stock Subscriptions

Deposits for future stock subscriptions are recorded based on the amounts received from stockholders and amounts of advances to be converted to equity. The Company classified a contract to deliver its own equity instruments under equity as a "Deposits for future stock subscription" since the Company has no obligation to return the money and will issue its own shares based on the agreed number of shares.

Retained Earnings

The amount included in the retained earnings includes profit and loss attributable to the Company's equity holders and reduced by dividend on common stock.

Dividends are recognized as a liability and deducted from equity when they are approved by the stockholders of the Company. Dividends for the period that are approved after the end of the reporting period are dealt with as an event after the end of the reporting period.

Retained earnings may also include effect of changes in accounting policy as may be required by the standards transitional provisions.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognized:

Harbor Assistance

Income from harbor assistance is recognized when the service has been rendered.

Lighterage Services

Lighterage services are recognized during the lease period of the Company's tugboats.

Salvage Income

Salvage income is recognized when the service for repair and rescue operations of ports and ships has been rendered.

Towing Services

Towing services is recognized upon completion of towing assistance.

Interest Income

Interest income is recognized as the interest accrues on a time proportion basis taking into account the effective yield on the asset.

Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Costs and expenses are generally recognized when the services are used or the expense arises, while interest expenses are accrued in the appropriate period. Cost and expenses comprise primarily of employee-related expenses, tugboat-related expenses, depreciation expense, management and professional fees.

Cost of Services

Costs of services are incurred in the normal course of business and are recognized when incurred. These comprise tug assistance costs, repairs and maintenance, customs processing and other costs which are incurred in the period when services are rendered.

General and Administrative Expenses

General and administrative expenses consist of costs associated with the development and execution of day-to-day operations of the Company. These are generally recognized when the service is incurred or the related expense arises.

Other Income (Charges)

Other income(charges) are miscellaneous income and expenses which are not directly related to the Company's regular results of operations. These include gain on sale of scrap materials, gain and loss on disposal of assets and various expenses.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specific asset; or
(d) There is a substantial change to the asset.

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

Finance Lease - Company as Lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged as interest expense in the statement of comprehensive income. Finance leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating Lease - Company as Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Sale and Leaseback

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The gain or loss on sale and operating leaseback transactions is recognized in the statement of comprehensive income immediately if the Company does not maintain or maintains only minor continuing involvement in these properties, other than the required lease payments and these transactions occur at fair value. No gain or loss on sale and finance leaseback transactions is recognized. In classifying the leaseback in a sale and leaseback transaction, similar judgments have to be made as described above under "Leases".

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

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

Defined benefit costs comprise the following:

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

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

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

The Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. Pension liability is actuarially determined using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. All actuarial gains and losses are recognized in the OCI which is subsequently closed to Retained Earnings at every end of the reporting period and all past service costs in profit or loss under "Net pension cost" in the period they occur.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve (12) months after the end of the reporting period in which the employees render the related service. Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve (12) months after the end of the reporting period from which the employees render the related service.

Termination Benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency Transactions
The financial statements are presented in Philippine peso, which is the Company's functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing as at the date of the initial transactions. All differences are taken to the statement of comprehensive income.

The results and financial position of the Company's associate whose functional currency is different from Philippine peso is translated to its presentation currency. The assets and liabilities are translated at closing rate, and income and expenses are translated at the exchange rates at the dates of the transactions. All resulting differences are recognized in the statement of comprehensive income.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Earnings Per Share (EPS)
The Company presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the net income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares issued and outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. Diluted EPS is calculated in the same manner, adjusted for the effects of any dilutive potential ordinary shares. If the number of ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial

statements are authorized for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

Operating Segment
For management purposes, the Company is organized and managed as one business segment. The Company's core service is providing harbor assistance services which accounted the majority of the Company's total service revenue. Accordingly, the Company operates mainly in one reportable business and geographical segment which is the Philippines. Noncurrent assets of the Company comprising tugboats, other marine vessel, building and improvements, transportation equipment, diving and oil spill equipment and furniture, fixtures and leasehold improvements are located substantially in the Philippines.

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

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

3. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the financial statements in accordance with PFRS requires the Company to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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. However, actual outcome can differ from these estimates.

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

Determining Functional Currency
The functional currency of the Company has been determined to be the Philippine peso. Based on management's evaluation, the Philippines peso is the currency that most faithfully represents the primary economic environment in which the Company operates and is the currency that mainly influences the underlying transactions, events and conditions relevant to the Company.

Operating Lease Commitments - Company as Lessee
The Company has entered into various lease agreements as a lessee. Critical judgment was exercised by the management to distinguish each lease agreement 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 (see Note 21).

Classifying Financial Instruments
The Company classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

Distinction Between Investment Property and Owner-occupied Property
The Company determines whether a property is classified as investment property or owner-occupied property:

- Investment property comprises land which is not occupied substantially for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimating Allowance for ImpairmentLosses on Trade and Other Receivables and Advances to Related Parties
The provision for impairment losses on trade and other receivables and advances to related parties is based on the Company's assessment of the collectability of payments from customers, employees andrelated parties. This assessment requires judgment regarding the outcome of disputes and the ability of each of the debtors to pay the amounts owed to the Company. The Company assesses individually the receivable based on factors that affect the collectability of the receivables, such as the length of the relationship of the Company with the debtor, the historical payment behavior, a review of the age and status of its receivable, the probability of insolvency of the counterparty, as well as its significant financial difficulties.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Company's assessment of the accounts since their inception. The Company assessments take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Trade and other receivables and advances to related parties, net of provision for impairment of trade receivables of ₱0.7 million, amounted to ₱263.9 million and₱242.2 million as at December 31, 2013 and 2012, respectively (see Notes 5 and 20). Impairment losses amounting to ₱33,177,₱141,201 and ₱112,080 were recognized in 2013,2012 and 2011, respectively(see Notes 5 and 17).

Estimating Allowance for Impairment Losses on Input VAT
The Company provides allowance for impairment losses on input VAT when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease other assets. No impairment losses were recognized on input VAT in2013, 2012 and 2011.

The aggregate carrying value of input VAT amounted to ₱106.9 million and₱75.8 millionas at December 31, 2013 and 2012, respectively. There was no allowance for impairment losses as at December 31, 2013 and 2012(see Notes 6 and 11).

Estimating Useful Lives of Property and Equipment
The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Effective January 1, 2012, the Company changed its estimated useful life for tugboats from five (5) to ten (10) years to eight (8) to twenty-six (26) years. The management of the Company conducted a review of the depreciable lives of its tugboats based on their expected usage. As a result of this review, the management increased the depreciable lives of its tugboats. The Company accounted for the change in estimated useful lives of tugboats prospectively. Other than what was stated, there is no change in the estimated useful lives of the remaining property and equipment as at December 31, 2013 and 2012. The carrying values of property and equipment amounted to ₱1,417.8 million and₱1,209.8 millionas at December 31, 2013 and 2012, respectively (see Notes 8 and 9).

Impairment of Property and Equipment and Investment Property
The Company assesses impairment on property and equipment and investment property whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount.Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows. There were no impairment indicators identified as atDecember 31, 2013, 2012 and 2011.

The net book values of property and equipment amounted to ₱1,417.8 million and ₱1,209.8 million as at December 31, 2013 and 2012, respectively (see Notes 8 and 9).

The aggregate net book value of investment property amounted to ₱5.9 million as at December 31, 2013 and 2012 (see Note 10).

Revaluation of Tugboats
The Company carries its tugboats at appraised value, with changes in fair value being recognized in OCI. The Company engaged independent valuation specialists to determine fair value as at December 31, 2011. The valuation was determined by reference to recent market transactions on arm's length terms. The carrying amount of tugboats carried at appraised value as atDecember 31, 2013 and 2012 amounted to₱1,152.3 million and₱654.9 million, respectively (see Note 8).

Estimating Impairment of Other Financial Assets
Other financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company performs regular review of the recoverability status of these other financial assets, designed to identify other financialassets with objective evidence of impairment and provide the appropriate allowance for impairment losses. No impairment losses of other financial assets were recognized for the years ended December 31, 2013, 2012 and 2011. The carrying amounts of the Company's other financial assets amounted to ₱120.8 million and₱33.1 millionas at December 31, 2013 and 2012, respectively (see Notes 6 and 11). Allowance for impairment losses amounted to nil as at December 31, 2013 and 2012 (see Note 6).

Estimating Allowance for Impairment Losses on Nonfinancial Prepayments and Other Current Assets
The Company provides allowance for impairment losses on nonfinancial prepayments and other current assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease other current assets or other noncurrent assets.

As at December 31, 2013 and 2012, the carrying values of nonfinancial prepayments and other current assets amounted to ₱19.2 million and₱35.7 million, respectively.Allowance for impairment losses amounted to nil as at December 31, 2013 and 2012 (see Note 6).

Estimating Retirement Benefits Costs
The cost of defined benefit pension plans and other post employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Retirement benefits expense amounted to ₱6.7 million,₱4.1 million and ₱3.0 millionfor the years ended December 31, 2013, 2012 and 2011, respectively. Retirement benefits obligation amounted to ₱37.1 million and₱31.8millionas at December 31, 2013 and2012, respectively (see Note 18).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country(see Note 18).

Assessing Realizability of Deferred Income Tax Assets
The Company reviews the carrying amounts of deferred income tax assets at each end of thereporting period and reduces it to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Deferred income tax assets amounted to ₱14.0 million and₱13.8 millionas at December 31, 2013 and 2012, respectively (see Note 22).

Determining Fair Values of Financial Instruments
PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgments and estimates. While significant components of fair value measurements are determined using verifiable objective evidence (e.g., foreign exchange rates, interest rates and volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect net income or loss and equity.

The carrying values of the Company's financial assets and liabilities approximate its fair value as at December 31, 2013 and 2012.

Estimating Contingencies
The Company is involved in certain legal proceedings which are either pending decision by the courts or under negotiation. Management and its legal counsels believe that the eventual outcome of these legal proceedings will not have a material effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Estimating Salvage Income
The Company's revenue recognition policy with respect to salvage income requires the use of estimates and assumptions that may affect the reported amounts of the Company's revenue and receivables.

Revenue from salvage income is recognized based on the amount estimated by the Company's co-contractor while take up of related costs are recognized when incurred. The difference between the amount initially recognized and the actual settlement is taken up in the subsequent period. Management believes that such use of estimates will not result in material adjustments in future periods.Salvage Income amounted to ₱21.0 million, ₱40.8 million and ₱94.4 million in 2013, 2012 and 2011, respectively (see Note 15). Receivables from salvage income amounted to ₱19.8 million and ₱40.8 million as at December 31, 2013 and 2012, respectively.

4. Cash

	2013	2012
Cash on hand	**₱940,959**	₱2,626,427
Cash with banks	**68,589,717**	48,855,698
	₱69,530,676	₱51,482,125

Cash with banks earn interest at the prevailing bank deposit rates. Interest income earned from cash with banks amounted to ₱0.2million, ₱0.9 millionand ₱0.9 million in 2013, 2012 and 2011, respectively.

Cash with banks amounting to ₱109.7 million as at December 31, 2013, representing proceeds from the IPO, were deposited in escrow and are restricted as to withdrawal for specified purpose as determined in the prospectus submitted with the SEC. These are classified as "Other Noncurrent Asset" (see Note 11).

Cash held in escrow amounting to₱22.9 million as at December 31, 2012classified as escrow fund under the account "Other Noncurrent Asset", were used to settle secured loans due to RCBC and ABC in 2013 (see Note 11).

5. Trade and Other Receivables

This amount consists of:

	2013	2012
Trade receivables	**₱218,819,571**	₱183,525,460
Advances to employees	**20,253,868**	5,046,201
Others	**16,114,206**	14,486,124
	255,187,645	203,057,785
Less allowance for impairment losses	**684,658**	684,658
	₱254,502,987	₱202,373,127

Trade receivables are noninterest-bearing and are generally on seven (7) to thirty (30) days' terms. Advances to employees are noninterest-bearing and are generally collectible on demand. Other receivables which pertain to amounts owed by third parties, other than the Company's trade customers and employees, are noninterest-bearing and are generally collectible on demand.

As at December 31, 2013 and 2012, trade receivables, considered as individually impaired, with nominal value of ₱0.7 million were impaired and provided with allowance for impairment.

Movement in the allowance for impairment losses are as follows:

	2013	2012
Beginning balances	**₱684,658**	₱684,658
Provision (see Note 17)	**33,177**	141,201
Written off during the year	**(33,177)**	(141,201)
Ending balances	**₱684,658**	₱684,658

6. Prepayments and Other Current Assets

	2013	2012
Input VAT (see Note 11)	**₱29,077,712**	₱10,920,000
Prepayments	**17,822,359**	21,553,385
Leasehold rights	**1,350,000**	1,350,000
Rental deposit(see Note 21)	**1,151,031**	1,151,031
Deferred IPO cost	**–**	12,777,100
Others	**10,008,710**	9,058,000
	₱59,409,812	₱56,809,516

Prepayments consist mainly of hull and machinery insurance, motor car insurance, fuel and charter hire of tugboats for a period of less than a year.

Deferred IPO costs pertain to the actual offer expenses which comprise of underwriting fees, legal and audit fees and taxes which will be deducted against the estimated proceeds from the IPO(see Note 1). In 2013, total amount of deferred IPO cost amounting to ₱24.6 million was deducted in full from the additional paid-in capital.

Others under "Prepayments and other current assets" pertain to advances to Datasi, Inc.The Company classified these assets from other noncurrent assets to current assets since management assessed that these are already due and demandable.

7. Investments in Associates

Investments in associates represent a 20% investment in shares of stock of Great Eastern Tug Corporation (GETC) and a 45% investment in shares of stock of Peak Flag SDN BHD (Peak Flag). The Company acquired thePeak Flag for₱7.2 million in 2012.

The carrying amount of investments in associates accounted for under the equity method are as follows:

	2013	2012
Acquisition cost		
Beginning balances	**₱10,955,724**	₱3,750,000
Additions	**–**	7,205,724
Ending balances	**10,955,724**	10,955,724

(Forward)

	2013	2012
Equity in net earnings		
Beginning balances	**₱4,517,386**	₱3,245,054
Share in net earnings (loss)of associates	**(387,216)**	1,272,332
Ending balances	**4,130,170**	4,517,386
Carrying values	**₱15,085,894**	₱15,473,110

GETC presently manages tugboats and other marine vessels for domestic services. Peak Flag was incorporated on October 18, 2011 primarily to provide harbor assistance services in select ports in Malaysia.

Selected financial information of the associates follow:

	GETC	
	2013	2012
Total assets	**₱68,268,860**	₱42,598,162
Total liabilities	**19,510,034**	110,156
Total equity	**48,758,826**	42,488,006
Net income	**6,270,820**	6,361,658

	Peak Flag	
	2013	2012
Total assets	**₱10,557,887**	₱14,190,431
Total liabilities	**–**	–
Total equity	**10,557,887**	14,190,431
Net loss	**(3,647,511)**	–

8. Property and Equipment at Revalued Amounts

The roll forward analysis of this account follows:

	2013	2012
Revalued amounts		
Beginning balances	**₱1,561,168,530**	₱1,608,354,936
Additions (see Note 20)	**164,137,627**	61,904,499
Disposals	**–**	(109,090,905)
Reclassifications from property and equipment at cost (see Note 9)	**454,406,583**	–
Ending balances	**2,179,712,740**	1,561,168,530
Accumulated depreciation		
Beginning balances	**₱906,260,565**	₱925,389,475
Depreciation (see Notes 16 and 17)	**121,140,821**	71,146,707
Disposals	**–**	(90,275,617)
Ending balances	**1,027,401,386**	906,260,565
Net book values	**₱1,152,311,354**	₱654,907,965

The movements of revaluation increment are as follows:

	2013	2012
Beginning balances	**₱391,590,217**	₱458,318,946
Amortization of revaluation increment through depreciation	**(30,859,717)**	(49,489,906)
Disposals of tugboats	**–**	(17,238,823)
Ending balances	**360,730,500**	391,590,217
Income tax effect	**(108,219,150)**	(117,477,065)
Ending balances, net of tax	**₱252,511,350**	₱274,113,152

The net book value of the tugboats, had the assets been carried at cost and not at revalued amount as at December 31, 2013 and 2012, would have been as follows:

	2013	2012
Cost		
Beginning balances	**₱582,770,335**	₱531,662,719
Additions	**164,137,627**	61,904,499
Disposals	**–**	(10,796,883)
Reclassifications from property and equipment at cost (Note 9)	**454,406,583**	–
Ending balances	**1,201,314,545**	582,770,335
Accumulated depreciation		
Beginning balances	**₱319,452,587**	₱307,016,204
Depreciation	**90,281,104**	21,656,801
Disposals	**–**	(9,220,418)
Ending balances	**409,733,691**	319,452,587
Net book values	**₱791,580,854**	₱263,317,748

Certain tugboats were used as collateral to secure the loans obtained from Allied Banking Corporation (ABC), Land Bank of the Philippines Leasing Corporation (LBP), UCPB Leasing and Finance Corporation (UCPB LFC), Rizal Commercial Banking Corporation (RCBC) and China Banking Corporation (CBC) (see Note 13). The carrying amounts of the tugboats used as collaterals are as follows:

	2013	2012
RCBC	**₱355,494,727**	₱191,523,144
ABC	**151,735,740**	169,701,670
UCPB LFC	**188,544,852**	160,975,961
CBC	**92,819,528**	96,114,860
LBP	**23,766,700**	23,298,191
	₱812,361,547	₱641,613,826

In 2009 and 2007, the Company entered into sale and leaseback transactions with UCPB LFC on certain tugboats. The said transactions which were classified as finance lease were paid in full by the Company in February 2012 (see Note 21). The Company subsequently acquired the ownership over the tugboats.

9. **Property and Equipment At Cost**

As at December 31, 2013

	Land	Barges	Building and Building Improvements	Transportation Equipment	Diving and Oil Spill Equipment	Furniture, Fixtures and Leasehold Improvements	Construction In-progress	Total
Cost:								
Beginning balances	**₱31,556,011**	**₱206,799,754**	**₱24,751,645**	**₱36,624,176**	**₱79,221,083**	**₱2,706,596**	**₱288,170,010**	**₱669,829,275**
Additions	**8,000,000**	**8,207,135**	**925,056**	**4,359,178**	**5,425,544**	**163,777**	**182,718,275**	**209,798,965**
Disposals	**–**	**–**	**–**	**(3,097,450)**	**(18,549)**	**–**	**–**	**(3,115,999)**
Reclassification (Note 8)	**–**	**–**	**–**	**–**	**–**	**–**	**(454,406,583)**	**(454,406,583)**
Ending balances	**39,556,011**	**215,006,889**	**25,676,701**	**37,885,904**	**84,628,078**	**2,870,373**	**16,481,702**	**422,105,658**
Accumulated depreciation:								
Beginning balances	**–**	**19,452,071**	**10,924,598**	**22,409,642**	**59,621,517**	**2,509,827**	**–**	**114,917,655**
Depreciation (see Notes 16 and 17)	**–**	**26,448,821**	**2,755,728**	**5,105,902**	**10,332,674**	**115,440**	**–**	**44,758,565**
Disposals	**–**	**–**	**–**	**(3,097,450)**	**(4,122)**	**–**	**–**	**(3,101,572)**
Ending balances	**–**	**45,900,892**	**13,680,326**	**24,418,094**	**69,950,069**	**2,625,267**	**–**	**156,574,648**
Net book values	**₱39,556,011**	**₱169,105,997**	**₱11,996,375**	**₱13,467,810**	**₱14,678,009**	**₱245,106**	**₱16,481,702**	**₱265,531,010**

As at December 31, 2012

	Land	Barges	Building and Building Improvements	Transportation Equipment	Diving and Oil Spill Equipment	Furniture, Fixtures and Leasehold Improvements	Construction In-progress	Total
Cost:								
Beginning balances	₱31,556,011	₱61,085,401	₱24,366,357	₱34,001,324	₱62,205,440	₱2,513,847	₱170,634,613	₱386,362,993
Additions	–	145,714,353	385,288	4,891,781	17,015,643	192,749	117,535,397	285,735,211
Disposals	–	–	–	(2,268,929)	–	–	–	(2,268,929)
Ending balances	31,556,011	206,799,754	24,751,645	36,624,176	79,221,083	2,706,596	288,170,010	669,829,275
Accumulated depreciation:								
Beginning balances	–	7,229,093	8,166,876	18,734,527	49,702,900	2,397,402	–	86,230,798
Depreciation (see Notes 16 and 17)	–	12,222,978	2,757,722	4,992,204	9,918,617	112,425	–	30,003,946
Disposals	–	–	–	(1,317,089)	–	–	–	(1,317,089)
Ending balances	–	19,452,071	10,924,598	22,409,642	59,621,517	2,509,827	–	114,917,655
Net book values	₱31,556,011	₱187,347,683	₱13,827,047	₱14,214,534	₱19,599,566	₱196,769	₱288,170,010	₱554,911,620

The cost of fully-depreciated property and equipment still used in the Company's operations under tugboats, transportation equipment, diving and oil spill equipment, and furniture, fixtures and leasehold improvements amounted to ₱67.2 million, ₱63.4 million and ₱63.4 millionas at December 31, 2013, 2012 and 2011, respectively.

As at December 31, 2013, construction in progress consists of one office unit and two parking slot at BG South Properties Inc. As per management, construction of the said office unit is yet to commence.

As at December 31, 2012, construction in-progress consists of tugboats undergoing specificalterations to properly fit the services rendered by the Company. Tugboats amounting to ₱454.4 million were completed and transferred to "Property and equipment at revalued amounts" in 2013 (see Note 8).

The carrying value of transportation equipment used as collateral on ABC car loan amounted to ₱1.2 million and₱1.0 million as at December 31, 2013 and 2012, respectively and ₱1.5 million on Security Bank Savings car loan as at December 31, 2013.

Certain barges were used as collateral to secure the loans obtained from UCPB and Malayan Bank Savings and Mortgage Bank (MBSMB) (see Note 13). The carrying amounts of the barges used as collaterals are as follows:

	2013	2012
UCPB	**₱99,661,105**	₱116,217,161
MBSMB	**56,715,181**	–
	₱156,376,286	₱116,217,161

10. **Investment Property**

The Company's investment property is composed of parcels of land located in Barangay San Martin De Porres, Parañaque City covering a total area of three hundred fifty-six square meters (356 m^2) and Ayala Green Fields, Calamba Laguna covering a total area of three hundred seventy-seven square meters (377 m^2) which are held for capital appreciation with a carrying value of ₱4.2 million and ₱1.7 million, respectively. The estimated fair value as at December 31, 2013 and 2012 amounted to ₱7.9 million and₱7.3 million, respectively, based on the recent selling price per square meter.

The Company used the cost model method in recognizing investment property and determines fair value internally. There were no income earned nor direct operating expenses incurred related to the investment property for the period ended December 31, 2013, 2012 and 2011.

11. **Other Noncurrent Assets**

This account consists of:

	2013	2012
Input VAT	**₱77,864,049**	₱64,849,089
Escrow funds (see Notes 4 and 13)	**109,677,448**	22,925,968
	₱187,541,497	₱87,775,057

Input VAT represents tax paid on purchases of applicable goods and services which can be used to offset against output VAT. The Company classified portion of its input VAT as noncurrent asset since management believes that these will not be recovered in the succeeding year.

Allowance for impairment losses on input VAT amounting to ₱52.7 million was written off in 2012. There was no allowance for impairment losses on input VAT in 2013.

Escrow funds amounting to ₱22.9 million as at December 31,2012 are generally used as collateral for settlement of interest-bearing loans and borrowings from RCBC and ABC.These loans were fully settled in 2013 (see Note 13). Escrow funds amounting to ₱109.7 million as at December 31, 2013 represents proceeds from IPO. Escrow funds are restricted as to withdrawal for specified purpose as determined with prospectus submitted with the SEC (see Note 4). Interest income from escrow funds amounted to ₱0.1million in 2013.

12. **Trade and Other Payables**

This account consists of:

	2013	2012
Trade	**₱86,438,275**	₱40,483,887
Accrued expenses	**34,556,181**	29,539,608
Unearned income	**8,926,413**	10,951,574
Others	**14,794,152**	9,255,182
	₱144,715,021	₱90,230,251

Trade payables are generally noninterest-bearing and are settled in thirty (30) to ninety (90) days' term.

Accrued expenses are obligations on the basis of normal credit terms and do not bear interest. These pertain to accruals made for professional fees and other various accruals. Accruals are made based on prior month's billings and/or contracts and are normally settled within twelve (12) months from the end of the reporting period.

Unearned income represents advance collections from customers, which will be recognized as revenue upon the performance of the contractually agreed tasks.

Other payables consist mainly of amounts due to the Social Security System, Philippine Health Insurance Corporation, Home Development Mutual Fund, withholding taxes and others that are noninterest-bearing and are settled in ten (10) to fifteen (15) days' term.

13. **Interest-Bearing Loans and Borrowings**

<u>Short-term Loans</u>

RCBC
In 2012, the Company obtained various cash loans from RCBC amounting to ₱40.4 million, payable in one (1) year with interest at 5.5% per annum. These loans are secured by escrow funds in a form of restricted time deposits amounting to₱16.4 millionas at December 31, 2012, presented under "Other noncurrent assets" in the statement of financial position (see Note 11).

In 2013, the Company obtained various cash loans from RCBC amounting to ₱23.0 million, payable in one (1) year with interest at 5.5% per annum.

The loans in 2013 and 2012 are secured by a chattel mortgage on six (6) ofthe Company's tugboats (see Notes 8).

ABC
In 2011, the Company obtained additional car loan amounting to₱1.2 million, with interest at 8.4% per annum and is payable in one (1) year. Thecash loans and car loans are secured by escrow funds in a form of restricted time deposits amounting to₱6.5 million as at December 31, 2012, presented under "Other noncurrent assets" in the statements of financial position(see Note 11).The cash loans fromABC are also partially secured by a real estate mortgage on a parcel of land (see Note 20), a chattel mortgage on six (6) of the Company's tugboats (see Note 8) and a suretyship of certain Company officers and their spouses (see Note 20).

In 2013, the Company obtained various cash loans from ABC amounting to ₱40.0 million payable in one (1) year with interest at 6.5% to 7.5% per annum and a car loan amounting to ₱0.5 million payable in three (3) years with interest at 7.5% per annum.

Chinatrust Commercial Bank Corporation
In 2013, the Company obtained an unsecured cash loans amounting to ₱40.0 million payable in two (2) to three (3) months with interest at 5.95% per annum.

Malayan Bank Savings & Mortgage Bank
In 2013, the Company obtained cash loans amounting to ₱45.0 million payable in six (6) months with interest of 6.5% per annum. These loans are secured by a chattel mortgage of the Company's barge lynx and are pledged on shares of stocks of the Company (see Note 9).

CBC
In 2013, the Company obtained cash loan from CBC amounting to ₱3.8 million payable in seven (7) months with interest at 7.5% per annum. The loan is secured by a chattel mortgage of the Company's tugboat(see Note 8).

Total interest expense arising from these short-term loans amounted to ₱0.7 million, ₱0.1 million and nil in 2013, 2012 and 2011, respectively.

<u>Long-term Debt</u>

UCPB LFC
In 2010, the Company obtained a loan from UCPB LFC amounting to ₱50.0 million,payable in five (5) years from the date of initial drawdown, with interest of 10.50% per annum, subject to annual review and resetting, at the option of the bank. The five (5)-year loan is secured by a chattel mortgage of the Company's tugboats. (see Note 8).

In 2012, the Company obtained various cash loans from UCPB LCF amounting to ₱218.3 million, payable in one (1) year to four (4) years with interest at 8% per annum. The loans in 2012 are secured by a chattel mortgage on the Company's tugboats and barges(see Note 8).

In 2013, the Company obtained additional cash loans amounting to ₱135.6 million payable in one (1) year to three (3) years with interest at 6% to 8% per annum. The three (3)-year loan of ₱30.0 million is secured by a chattel mortgage of one of the Company's tugboats (see Note 8).

RCBC
In 2011, the Company obtained a car loan from RCBC amounting to ₱3.3 million,payable in three (3) years with interest at 13.75% per annum. The Company also obtained additional cash loans amounting to ₱110.0 million,payable in three (3) to five (5) years with interest at 5.50% to 8.68% per annum.

ABC
In 2010, the Company obtained loans from ABC amounting to ₱75.4 million. These loans are payable in equal monthly installments with terms ranging from three (3) to five (5) years and incur interest based on prevailing market rates.

In 2012, the Company obtained car loan from ABC amounting to ₱0.9 million,payable in three (3) years with interest at 9.5% to 10% per annum. The car loan is secured by the vehicle itself (see Note 9).

CBC
In 2010, the Company obtained additional unsecured loans from CBC amounting to ₱27.1 million, payable in three (3) to five(5) years with interest at 9.50% to 9.73% per annum.

In 2011, the Company obtained a loan from CBC amounting to ₱28.9 million,payable in three (3) years with interest at 5.97%. This loan was used to settle the Company's finance lease liability to UCPB LFC.

In 2012, the Company obtained various cash loans from CBC amounting to ₱26.7 million payable in three (3) months to ten (10) years with interest at 6.5% to 9% per annum. These loans are secured by chattel mortgage of the Company's tugboats (see Note 8).

LBP
The Company's existing loans from LBP,payable in five (5) years with an interest of 11.65% per annum, are secured by a chattel mortgage on one ofthe Company's tugboats (see Note 8).

Ryota Nagata
In 2011, the Company issued a two (2)-year promissory noteto Ryota Nagata, a stockholder of the Company, amounting to ₱10.0 millionpayable in lump sum on February 7, 2013. The note bears interest at 6.25% per annum payable quarterly. No transaction costs were incurred in the issuance of the note (see Note 20).

In 2012, the Company issued a three (3)-year unsecured promissory note to Ryota Nagata amounting to $100,000 or ₱4.3 million,payable in lump sum in three (3) years. The note bears interest at 8% per annum payable quarterly.

Ryota Nagata hasthe option to convert the principal amount of the above notes into shares of stock of the Company upon the latter's IPO. The conversion price per share shall be based on the approved offered price in the PSE less the discount which shall be mutually agreed upon by the Company and Ryota Nagata. Upon conversion of the note to Company's shares of stock, the note shall cease to exist and all accrued interest thereof shall be paid by the Company on the date of conversion. The conversion option is not yet considered an embedded derivative until the conversion price is set upon IPO.

The Company settled its loans from Ryota Nagata through payment of cash in September 2012 (see Note 20).

Security Bank Savings
In 2013, the Company obtained car loans amounting to ₱1.7 million payable in two (2) to three (3) years with interest rate of 10% to 12%. The car loan is secured by the vehicle itself (see Note 9).

The outstanding current and noncurrent portion of the foregoing interest-bearing loans (included as part of "Interest-bearing loans and borrowings" account in the statements of financial position) as at December 31, 2013 and 2012 are as follows:

	2013	2012
UCPB LFC	**₱90,058,654**	₱200,465,570
RCBC	**65,966,112**	121,719,054
ABC	**27,970,575**	84,546,518
CBC	**22,035,904**	73,313,627
LBP	**3,029,793**	5,786,036
SB	**1,323,090**	–
	210,384,128	485,830,805
Less current portion:		–
UCPB LFC	**56,635,864**	129,546,870
RCBC	**27,862,408**	5,876,059
ABC	**14,982,252**	60,821,283
CBC	**10,267,677**	38,503,380
LBP	**3,029,793**	2,744,302
SB	**541,124**	–
	113,319,118	237,491,894
Noncurrent portion	**₱97,065,010**	₱207,938,911

Total interest expense arising from these long term interest-bearing loans and borrowings amounted to ₱42.1 million,₱35.2 million and ₱25.7 millionin 2013, 2012 and 2011, respectively.

The Company's loans are not covered with any restrictions and requirements under loan covenants.

The Company has not defaulted or has not breached any outstanding loan agreements as at December 31, 2013 and 2012.

14. Equity

The capital structure of the Company as at December 31, 2013 and 2012is as follows:

Authorized Capital stock

	2013		2012	
	Shares	**Amount**	Shares	Amount
Beginning balances - ₱1 par value in 2013 and ₱100 par value in 2012	**1,500,000,000**	**₱1,500,000,000**	400,000	₱40,000,000
Reduction of par value from ₱100 to ₱1	–	–	39,600,000	–
Increase in authorized capital stock	–	–	1,460,000,000	1,460,000,000
	1,500,000,000	**₱1,500,000,000**	1,500,000,000	₱1,500,000,000

Issuance of Capital Stock

	2013		2012	
	Shares	**Amount**	Shares	Amount
Beginning balances	**423,638,580**	**₱423,638,580**	400,000	₱40,000,000
Reduction of par value from ₱100 to ₱1	–	–	39,600,000	–
Issuance	**181,600,000**	**181,600,000**	12,002,000	12,002,000
Conversion of deposits for future stock subscription	–	–	110,000,000	110,000,000
Stock dividends	–	–	261,636,580	261,636,580
	605,238,580	**₱605,238,580**	423,638,580	₱423,638,580

Capital Stock
On December 8, 2010, the Company's BOD and stockholders approved the following amendments to its Article of Incorporation as follows:

a. Reduce the par value of present authorized capital stock from ₱100 per share divided into 400,000 shares to ₱1 per share divided into 40.0 million shares.
b. Increase the authorized capital stock from ₱40.0 million consisting of 40.0 million shares with a par value of ₱1 per share to ₱1,000.0 million comprised of 1,000.0 million shares with par value of ₱1 per share.
c. Apply and convert the deposit for future subscriptions in the amount of ₱110.0 million divided into 110.0 million shares, to support the increase in the capitalization of the Company.

In October 2011, the Company applied for the said reduction in par value, increase in authorized capital stock and conversion of deposit with the SEC which the latter approved on January 19, 2012.

On May 10, 2012, the Company's BOD and stockholders approved another increase in authorized capital stock from ₱1,000.0 million comprised of 1,000.0 million shares with par value of ₱1 per share, to₱1,500.0 million comprised of 1,500.0 million shares with par value of ₱1 per share. The SEC approved the increase of the authorized capital stock on September 11, 2012.

In September 2012, the Company issued 12.0 million additional shares to its existing stockholders for cash considerations.

In October 2012, the Company issued 2,000 shares to two (2) independent directors for cash considerations.

The IPO of the Company's share with an offer price of ₱1.88 per share resulted to the issuance of 181,600,000 shares resulting to capital stock of ₱181.6 million and additional paid-in capital of ₱121.6 million net of transaction costs amounting to ₱24.6 million (see Note 6).

Deposits for Future Stock Subscription
On December 27, 2006, the BOD approved the conversion of certain advances from stockholders amounting to ₱95.8 million to capital stock. Subsequently, on December 7, 2008, the BOD approved the increase in advances from stockholders for conversion to capital stock from the previously approved amount of ₱95.8 million to ₱110.0 million. Pertinent waivers from current stockholders of their pre-emptive rights were issued in support of the revised conversion of advances. In February 2012, the deposits for future stock subscriptions were applied and converted into capital stock in support of the above increase in the capitalization of the Company. The dilutive effect of deposit for future stocks is reflected as additional share dilution in the computation of earnings per share in 2011.

Retained Earnings and Stock Dividends
On July 4, 2011, the Company's BOD approved the declaration of stock dividends equivalent to 118.0 million shares, with an aggregate value of ₱118.0 million, to stockholders of record as at July 1, 2011. The stockholders accordingly ratified the declaration of stock dividends payable. The stock dividend was approved by the SEC on January 19, 2012. In March 2012, the stock dividends were distributed in support of the above increase in the capitalization of the Company.

On May 10, 2012, the Company declared stock dividends amounting to₱143.6 million divided into 143.6 million shares with par value of ₱1 per share, in favor of the Company's stockholders as at May 1, 2012 and paid in full out of the Company's unrestricted retained earnings as at December 31, 2011, to finance the increase in authorized capital stock.On September 11, 2012, the stock dividend was approved by the SEC.

On February 6, 2013, the Company's BOD approved the declaration of cash dividends amounting to₱14.8 millionequivalent to₱0.03 per share, in favor of the Company's existing stockholders of record as at December 31, 2012. In 2013, the stockholders agreed to offset their cash dividends to their advances from the Company.

The details and movements of the Company's retained earnings are as follows:

	December 31, 2013		
	Appropriated	**Unappropriated**	**Total**
Beginning balances	**₱–**	**₱193,040,853**	**₱193,040,853**
Total comprehensive income	**–**	**109,426,553**	**109,426,553**
Depreciation of revaluation increment on property and equipment	**–**	**21,601,802**	**21,601,802**
Declaration of cash dividends	**14,827,350**	**(14,827,350)**	**–**
Settlement of cash dividends	**(14,827,350)**	**–**	**(14,827,350)**
Ending balances	**₱–**	**₱309,241,858**	**₱309,241,858**

	December 31, 2012 (As restated)		
	Appropriated	Unappropriated	Total
Beginning balances	₱118,000,000	₱147,660,233	₱265,660,233
Total comprehensive income	–	142,307,090	142,307,090
Depreciation of revaluation increment on property and equipment	–	46,710,110	46,710,110
Declaration of stock dividends	143,636,580	(143,636,580)	–
Issuance of stock dividends	(261,636,580)	–	(261,636,580)
Ending balances	₱–	₱193,040,853	₱193,040,853

Basic and Diluted EPS
Basic and diluted EPS were computed as follows:

	2013	2012	2011
Net income for basic and diluted EPS	**₱108,481,763**	₱148,286,927	₱131,996,264
Weighted average number of common shares issued and outstanding for basic EPS	**453,905,247**	406,470,580	301,636,580
Dilutive shares arising from deposit for future stock subscription	**–**	–	110,000,000
Adjusted weighted average number common shares issued and outstanding for diluted EPS	**453,905,247**	406,470,580	411,636,580
Basic earnings per common share	**₱0.24**	₱0.36	₱0.44
Diluted earnings per common share	**₱0.24**	₱0.36	₱0.32

Weighted average number of common shares issued and outstanding for basic EPS and diluted EPS is adjusted retrospectively for the effect of stock dividend issued in 2012.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting period and the date of completion of these financial statements.

15. **Service Income**

This account consists of:

	2013	2012	2011
Harbor assistance, net of discounts	**₱728,116,282**	₱705,387,330	₱621,296,841
Lighterage services	**120,582,576**	48,615,062	–
Salvage income	**21,005,033**	40,829,579	94,367,557
Towing services	**20,935,017**	5,063,000	17,588,114
Others	**8,056,589**	7,368,918	4,480,806
	₱898,695,497	₱807,263,889	₱737,733,318

Harbor assistance pertains to services rendered in assisting ships and other watercrafts in docking and undocking at the port. The amount of income recognized is net of discounts amounting to ₱115.7 million, ₱107.4 million and ₱101.2 million in 2013, 2012, and 2011, respectively.

16. **Cost of Services**

This account consists of:

	2013	2012	2011
Fuel and lubricants	**₱134,135,771**	₱106,772,390	₱117,021,728
Depreciation and amortization (see Notes 8 and 9)	**154,829,325**	83,815,039	65,190,021
Personnel costs (see Note 19)	**112,836,677**	77,527,083	66,116,578
Insurance	**40,332,842**	25,743,821	17,509,030
Supplies	**37,405,490**	32,425,241	38,668,472
Outside services	**27,754,026**	23,649,804	13,336,421
Charter hire (see Note 21)	**23,530,230**	23,350,165	15,516,578
Repairs and maintenance	**14,859,416**	13,084,971	34,222,444
Port expense	**8,045,158**	9,419,900	5,384,281
Transportation and travel	**4,588,939**	3,966,138	2,860,280
Utilities	**3,380,920**	2,688,837	3,368,238
Taxes and licenses	**1,874,226**	4,705,409	2,308,767
Representation and entertainment	**1,223,224**	1,096,545	–
Rent (see Note 21)	**503,367**	2,694,554	10,480,729
Others	**11,900,325**	5,487,951	246,167
	₱577,199,936	₱416,427,848	₱392,229,734

17. **General and Administrative Expenses**

This account consists of:

	2013	2012	2011
Personnel costs (see Note 19)	**₱55,443,298**	₱49,458,821	₱54,769,300
Transportation and travel	**11,878,833**	10,545,148	7,857,901
Depreciation and amortization (see Note 9)	**11,070,061**	17,335,614	14,295,823
Representation and entertainment	**8,657,949**	6,005,819	5,470,034
Professional and management fees	**4,504,498**	15,831,771	27,587,827
Supplies	**3,836,953**	2,370,450	1,908,373
Fuel and lubricants	**3,043,392**	1,157,115	1,177,005
Repairs and maintenance	**2,830,097**	1,801,998	2,391,643
Communications	**2,796,550**	2,560,210	2,806,127
Taxes and licenses	**2,737,629**	8,523,824	879,171
Advertising and promotions	**2,644,860**	4,236,313	4,526,164
Utilities	**1,493,594**	1,550,628	1,688,021
Insurance	**1,101,829**	1,571,605	2,426,676
Rent (see Note 21)	**750,180**	453,928	398,426
Bank service charges	**305,978**	1,245,175	270,576
Donation and contribution	**171,800**	298,570	–

(Forward)

	2013	2012	2011
Provision for impairment losses on trade receivables (see Note 5)	**₱33,177**	₱141,201	₱112,080
Security services	**24,271**	2,517,988	910,096
Commission	–	495,000	412,500
Others	**15,187,836**	6,193,944	7,726,210
	₱128,512,785	₱134,295,122	₱137,613,953

18. **Retirement Costs**

The Company has an unfunded noncontributory defined benefit plan which covers all of its regular employees.

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

The following tables summarize the components of net retirement costs (benefit) recognized in the statement of comprehensive income, net retirement costs (benefit) recognized in other comprehensive income the amounts recognized in the statements of financial position for the plan.

	December 31, 2013	December 31, 2012 (As restated)	January 1, 2012 (As restated)
Beginning balance	**₱31,768,400**	₱19,090,351	₱12,809,956
Current service cost	**4,946,900**	2,946,106	2,077,262
Interest cost	**1,770,900**	1,189,318	958,166
Retirement costs charged to profit or loss	**6,717,800**	4,135,424	3,035,428
Actuarial loss (gain) due to:			
Experience adjustments	**(3,442,900)**	6,325,525	3,223,614
Changes in financial assumptions	**2,093,200**	2,217,100	2,271,353
Retirement costs (benefit) charged to other comprehensive income	**(1,349,700)**	8,542,625	5,494,967
Benefits paid	**–**	–	(2,250,000)
Ending balances	**₱37,136,500**	₱31,768,400	₱19,090,351

The Company does not have any plan assets. Principal assumptions used to determine retirement plan obligation are as follows:

	2013	2012	2011
Discount rate	**5.17%**	5.66%	6.31%
Salary increase	**5.00%**	5.00%	5.00%
Mortality rate	**1994 GAM**	1994 GAM	1994 GAM
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5	1952 Disability Study, Period 2, Benefit 5
Turn-over rate	**A scale of 25% at age 20 decreasing to 0% at age 50**	A scale of 25% at age 20 decreasing to 0% at age 50	A scale of 25% at age 20 decreasing to 0% at age 50

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

	Increase (decrease)	2013
Discount rates	+1%	(₱4,083,900)
	-1%	4,826,400
Salary increase rate	+1%	₱4,592,800
	-1%	(3,974,800)
Turn-over rate	+2%	(₱1,187,000)
	-2%	1,386,400

Shown below is the maturity analysis of the undiscounted benefit payments:

	2013
Less thanone year	₱399,051
More than one year to five year	4,721,008
More than five years to 10 years	29,747,895
More than 10 years to 15 years	44,740,044
More than 15 years to 20 years	49,111,193
More than 20 years	159,264,444
Total expected payments	₱287,983,635

The average duration of the defined benefit obligation at the end of the reporting period is 19.69years.

19. Personnel Costs

The allocation of personnel costs is as follows:

	2013	2012	2011
Cost of services (see Note 16):			
Salaries and wages	**₱57,825,202**	₱43,816,172	₱32,638,701
Crewexpense	**30,590,188**	18,724,967	29,118,556
Tug and barge operations	**13,368,037**	8,749,550	–
Retirement benefits expense (see Note 18)	**3,462,830**	2,526,885	1,620,882
Other employee benefits	**7,590,420**	3,709,509	2,738,439
	112,836,677	77,527,083	66,116,578
General and administrative expenses (see Note 17):			
Salaries and wages	**49,184,835**	47,512,285	52,890,810
Retirement benefits expense (see Note 18)	**1,484,070**	419,221	456,380
Other employee benefits	**4,774,393**	1,527,315	1,422,110
	55,443,298	49,458,821	54,769,300
	₱168,279,975	₱126,985,904	₱120,885,878

20. Related Party Transactions

Transactions with related parties consist of noninterest-bearing advances that have no fixed repayment terms and are due and demandable. The Company's related party transactions are as follows:

	Volume			Advances to (from)			
Related Party	**2013**	2012	2011	**December 31, 2013**	December 31, 2012	**Terms**	**Conditions**
Associates							
GETC							
Charter Hire Expense	**₱4,285,714**	₱6,428,571	₱4,122,823	**₱–**	₱–	Payable in 30-days after receipt of invoice; noninterest-bearing	Unsecured; no guarantees
Peak Flag							
Advances	**67,883**	2,806,449	–	**(2,481,933)**	(2,806,449)	Payable on demand; noninterest-bearing	Unsecured; no guarantees
Common stockholder							
PT Bintang (Indonesia)	**10,365,460**	43,082,132	–	**9,383,619**	10,027,144	Collectible on demand; noninterest-bearing	Unsecured; no guarantees; no impairment
Harbor Star PNG	**1,019,886**	21,147,074	–	–	15,456,425	Collectible on demand; noninterest-bearing guarantees	Unsecured; no guarantees; no impairment
Harbor Star Marine	**8,418,450**	12,938,575	–	–	13,894,865	Collectible on demand; noninterest-bearing	Unsecured; no guarantees; no impairment
South Star Towage Inc	**275,000**	23,830,088	–	–	480,350	Collectible/ payable on demand; noninterest-bearing	Unsecured; no impairment
Stockholder							
Various Stockholders							
Advances from stockholders	**23,571,249**	4,276,500	(10,000,000)	**(7,886,803)**	–	Payable on demand; noninterest-bearing	Unsecured; no guarantees
Affiliate							
NAIGAI Corporation							
Loans	–	21,651,500	–	–	–	Payable on demand; noninterest-bearing	Unsecured; no guarantees
Total Advances to	**₱48,003,642**	₱136,160,889	₱4,122,823	**₱9,383,619**	₱39,858,784		
Total Advances from			(₱10,000,000)	**(₱10,368,736)**	(₱2,806,449)		

Advances to Related Parties
The Company grants unsecured, noninterest-bearing advances to related parties for operational activities which are payable on demand. No provision for impairment losses was provided for the years ended December 31, 2013, 2012 and 2011 since the Company assessed that these advances are collectible through cash. There were no guarantees received on the said advances.

In 2012, the Company received a tugboat from PT Bintang Pelabuhan with a fair value of ₱47.0 million as payment for the advances provided by the Company (see Note 8).

Investment in Associates
The Company has twenty percent (20%) investment in shares of stock of GETC and forty-five (45%) investment in shares of stock of Peak Flag as at December 31, 2013, 2012 and 2011 (see Note 7). GETC provides charter hire services to the Company. Charter hire expense related to GETC amounted to ₱5.3 million, ₱6.4 million and ₱4.1 million in 2013, 2012 and 2011, respectively. These are payable through cash in thirty (30) days.

Advances from Related Parties
In 2012, the Company obtained unsecured,non-interest bearing advances from Peak Flag with no definite repayment terms amounting to ₱2.8 million. These will be settled through payment of cash and no guarantee was given. As at December 31, 2013 and 2012, the amount due to Peak flag amounted to₱2.5 million and₱2.8 million, respectively.

In 2013, the Company obtained noninterest-bearing advances fromstockholders to finance IPO activities amounting to ₱23.6 million. The outstanding balance of the amounts due as at December 31, 2013 amounted to₱7.9 million. These are generally collectible on demand.

Loan from Stockholder
In 2011, the Company issued a two-year unsecured promissory note to Ryota Nagata, a stockholder of the Company, amounting to ₱10.0 million payable in lump sum on February 7, 2013. No guarantee was given on the said loans. In addition, the Company issued a three-year unsecured promissory note in 2012 to Ryota Nagata amounting to $100,000 or ₱4.3 million, payable in lump sum in three (3) years. The Company settled the loan from stockholder in September 2012 (see Note 13).

NAIGAI Corporation
In 2012, the Company issued a three (3)-year unsecured promissory note to NAIGAI Corporation amounting to $500,000 or ₱21.7 million, payable in lump sum in three (3) years. The note bears interest at 8% per annum.

NAIGAI Corporation shall have the option to convert the principal amount into Company's shares of stock upon the latter's IPO. The conversion price per share shall be based from the approved offered price in the PSE less the discount which shall be mutually agreed upon by the Company and the lender.

Upon conversion of the note to Company's shares of stock, the note shall cease to exist and all accrued interest thereof shall be paid by the Company on the date of conversion, provided the option to convert shall only be exercised at least one (1) year after the issuance date of the note. The conversion option is not yet considered an embedded derivative until the conversion price is set upon IPO.

The Company settled its loan from Naigai Corporation through payment of cash in September 2012.

Compensation of Key Management Personnel
The Company considers as key management personnel all employees holding managerial positions up to president. The short-term employee benefits and post-employment benefitsin2013, 2012 and 2011 are as follows.

	2013	2012	2011
Short-term employee benefits	**₱80,574,809**	₱79,777,039	₱70,704,468
Post-employment benefits	**999,721**	992,853	665,735
	₱81,574,530	₱80,769,892	₱71,370,203

Suretyship
Loans obtained from ABC are partially secured by a continuing suretyship of certain Company officers and their spouses and by a real estate mortgage on a parcel of land (see Note 13).

21. **Lease Commitments**

Sale and Leaseback as a Finance Lease - Company as Lessee
The Company is a lessee under finance lease arrangements covering certain tugboats with a termof five years.

The Company's finance lease liabilities were settled in February 2012.The net book value of the tugboats under finance leases amounted to ₱95.2 millionas at December 31, 2011. Interest expense related to the finance lease liabilities amounted to₱6.5 millionin2011.

Operating Lease Commitments - Company as Lessee
The Company is a lessee under non-cancellable operating lease arrangements covering certain tugboats, warehouse and offices. The lease arrangements have terms ranging from six (6) months to five (5) years which can be extended or renewed upon mutual agreement of the parties. Rental deposit amounted to ₱1.2 million as at December 31, 2013 and 2012 (see Note 6).

The future minimum rentals payable under these non-cancellable operating leases are as follows:

	2013	2012	2011
Within one (1) year	**₱154,071**	₱365,179	₱591,240
After one (1) year but not more than five (5) years	**–**	66,964	207,985
	₱154,071	₱432,143	₱799,225

Rentals recognized in the statements of comprehensive income amounted to ₱1.3 million, ₱3.1 million and ₱10.9 million in2013, 2012 and 2011 respectively (see Notes 16 and 17). Charter hire expense recognized under "Cost of services" amounted to ₱23.5 million, ₱23.4 millionand ₱15.5 million in2013, 2012 and 2011, respectively (see Note 16).

22. **Income Taxes**

The provision for (benefit from) income tax shown in the statements of comprehensive income is as follows:

	2013	2012 (As restated)	2011 (As restated)
Current	**₱62,043,083**	₱68,440,050	₱40,578,533
Deferred	**(15,086,341)**	(5,576,997)	15,574,421
	₱46,956,742	₱62,863,053	₱56,152,954

The Company's current provision for income tax represents the regular corporate income tax in2013, 2012, and 2011.

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

	2013	2012 (As restated)	2011 (As restated)
Income tax at statutory income tax rate of 30%	**₱46,631,552**	₱63,344,994	₱56,444,765
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	**314,398**	164,921	215,539
Share in net loss (earnings) of an associate	**116,165**	(381,700)	(236,508)
Nontaxable income	**–**	(180,649)	(184,818)
Interest income already subjected to final tax	**(105,373)**	(84,513)	(86,024)
	₱46,956,742	₱62,863,053	₱56,152,954

The components of the net deferred income tax assets (liabilities) - net are as follows:

	December 31, 2013	December 31, 2012 (As restated)
Recognized directly in profit or loss		
Deferred income tax assets:		
Retirement benefits obligation	**₱8,983,072**	₱6,967,732
Unearned income	**2,677,924**	3,285,472
Allowance for impairment losses on:		
Receivables	**205,397**	205,397
Input VAT	**–**	–
Unrealized foreign exchange losses	**–**	789,236
Other current assets	**–**	–
	₱11,866,393	₱11,247,837

	December 31, 2013	December 31, 2012 (As restated)
Deferred income tax liability:		
Service income from salvaging services	**(₱11,559,245)**	(₱17,148,300)
Unrealized foreign exchange gains	**(379,185)**	–
	(11,938,430)	(17,148,300)
Recognized directly in other comprehensive income		
Deferred income tax asset (liability):		
Actuarial loss	**2,157,878**	2,562,788
Revaluation increment on property and equipment	**(108,219,150)**	(117,477,065)
	(106,061,272)	(114,914,277)
Deferred income tax liabilities - net	**(₱106,133,309)**	(₱120,814,740)

23. **Financial Instruments, Fair Value Measurements, Financial Risk Managements, Objectives and Policies**

Financial Risk Management Objectives and Policies

The BOD has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and manage the Company's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Company's activities.

The main risks arising from the use of financial instruments are market risk, credit risk and liquidity risk. The BOD reviews and approves the policies for managing each of these risks.

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates and interest rates.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Most transactions are carried out in Philippine peso, which is the Company's functional currency. Exposures to currency exchange rates arise from the Company's overseas transactions, which are primarily denominated in United States dollars (USD) and Japanese Yen (JPY). The Company also maintains US dollar-denominated bank accounts. Further, the Company has JPY loans from foreign suppliers, which have been used to fund the purchase of certain tugboats (see Note 13). To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored on a regular basis.

As at December 31, 2013 and 2012, the exchange rates of the other currency to the Philippine Peso are as follows:

	2013	2012
USD	**₱44.41**	₱41.05
JPY	**0.42**	0.48

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

Information on the Company's foreign currency denominated monetary assets and liabilities and assets and liabilities and their peso equivalent are as follows:

2013

	USD	Peso Equivalent	JPY	Peso Equivalent
Financial assets:				
Cash	**$327,829**	**₱14,553,995**	**¥91,753**	**₱216,550**
Trade and other receivables	**1,105,361**	**29,104,577**	**–**	**–**
	1,433,190	**43,658,572**	**91,753**	**216,550**
Financial liabilities:				
Trade and other payable	**–**	**–**	**(84,989,164)**	**(35,950,416)**
Net exposure	**$1,433,190**	**₱43,658,572**	**(¥84,897,411)**	**(₱35,733,866)**

2012

	USD	PesoEquivalent
Financial assets:		
Cash	$503,378	₱20,663,667
Trade and other receivables	1,917,000	78,692,850
Net exposure	$2,420,378	₱99,356,517

The following table presents the impact on the Company's income before income tax due to change in the fair value of its financial assets and financial liabilities brought about by a reasonably possible change in the USD and JPY exchange rates (holding all other variables constant). There is no other impact on Company's equity other than those already affecting the income before tax.

2013

Currency	Increase (decrease) in foreign exchange rate	Effect on incomebefore income tax Increase (decrease)
USD	**+0.71**	**₱1,017,565**
	(0.72)	**(1,031,897)**
JPY	**+0.01**	**(848,974)**
	(0.01)	**848,974**

2012

Currency	Increase/(decrease) in foreign exchange rate	Effect on income before income tax Increase (decrease)
USD	+0.72	₱1,742,672
	(0.75)	(1,815,283)
JPY	+0.008	(156,197)
	(0.003)	58,574

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade and other receivables. The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms be subject to credit verification procedures. Trade receivables with customers, that are neither past due nor impaired, are from creditworthy debtors with good payment history with the Company. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company's maximum exposure to credit risk is the carrying amount of its financial assets since the Company does not require any collateral from its employees.

The Company has no significant concentration of credit risk in relation to its financial assets.

The aging analysis of financial assets is as follows:

2013

	Neither Past Due nor Impaired	Past Due but not Impaired: 1 to 30 days	31 to 60 days	61 to 90 days	More than 90 days	Impaired	Total
Cash	**₱69,530,676**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱69,530,676**
Trade and other receivables	**161,720,976**	**30,862,414**	**4,847,529**	**2,734,467**	**54,337,601**	**684,658**	**255,187,645**
Advances to related parties	**9,383,619**	**–**	**–**	**–**	**–**	**–**	**9,383,619**
Escrow fund	**109,677,448**	**–**	**–**	**–**	**–**	**–**	**109,677,448**
Other current assets	**–**	**–**	**–**	**–**	**11,159,741**	**–**	**11,159,741**
	₱350,312,719	**₱30,862,414**	**₱4,847,529**	**₱2,734,467**	**₱65,497,342**	**₱684,658**	**₱454,939,129**

2012

	Neither Past Due nor Impaired	Past Due but not Impaired: 1 to 30 days	31 to 60 days	61 to 90 days	More than 90 days	Impaired	Total
Cash	₱51,482,125	₱-	₱-	₱-	₱-	₱-	₱51,482,125
Trade and other receivables	159,858,586	25,396,172	5,365,380	4,620,745	7,132,244	684,658	203,057,785
Advances to related parties	39,858,784	-	-	-	-	-	39,858,784
Escrow fund	22,925,968	-	-	-	-	-	22,925,968
Other current assets	-	-	-	-	10,209,031	-	10,209,031
	₱274,125,463	₱25,396,172	₱5,365,380	₱4,620,745	₱17,341,275	₱684,658	₱327,533,693

Credit Quality of Financial Instruments

The credit quality of the financial statements is classified into three: high grade, which includes deposits or placement with good credit rating or bank standing; standard grade, which includes deposits or placements to counterparties that are not classified as "high grade"; and substandard grade, which includes accounts with pending payment negotiations.

Accordingly, the Company has assessed the credit quality of the following financial assets classified as neither past due nor impaired:

- Cash and escrow funds placed in local banks. Management assesses the quality of these financial assets as high grade.
- Trade receivables pertain to receivables from customers which have a good financial capacity. Management assesses the quality of these financial assets as high grade. Advances to employees and other receivables are assessed as standard grade.
- Advances to related parties are due and demandable and assessed as standard grade.
- Rental deposits pertain to deposits related to sale and leaseback transaction with local financial institution. Management assesses the quality of these financial assets as high grade.
- Other current assets pertain to receivable from Datasi, Inc. assessed as standard grade.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect to the Company's credit standing.

The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows.

The table below summarizes the maturity profile of the Company's financial liabilities and financial assets as at December 31, 2013 and 2012, based on contractual undiscounted cash flows.

2013

	On demand	**Less than 3 months**	**3 - 12 months**	**More than one year**	**Total**
Financial Liabilities:					
Trade and other payables	**₱93,297,584**	**₱32,213,273**	**₱4,023,032**	**₱484,853**	**₱130,018,742**
Advances from related parties	**10,368,736**	**–**	**–**	**–**	**10,368,736**
Interest-bearing loans and borrowings					
Principal	**–**	**106,966,918**	**176,932,470**	**111,706,816**	**395,606,204**
Interest	**–**	**1,791,472**	**9,056,797**	**18,163,723**	**29,011,992**
	₱103,666,320	**₱140,971,663**	**₱190,012,299**	**₱130,355,392**	**₱565,005,674**
Financial Assets:					
Cash	**₱69,530,676**	**₱–**	**₱–**	**₱–**	**₱69,530,676**
Trade and other receivables	**92,782,010**	**161,720,977**	**–**	**684,658**	**254,502,987**
Advances to related parties	**9,383,619**	**–**	**–**	**–**	**9,383,619**
Other current assets	**11,159,741**	**–**	**–**	**–**	**11,159,741**
Escrow funds under "Other noncurrent assets"	**–**	**–**	**–**	**109,677,448**	**109,677,448**
	₱182,856,046	**₱161,720,977**	**₱–**	**₱110,362,106**	**₱454,254,471**

2012

	On demand	Less than 3 months	3 - 12 months	More than one year	Total
Financial Liabilities:					
Trade and other payables	₱67,110,250	₱3,735,756	₱3,020,783	₱–	₱73,866,789
Advances from a related party	2,806,449	–	–	–	2,806,449
Interest-bearing loans and borrowings	–	29,074,495	271,666,432	225,036,215	525,777,142
	₱69,916,699	₱32,810,251	₱274,687,215	₱225,036,215	₱602,450,380
Financial Assets:					
Cash	₱51,482,125	₱–	₱–	₱–	₱51,482,125
Trade and other receivables	42,514,541	159,858,586	–	684,658	203,057,785
Advances to related parties	39,858,784	–	–	–	39,858,784
Other current assets	10,209,031	–	–	–	10,209,031
Escrow funds under "Other noncurrent assets"	–	–	–	22,925,968	22,925,968
	₱144,064,481	₱159,858,586	₱–	₱23,610,626	₱327,533,693

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to market risk for changes in interest rates relates primarily to long-term obligations with floating interest rates.

Floating rate instruments expose the Company to cash flow risk, whereas, fixed interest rate instruments expose the Company to fair value risk. The Company regularly monitors the market interest rate movements and manages its interest rate risks by using a mix of fixed and variable rates.

The following table shows the information about the Company's financial instruments that areexposed to cash flow (floating rate instrument) and fair value (fixed rate instrument) interest raterisks and presented by maturity profile.

2013	**Within1 year**	**1-5 year**	**More than 5 years**	**Carrying Value**
Local bank loans at floating rate - long-term debt	**₱283,899,388**	**₱111,706,816**	**₱–**	**₱395,606,204**

2012	Within1 year	1-5 year	More than 5 years	Carrying Value
Local bank loans at floating rate - long-term debt	₱287,033,141	₱198,797,664	₱–	₱485,830,805

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonablypossible change in interest rates on December 31, 2013 and 2012, with all variables held constant,through the impact on floating rate borrowings

Long-term debt	**Change in interest rate (in basis points)**	**Sensitivity to income before income tax**
2013	**+100**	**(₱3,956,062)**
	-100	**3,956,062**
2012	+100	(₱4,858,308)
	-100	4,858,308

Fair Value Measurements

Assets for which fair values are disclosed are classified within the Level 3 category of fair value hierarchy. These include investment property with estimated fair valueas at December 31, 2013 and 2012 of₱7.9 million and₱7.3 million, respectively, and property and equipment at revalued amounts with estimated fair valueas at December 31, 2013 and 2012 of₱1,479.1 million.

There have been no transfers between Level 1 and Level 2 during the period.

Fair value of investment property wasdetermined internally, based on direct comparison approach. The direct comparison approach method involves the comparison to values obtained in the open market of similar properties with consideration of the location, property size, physical features and economic factors.

Fair value of the property and equipment at revalued amount was determined by using cost approach and the market approach. This means that valuationsperformed by the valuer are based on cost of reproduction of new vessel, accumulated depreciation, current prices for similar used vessel in the secondhand market, character and utility of the vessel.

24. **Capital Management**

The primary objective of the Company's capital management is to safeguard the Company's ability to continue its operations on a going concern basis in order to provide adequate return to its shareholder and maintain optimal capital structure to reduce cost of capital and lessen the need to obtain long-term borrowingsand maximize shareholder value.

The Company manages its capital structure and makes the adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company is not subject to externally imposed capital requirements. No changes were made in the objectives, policies or processes as atDecember 31, 2013 and 2012.

The Company monitors capital on the basis of the carrying amount of equity as presented in the face of the statements of financial position. The Company's goal is to manage a debt-to-equity ratio of 1:1.

	2013	2012 (as restated)
Total liabilities	**₱730,551,712**	₱778,678,132
Total equity	**1,036,113,200**	616,679,433
Debt-to-equity ratio	**0.71:1**	1.26:1

The Company considers its total equity as capital.

	2013	2012 (as restated)
Capital stock	**₱605,238,580**	₱423,638,580
Additional paid-in capital	**121,632,762**	–
Retained earnings	**309,241,858**	193,040,853
	₱1,036,113,200	₱616,679,433

25. **Contingencies**

The Company is currently involved in various pending claims and lawsuits which could be decided in favor or against the Company. The information pertaining to such matters is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of the litigation. The Company currently does not believe that these proceedings will have a material effect on its financial position. However,the subsequent outcome relating to these proceedings can materially affect future results of operations.

26. **Share-Based Plan**

On October 18, 2012, the stockholders and BOD of the Company approved the establishment of an employee stock purchase plan (ESPP) for eligible employees. Subsequently, the BOD suspended the implementation of the ESPP on November 27, 2012 due to time constraints prior to the listing of the share of stocks of the Company in PSE.

27. **Supplemental Disclosure to Statement of Cash Flows**

Non-cash financing activities in 2013 pertains to the following:

a. Settlement of cash dividend payable amounting to₱14.8 million through offsetting against receivable from stockholders; and
b. Charging of the total deferred IPO costs amounting to ₱24.6 million to additional paid-in capital.

Non-cash financing activity in 2012 pertains to receipt of tugboat from PT Bintang Pelabuhanwith a fair value of ₱47.0 million as payment for the advances provided by the Company andclaims receivable amounting to ₱22.5 million for the disposal of tug boat.

28. **Supplemental Information Required under Revenue Regulations (RR) 19-2011**

On December 9, 2011, the BIR has issued RR 19-2011 prescribing the new income tax forms to be used effective calendar year 2011. In the case of corporations using BIR Form 1702, the taxpayer is now required to include as part of its Notes to the Audited Financial Statements, which will be attached to the income tax return, schedules and information on taxable income and deductions taken.

The schedule and information of taxable income and deductions taken in 2013 are as follows:

Revenue	
Harbor assistance, net of discounts	₱728,116,282
Lighterage services	120,582,576
Salvage income	39,635,220
Towing services	20,935,017
Others	8,056,589
	917,325,684
Less: Cost of services	
Depreciation expense	154,829,325
Fuel, oil, lubricant and water	134,135,771
Personnel costs	109,373,847
Insurance expense	40,332,842
Tug supplies	37,405,490
Tug assistance services	27,754,026
Charter hire	23,530,230
Repairs and maintenance	14,859,416
Others	31,405,461
	573,626,408
Gross income from operations	343,699,276
Add (deduct): Other taxable income not subject tofinal tax	
Amortization of revaluation increment	30,859,717
Scrap value and other income	4,597,755
Realized foreign exchange loss	(2,630,785)
Advance payment for service income	(2,025,161)
Realized gain on foreign exchange	1,768,169
Ship management	1,572,289
Total gross income	377,841,260
Less: Allowable itemized deductions	
Personnel costs	53,959,228
Interest expense	42,662,506
Transportation and travel	11,878,833
Depreciation	11,070,061
Penalties and other charges	8,515,091
Representation and entertainment	7,874,429
Professional and management fees	4,504,498
Supplies	3,836,953
Fuel and lubricants	3,043,392
Repairs and maintenance	2,830,097

(Forward)

Communications	₱2,796,550
Taxes and licenses	2,736,629
Utilities expense	1,493,594
Insurance	1,101,829
Rent expense	750,180
Security services	24,271
Others	11,952,845
Total itemized deductions	171,030,986
Net taxable income	₱206,810,274

29. Supplemental Information Required under Revenue Regulations 15-2010

On November 25, 2010, the BIR issued RR 15-2010 amending certain provisions of RR 21-2002, implementing Section 6 (H) of the tax code of 1997on prescribing the manner of compliance with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to financial statements, particularly on taxes and licenses paid or accrued during the year.

VAT

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

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns filed for the period

	2013	
	Net Sales/ Receipts	Output VAT
Taxable Sales:		
Sales of services	₱136,035,576	₱16,324,269
Zero-rated Sales	938,472,211	–
Exempt Sales	–	–
	₱1,074,507,787	₱16,324,269

Zero-rated sales of services consist of export sales and those rendered to persons or entities whose exemptions are provided under special laws or international agreements to which the Philippines is a signatory.

b. Input VAT

	2013
Balance at January 1	₱77,917,504
Current year's domestic purchases/payments for:	
Goods for resale/manufacture or further processing	–
Goods other than for resale or manufacture	26,128,597
Capital goods subject to amortization	6,066,689
Capital goods not subject to amortization	77,855
Services lodged under cost of goods sold	13,075,397
Services lodged under other accounts	–
	123,266,042
Less: Capital goods exceeding ₱1.0 million for the succeeding period	3,373,620
Balance at December 31	₱119,892,422

The Company's sales of services are based on invoices billed to clients, hence, may not be the same as amounts accrued in the statement of comprehensive income.

Importations

Details of the Company's importations are shown below:

	2013
Total landed cost of imports	₱33,895,851
Customs duties	825,860
Tariffs	–
Others	–
Balance at December 31	₱34,721,711

Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and licenses' account both under the 'Cost of services' and 'General and administrative expense' sections in the Company's statements of comprehensive income.

Details consist of the following:

	2013
Lodged under Costs of Services:	
Excise taxes	₱–
Gross Receipts Tax	–
Documentary stamp taxes	8,268
Fringe benefits taxes	–
Real estate taxes	–
License and permits fees	564,712
Others	480,867
	₱1,053,847

(Forward)

	2013
Lodged under General and Administrative Expenses:	
Excise taxes	₱–
Documentary stamp taxes	1,458,999
Fringe benefits taxes	–
Real estate taxes	293,230
License and permits fees	841,759
Others	138,160
	2,732,148
	₱3,785,995

Withholding Taxes

Details of withholding taxes for the year are as follows:

	2013
Withholding taxes on compensation and benefits	₱14,849,623
Expanded withholding taxes	8,632,568
Final withholding taxes	–
	₱23,482,191

Tax Assessments

There has been no deficiency tax assessment and other transactions subject thereto during the year ended December 31, 2013.

There were no tax cases nor litigation and/or prosecution in courts or bodies outside the BIR during the year ended December 31, 2013.

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