

# COVER SHEET

SEC Registration Number

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Company Name

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Principal Office (No./Street/Barangay/City/Town/Province)

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Form Type

1	7	-	Q
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Department requiring the report

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Secondary License Type, if applicable

N	A
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### COMPANY INFORMATION

Company's Email Address

www.chelsealogistics.ph
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Company's Telephone Number/s

+632 403-4015
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Mobile Number

N/A
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No. of Stockholders

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Annual Meeting  
Month/Day

Last Monday of March
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Fiscal Year  
Month/Day

12/31
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### CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person

IGNACIA S. BRAGA IV
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Email Address

igna.braga@udenna.ph
----------------------

Telephone Number/s

+632 403-4015
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Mobile Number

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Contact Person's Address

26th Floor, Fort Legend Tower, 3rd Ave. corner 31st St., Bonifacio Global City 1634 Taguig City
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**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designate

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **31 March 2018**
2. Commission identification number **CS201619734**
3. BIR Tax Identification No **009-393-167-000**
4. Exact name of issuer as specified in its charter **CHELSEA LOGISTICS HOLDINGS CORP.**
5. Province, country or other jurisdiction of incorporation or organization **Davao City, Philippines**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Postal Code  
**Stella Hizon Reyes Road, Bo. Pampang, Davao City, Philippines 8000**
8. Issuer's telephone number, including area code **+63 82 224 5373**
9. Former name, former address and former fiscal year, if changed since last report  
**Formerly CHELSEA LOGISTICS CORP.**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each class	Number of shares outstanding
<b><u>COMMON</u></b>	<b><u>1,821,977,615</u></b>

Amount of debt outstanding: **PHP11,643,319,347**

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

Yes  No

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

**PHILIPPINE STOCK EXCHANGE**                      **COMMON SHARES**

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

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CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2018 AND DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>March 31, 2018 (Unaudited)</u>	<u>December 31, 2017 (Audited)</u>
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	P 962,856,357	P 1,441,704,190
Trade and other receivables - net	5	1,202,401,012	876,420,381
Financial assets at fair value through profit or loss	6	3,947,736	3,947,736
Inventories	7	296,381,669	184,863,983
Advances to related parties	20	2,806,673,000	2,488,434,793
Other current assets	8	<u>2,607,242,182</u>	<u>1,926,336,910</u>
Total Current Assets		<u>7,879,501,956</u>	<u>6,921,707,993</u>
<b>NON-CURRENT ASSETS</b>			
Property and equipment - net	9	11,895,565,953	10,999,596,427
Investments in an associate and a joint venture	10	2,280,028,898	2,268,935,614
Goodwill	24	5,637,918,869	5,637,918,869
Post-employment benefit asset	17	8,147,831	8,190,054
Deferred tax assets	19	201,970,440	215,516,180
Other non-current assets - net	11	<u>351,294,819</u>	<u>327,749,182</u>
Total Non-current Assets		<u>20,374,926,810</u>	<u>19,457,906,326</u>
<b>TOTAL ASSETS</b>		<b><u>P 28,254,428,766</u></b>	<b><u>P 26,379,614,319</u></b>

	Notes	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	P 1,727,142,865	P 1,380,849,406
Interest-bearing loans	12	5,002,537,287	3,434,490,978
Advances from related parties	20	1,144,901,912	1,040,772,152
Advances from customers	2	14,484,000	14,521,850
Deposits for future stock subscription	14	180,000,000	180,000,000
Income tax payable		<u>84,998,221</u>	<u>50,809,743</u>
Total Current Liabilities		<u>8,154,064,285</u>	<u>6,101,444,129</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans	12	6,640,782,060	6,897,669,657
Post-employment benefit obligation	17	36,588,880	36,588,880
Deferred tax liabilities - net	19	132,156,048	170,537,584
Other non-current liabilities		<u>18,348,483</u>	<u>15,985,657</u>
Total Non-current Liabilities		<u>6,827,875,471</u>	<u>7,120,781,778</u>
Total Liabilities		<u>14,981,939,756</u>	<u>13,222,225,907</u>
<b>EQUITY</b>			
Capital stock	21	1,821,977,615	1,821,977,615
Additional paid-in capital		9,998,370,157	9,998,370,157
Revaluation reserves	21	1,408,423,382	1,429,917,004
Other reserves	21	( 1,058,033,280 )	( 1,058,033,280 )
Retained earnings		<u>1,101,751,136</u>	<u>965,156,916</u>
Total Equity		<u>13,272,489,010</u>	<u>13,157,388,412</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 28,254,428,766</u></b>	<b><u>P 26,379,614,319</u></b>

*See Notes to Consolidated Financial Statements.*

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

	Notes	2018 <u>(Unaudited)</u>	2017 <u>(Audited)</u>
<b>REVENUES</b>			
Passage		P 385,695,609	P 124,688,041
Charter fees	20	392,763,800	242,621,266
Freight		217,971,141	159,085,523
Tugboat fees		83,268,362	63,944,044
Rendering of services		73,508,804	363,431
Standby charges	20	18,159,361	19,692,086
Sale of goods		<u>8,360,345</u>	<u>6,283,084</u>
		<b>1,179,727,422</b>	<b>616,677,475</b>
<b>COST OF SALES AND SERVICES</b>	15	<u>758,670,669</u>	<u>448,661,948</u>
<b>GROSS PROFIT</b>		<b>421,056,753</b>	<b>168,015,527</b>
<b>OTHER OPERATING EXPENSES</b>	16	<u>173,887,237</u>	<u>69,629,221</u>
<b>OPERATING INCOME</b>		<u>247,169,516</u>	<u>98,386,306</u>
<b>OTHER INCOME (CHARGES) - Net</b>			
Finance costs	18	( 165,095,574 )	( 105,338,139 )
Share in net income of an associate	10	11,093,284	-
Finance income	18	1,614,316	1,904,713
Gain on bargain purchase	2	-	-
Other income	18	<u>30,239,261</u>	<u>43,033,685</u>
		<u>( 122,148,713 )</u>	<u>( 60,399,741 )</u>
<b>PROFIT BEFORE TAX</b>		<b>125,020,803</b>	<b>37,986,565</b>
<b>TAX EXPENSE</b>	19	<u>9,920,205</u>	<u>10,850,154</u>
<b>NET PROFIT</b>		<u>P 115,100,598</u>	<u>P 27,136,411</u>
<b>Earnings Per Share (Basic and Diluted)</b>	22	<u>P 0.06</u>	<u>P 0.05</u>

*See Notes to Consolidated Financial Statements.*

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

	Notes	2018 (Unaudited)	2017 (Audited)
<b>NET PROFIT</b>		<b>P 115,100,598</b>	<b>P 27,136,411</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Remeasurement of post-employment benefit obligation	17	-	( 1,930,731 )
Tax income	19	-	579,219
Currency exchange differences on translating financial statements of foreign operations	21	-	( 81,660 )
<b>Other Comprehensive Income - net of tax</b>		-	( 1,433,172 )
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 115,100,598</b>	<b>P 25,703,239</b>

*See Notes to Consolidated Financial Statements.*

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

	Note	Capital Stock	Additional paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings	Total
Balance at January 1, 2018	21	P 1,821,977,615	P 9,998,370,157	P 1,429,917,004	( P 1,058,033,280 )	P 965,156,916	P 13,157,388,412
Issuance of shares during the period	10, 21	-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	-	115,100,598	115,100,598
Transfer of revaluation reserves through depreciation, net of tax	21	-	-	( 21,493,622 )	-	21,493,622	-
<b>Balance at March 31, 2018 (Unaudited)</b>		<b><u>P 1,821,977,615</u></b>	<b><u>P 9,998,370,157</u></b>	<b><u>P 1,408,423,382</u></b>	<b><u>( P 1,058,033,280 )</u></b>	<b><u>P 1,101,751,136</u></b>	<b><u>P 13,272,489,010</u></b>
Balance at January 1, 2017		P 500,000,000	P -	P 1,370,998,267	( P 1,058,033,280 )	P 747,704,000	P 1,560,668,987
Issuance of shares during the period	21	775,384,615	5,272,615,385	-	-	-	6,048,000,000
Total comprehensive income for the period		-	-	( 1,433,172 )	-	27,136,411	25,703,239
Transfer of revaluation reserves through depreciation, net of tax		-	-	( 6,780,434 )	-	6,780,434	-
<b>Balance at March 31, 2017 (Audited)</b>		<b><u>P 1,275,384,615</u></b>	<b><u>P 5,272,615,385</u></b>	<b><u>P 1,362,784,661</u></b>	<b><u>( P 1,058,033,280 )</u></b>	<b><u>P 781,620,845</u></b>	<b><u>P 7,634,372,226</u></b>

*See Notes to Consolidated Financial Statements.*



CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*

	Notes	2018 (Unaudited)	2017 (Audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		P 125,020,803	P 37,986,565
Adjustments for:			
Depreciation and amortization	9, 11	224,013,404	166,406,676
Interest expense	18	130,306,595	86,801,327
Unrealized foreign currency loss - net	18	34,169,768	17,312,593
Share in net income of an associate	10	( 11,093,284 )	-
Interest income	18	( 1,614,316 )	( 684,726 )
Operating profit before working capital changes		500,802,970	307,822,435
Increase in trade and other receivables		( 325,980,631 )	( 11,731,185 )
Increase in inventories		( 111,517,686 )	( 117,846,866 )
Decrease (increase) in advances to related parties		( 318,238,207 )	194,446,078
Increase in other current assets		( 681,426,800 )	( 61,168,251 )
Decrease in post-employment benefit asset		42,223	2,919,518
Decrease (increase) in other non-current assets		( 4,058,682 )	8,369,089
Increase in trade and other payables		333,275,137	183,171,624
Decrease in advances from customers		( 37,850 )	-
Increase in other non-current liabilities		2,362,826	1,186,864
Cash generated from (used in) operations		( 604,776,700 )	507,169,306
Interest received		1,614,316	684,726
Cash paid for income taxes		( 45,994 )	( 75,923,029 )
Net Cash From (Used in) Operating Activities		( 603,208,378 )	431,931,003
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment	9	( 1,066,750,760 )	( 347,968,527 )
Additions to drydocking costs	11	( 74,894,484 )	( 22,341,186 )
Proceeds from disposal of property and equipment	9	3,526,827	966,751
Additions to interest in a joint venture	10	-	( 5,000,000 )
Net Cash Used in Investing Activities		( 1,138,118,417 )	( 374,342,962 )
Balance carried forward		( P 1,741,326,795 )	P 57,588,041

	<u>Notes</u>	<u>2018</u> <u>(Unaudited)</u>	<u>2017</u> <u>(Audited)</u>
<i>Balance brought forward</i>		( P 1,741,326,795 )	P 57,588,041
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from interest-bearing loans	12	1,477,387,785	-
Repayments of interest-bearing loans	12	( 193,551,819 )	( 564,044,766 )
Proceeds from advances from related parties	21	147,129,760	39,708,002
Interest paid	18	( 117,288,274 )	( 86,801,327 )
Repayments of advances from related parties	20	( 43,000,000 )	( 84,830,229 )
Collection of subscription receivable	21	-	350,000,000
Net Cash From (Used in) Financing Activities		<u>1,270,677,452</u>	<u>( 345,968,320 )</u>
<b>Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents</b>		<u>( 8,198,490 )</u>	<u>( 17,312,593 )</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<u>( 478,847,833 )</u>	<u>( 305,692,872 )</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<u>1,441,704,190</u>	<u>508,940,431</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<u>P 962,856,357</u>	<u>P 203,247,559</u>

**Supplemental Information for Non-cash Investing Activity--**

In 2018, the Group acquired certain transportation equipment through obtaining mortgage loan from a local bank totaling P1.4 million (see Notes 9 and 12).

*See Notes to Consolidated Financial Statements.*

**CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES**  
*(Formerly Chelsea Logistics Corp.)*  
*(A Subsidiary of Udenna Corporation)*  
**NOTES TO INTERIM CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND DECEMBER 31, 2017**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

**1.1 Information and Operations**

Chelsea Logistics Holdings Corp. (CLC or the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) as Chelsea Shipping Group Corp. on August 26, 2016 primarily to subscribe for, invest and re-invest in, purchase, or otherwise acquire, own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, deal in and hold investment or otherwise, any and all properties of every kind and description and wherever situated, including but not limited to shares of stocks, bonds, debentures, notes, evidences of indebtedness, promissory notes, or other securities or obligations, created, negotiated or issued by any corporation, association, or other entity, including, but not limited to, securities in corporations engaged in shipping and logistics.

On November 28, 2016 and May 12, 2017, the Company's Board of Directors (BOD) and stockholders approved the change in the corporate name of the Company from Chelsea Shipping Group Corp. to Chelsea Logistics Corp. and from Chelsea Logistics Corp. to Chelsea Logistics Holdings Corp., respectively, and for this purpose, to amend the Company's Articles of Incorporation and By-laws, which amendments were approved by the SEC on December 21, 2016 and June 27, 2017, respectively.

On August 8, 2017, the shares of stock of the Company were initially listed at the Philippine Stock Exchange (PSE).

The Company is a subsidiary of Udenna Corporation (Udenna), a company primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing.

The registered office of the Company and Udenna, which is also their principal place of business, is located at Stella Hizon Reyes Road, Bo. Pampanga, Davao City.

**1.2 Subsidiaries and their Operations**

As of December 31, the Company holds ownership interests in the following subsidiaries:

Subsidiaries	Explanatory Notes	Percentage of ownership	
		2018	2017
<b>Direct interest:</b>			
Chelsea Shipping Corporation (CSC)	<i>(a)</i>	<b>100%</b>	100%
Trans-Asia Shipping Lines Corporation (Trans-Asia)	<i>(b)</i>	<b>100%</b>	100%
Udenna Investments B. V. (UIBV)	<i>(c)</i>	<b>100%</b>	100%

Subsidiaries and associate	Explanatory Notes	Percentage of ownership	
		2018	2017
<b>Direct interest:</b>			
Starlite Ferries, Inc. (Starlite)	(d)	100%	100%
Work-link Services, Inc. (WSI)	(e)	100%	100%
<b>Indirect interest:</b>			
Bunkers Manila, Inc. (BMI) <sup>1</sup>	(f)	100%	100%
Michael, Inc. (MI) <sup>1</sup>	(g)	100%	100%
PNX-Chelsea Shipping Corp. (PNX-Chelsea) <sup>1</sup>	(h)	100%	100%
Chelsea Ship Management & Marine Services Corp. (CSMMSC) <sup>1</sup>	(i)	100%	100%
Fortis Tugs Corporation (FTC) <sup>1</sup>	(j)	100%	100%
Davao Gulf Marine Services, Inc. (DGMSI) <sup>2</sup>	(k)	100%	100%
Chelsea Marine Manpower Resources, Inc. (CMMRI) <sup>1</sup>	(l)	100%	100%
Chelsea Dockyard Corporation (CDC) <sup>1</sup>	(m)	100%	-
CD Ship Management & Marine Services Corp. (CDSMMSC) <sup>1</sup>	(n)	100%	-
Quality Metals & Shipworks, Inc. (QMSI) <sup>3</sup>	(o)	100%	100%
Oceanstar Shipping, Inc (Oceanstar) <sup>3</sup>	(p)	100%	100%
Dynamic Cuisine, Inc (DCI) <sup>3</sup>	(q)	100%	100%
Starsy Shoppe, Inc. (SSI) <sup>3</sup>	(r)	100%	100%
KGLI-NM Holdings, Inc. (KGLI-NM) Preferred C shares	(s)	80%	80%

<sup>1</sup>Wholly owned subsidiary of CSC

<sup>2</sup>Wholly owned subsidiary of FTC

<sup>3</sup>Wholly owned subsidiary of Trans-Asia

Except for UIBV, all the subsidiaries and associate were organized and incorporated in the Philippines.

- (a) Incorporated on July 17, 2006 and is engaged in the business of maritime trade through conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind, over waterways in the Philippines.
- (b) Incorporated on March 25, 1974 and is engaged in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas.
- (c) Incorporated on August 25, 1994 under the laws of the Netherlands, having its corporate seat in Amsterdam, and is incorporated to participate in, to administer, to finance, to conduct the management of and to render advice and services to other companies and enterprises. UIBV is formerly known as KGL Investment B.V, a private company with limited liability.
- (d) Incorporated on August 25, 1994 and is primarily engaged in general business of domestic shipping, to own and operate vessels of any class, type of description for domestic trade, to charter in and out any such vessel.

- (e) Incorporated on June 2, 1994 and is engaged in logistics services such as but not limited to cargo freight forwarding (air, land & sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crafting, etc.
  - (f) Incorporated on March 7, 2000 and is established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.
  - (g) Incorporated on December 26, 1957 and is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.
  - (h) Incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.
  - (i) Incorporated on March 30, 2012 and is engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.
  - (j) Incorporated on April 8, 2013 and is engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbours, and other waterways between the various ports of the Philippines.
  - (k) Incorporated on January 18, 2012 and is engaged in, operates, conducts, and provides tug and marine services to all vessels, foreign or coastwise that dock and undock in the District Port of Davao and all other ports in the Philippines.
- On December 15, 2016, FTC acquired 100% of the outstanding capital stock of DGMSI, a Davao-based tug service provider.
- (l) Incorporated on June 9, 2016 and is primarily engaged in the business of providing full and partial crewing for domestic and foreign vessels, to act as the authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.
  - (m) Incorporated on January 8, 2018 and is engaged in the general business of building and repair of ships, boats and other kinds of vessels as well as in ship breaking activities.
  - (n) Incorporated on March 14, 2018 and is engaged to carry on the business of ship management and to act as agent, broker, ship chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals and for such purpose, to act as principal in and hire the services of a local manning agent for the overseas employment for seamen, and to equip any and all kinds of ships, barges and vessels of every class and description owned by any shipping corporation.
  - (o) Incorporated on November 28, 2007 and is engaged in machining and mechanical works on ship machineries and industrial plants.

- (p) Incorporated on July 6, 2006 primarily to engage in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas and is presently engaged in the charter or lease of maritime vessels.
- (q) Incorporated on June 21, 2000 primarily to establish and maintain restaurant, coffee shops, refreshment parlors, cocktail lounges and cater goods, drinks, refreshments and other food commonly served in such establishments.
- (r) Incorporated on March 31, 2005 and is engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.
- (s) Organized under Philippines laws and registered with SEC on August 8, 2008 as an investment holding company.

UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, which holds 39.85% economic interest in and owns 60% of the voting stock in Negros Navigation Co., Inc. (Nenaco). Nenaco, in turn, owns 88.31% of 2GO Group, Inc. (2GO). Hence, CLC has a 28.15% indirect economic interest in 2GO.

CLC together with CSC, Trans-Asia, UIBV, Starlite, WSI and their respective subsidiaries are collectively referred herein as the Group.

### **1.3 Approval of Interim Consolidated Financial Statements**

The interim consolidated financial statements of the Group as of and for the three months ended March 31, 2018 (including the comparative consolidated financial statements as of December 31, 2017 and for the three months ended March 31, 2017) were authorized for issue by the Company's BOD on May 7, 2018.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These interim consolidated financial statements are presented in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. As allowed under PAS 34, the Company has opted to present a complete set of financial statements in conformity with PAS 1, *Presentation of Financial Statements*.

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

### **2.1 Basis of Preparation of Interim consolidated financial Statements**

#### **(a) Statement of Compliance with Philippine Financial Reporting Standards**

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

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

*(b) Presentation of Interim consolidated financial Statements*

The interim consolidated financial statements are presented in accordance with PAS 1. The Group presents a interim consolidated statement of comprehensive income separate from the consolidated statement of profit or loss.

The interim consolidated financial statements presented consist of consolidated balances of the Group as of and for the three months ended March 31, 2018 (including the comparative consolidated financial statements as of December 31, 2017 and for the three months ended March 31, 2017).

*(c) Functional and Presentation Currency*

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

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

**2.2 Adoption of New and Amended PFRS**

*(a) Effective in 2018 that are Relevant to the Group*

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PFRS 9 (2014)	:	Financial Instruments
PAS 15	:	Revenue from Contract with Customers
IFRIC 22	:	Revenue from Contract with Customers
	:	Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration
Annual Improvements	:	Annual Improvements to PFRS (2014-2016 Cycle) PAS 28 (Amendments) Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value

Discussed below are the relevant information about these amendments.

(i) PFRS 9 (2014), *Financial Instruments*. This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

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

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

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



- (ii) PFRS 15, *Revenue from Contract with Customers*. This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
  - (iii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
  - (iv) Annual Improvements to PFRS 2014 - 2016 Cycle. PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value*. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.
- (b) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, amendments and interpretations to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's interim consolidated financial statements:

- (v) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of these new amendments in its interim consolidated financial statements.
- (vi) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this amendment in its interim consolidated financial statements.

(vii) PFRS 16, *Leases* (effective from January 1, 2019). This new standard on leases will replace PAS 17, *Leases*, and three related interpretations. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similar to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its interim consolidated financial statements.

(viii) PFRS 10 (Amendments), *Interim consolidated financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures— Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor’s financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor’s interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

- (ix) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the tax authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation in its interim consolidated financial statements.
- (x) Annual Improvements to PFRS 2015 - 2017 Cycle. Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's interim consolidated financial statements as these amendments merely clarify existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that when a specific borrowing remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of an entity's general borrowings used in calculating the capitalization rate for capitalization purposes.
  - PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

### **2.3 Basis of Consolidation**

The Group's interim consolidated financial statements as of and for the three months ended March 31, 2018 and December 31, 2017 comprise the accounts of the Company and its subsidiaries as enumerated in Note 1.2, after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the interim consolidated financial statements.

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

The Company accounts for its investments in subsidiaries, associate and joint venture as follows:

(a) *Investments in Subsidiaries*

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

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

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

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

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

(b) *Investments in an Associate*

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

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.19).

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

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

(c) *Investment in a Joint Venture*

A joint venture pertains to a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture entity pertains to an entity whose economic activities are controlled jointly by the Group and by other venturers independent of the Group (joint venturers). Investment in joint venture is accounted for under the equity method of accounting. Under this method, on initial recognition the investment in joint venture is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share in the profit or loss of the investee after the date of the acquisition. The investor's share of the investee's profit or loss is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for a change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income.

The investments in joint ventures are subject to impairment testing (see Note 2.19).

**2.4 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee, its chief operating decision-maker. The Executive Committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 26, which represent the main products and services provided by the Group.

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

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its interim consolidated financial statements.

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

## 2.5 *Financial Assets*

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Disclosure*. All other non-derivative financial instruments are treated as debt instruments.

### (a) *Classification and Measurement of Financial Assets*

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

#### (i) *Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of each reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

#### (ii) *Loans and Receivables*

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

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

*(iii) AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets presented as Available-for-sale Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period. The Group's AFS financial assets include equity securities.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

*(b) Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group recognizes impairment loss based on the category of financial assets as follows:

*(i) Carried at Amortized Cost – Loans and Receivables*

Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the agreement. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

*(ii) Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

*(iii) Items of Income and Expenses Related to Financial Assets*

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

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

*(iv) Derecognition of Financial Assets*

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

## **2.6 Inventories**

Inventories are carried at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisitions, such as purchase price and other taxes that are not subsequently recoverable from taxing authority is determined using the first-in, first-out method.



Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The net realizable value of fuel and spare parts inventories is the current replacement cost.

## **2.7 Property and Equipment**

Vessels are measured at fair value less accumulated depreciation and accumulated impairment losses, if any. Land is measured at cost less any accumulated impairment losses. All other items of property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred, except for periodic drydocking costs performed at least every two periods on the vessel which are capitalized (see Note 2.8).

Following initial recognition at cost, vessels are carried at revalued amounts, which are the fair values at the date of revaluations less subsequent accumulated depreciation and any accumulated impairment losses.

Revalued amounts represent fair values determined based on appraisals performed by external professional appraiser every after drydocking, which is done once every two periods. In addition, appraisal of vessels is conducted more frequently if market factors indicate a material change in fair value (see Note 29.4).

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

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

Vessels and vessel equipment	5 to 30 years
Building	20 years
Office furniture, fixtures and equipment	2 to 10 years
Transportation equipment	2 to 5 years

Building and leasehold improvements are amortized over the estimated useful lives of the assets of five periods or the lease term, whichever is shorter.

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of these assets.

Construction-in-progress (CIP) represents vessels and properties under construction and on-going major repair works and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.21) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

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

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

### **2.8 Drydocking Costs**

Drydocking costs are considered major repairs that preserve the life of the vessels. As an industry practice, costs associated with drydocking are amortized on the straight-line basis over two periods or until the next drydocking occurs, whichever comes earlier. When significant drydocking expenditures occur prior to their expiry of this period, any remaining unamortized balance of the original drydocking costs is expensed in the month of subsequent drydocking.

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

The carrying amount of drydocking costs, presented as part of the Other Non-current Assets account in the consolidated statement of financial position, is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The carrying amount of drydocking costs is derecognized upon derecognition of the related vessels. The computed gain or loss arising on derecognition of the vessel takes into consideration the carrying amount of drydocking costs and is included in profit or loss in the year the related vessel is derecognized (see Note 2.7).

### **2.9 Other Assets**

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

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

### **2.10 Financial Liabilities**

Financial liabilities, which include interest-bearing loans, trade and other payables [except output value-added tax (VAT) and other tax-related liabilities], advances from related parties and obligations under finance lease are recognized when the Group becomes a party to the contractual terms of the instrument.

Interest-bearing loans are raised for support of the investing activities and working capital requirements of the Group. Finance charges, including direct issue costs, are charged to profit or loss, except for capitalized borrowing costs, on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Interest charges that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset (see Note 2.21). All other interest-related charges incurred on a financial liability are recognized as an expense in the consolidated statement of profit or loss.

Trade and other payables and advances from related parties are initially recognized at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Obligations under finance lease are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, at the inception of the lease (see Notes 2.17 and 24.2).

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

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

### **2.11 Deposits for Future Stock Subscriptions**

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

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

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

### **2.12 Offsetting Financial Instruments**

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

### **2.13 Business Combinations**

Business combination involving entities under common control are accounted for under the pooling of interest method. Under this method, the assets and liabilities of the combining entities are reflected in the interim consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize new assets and liabilities.

All other business combinations are accounted for using the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they are recorded in the interim consolidated financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for the subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Negative goodwill, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition costs, is charged directly to profit or loss.

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

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

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

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

#### **2.14 Advances from Customers**

Advances from customers are measured at the amount of cash received from the customers and are derecognized once the related revenue transactions are consummated.

#### **2.15 Provisions and Contingencies**

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

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

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

#### **2.16 Revenue and Expense Recognition**

Revenue comprises revenue from sale of goods and rendering of services measured by reference to the fair value of consideration received or receivable by the Group for services rendered, excluding VAT and discounts.

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

- (a) *Charter fees* – Revenue, which consists mainly of charter income arising from the charter hire of its vessels, is recognized based on the type of charter arrangement entered into, either under a time charter (TC), a continuing voyage charter (CVC), or bareboat agreement (BB) [see Note 3.1(a)]. Under a TC and BB, revenue is recognized based on the terms of the contract, with the distinction that in a BB, no administration or technical maintenance is included as part of the agreement. Under a CVC, revenue is recognized upon completion of the voyage; however, appropriate accrual of revenue is made at the end of the reporting period.
- (b) *Passage* – Revenue is recognized upon completion of the route and is based on the published tariff rates per passenger and route of the vessel.

- (c) *Freight* – Revenue is recognized when services have been completed and is generally based on a rate per cubic meter or weight of the cargo, whichever is higher, while rates for containerized cargo are based on a fixed rate per container.
- (d) *Tugboat fees* – Revenue, which consist of fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts, is recognized upon the completion of contractually agreed services.
- (e) *Standby charges* – Revenue is recognized upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the counterparty.
- (f) *Logistics services* – Revenue is recognized when contractually-agreed tasks have been substantially performed. Service fees are also recognized when cargoes are received by either the shipper or consignee for export and import transactions.
- (g) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.
- (h) *Rentals* – Revenue from rentals arising from the short-term lease of office space is recognized at the agreed rates over the lease term [see Note 2.17(b)].
- (i) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and expenses are recognized in profit or loss upon receipt of goods or utilization of the service or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.21).

## **2.17 Leases**

The Group accounts for its leases as follows:

### **(a) Group as Lessee**

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

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

Finance lease obligations, net of finance charges, are presented as Obligations under Finance Lease in the consolidated statement of financial position.

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

(b) *Group as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from short-term operating lease is recognized at the agreed rates over the lease term [see Note 2.16(h)].

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the 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.

**2.18 Functional Currency and Foreign Currency Transactions**

(a) *Transactions and Balances*

The accounting records of the Group, except UIBV, are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. The accounting records of UIBV are maintained in United States (U.S.) dollar.

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

(b) *Translation of Financial Statements of Foreign Subsidiary*

The operating results and financial position of UIBV are translated to Philippine pesos, the Group's functional and presentation currency, as presented below.

- (i) Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii) Income and expenses for each profit or loss account are translated at average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized as a separate component of other comprehensive income under currency exchange differences on translating financial statements of foreign operations, which is included under items that will be reclassified subsequently to profit or loss.

When a foreign operation is partially disposed of or sold, such exchange differences are recognized in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The translation of the financial statements into Philippine peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

### **2.19 Impairment of Non-financial Assets**

Goodwill is tested for impairment at least annually. All other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

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

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Except for impairment losses on goodwill, an impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

### **2.20 Employee Benefits**

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

#### *(a) Post-employment Defined Benefit Plan*

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

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



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

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

*(b) Post-employment Defined Contribution Plan*

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

*(c) Termination Benefits*

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

*(d) Profit-sharing and Bonus Plans*

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

*(e) Compensated Absences*

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

## **2.21 Borrowing Costs**

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

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

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

## **2.22 Income Taxes**

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

### **2.23 Related Party Transactions and Relationships**

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

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

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

### **2.24 Equity**

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

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

Revaluation reserves comprise gains and losses arising from the revaluation of the Group's vessels, remeasurements of post-employment defined benefit plan, cumulative translation adjustments on financial statements of foreign subsidiaries and unrealized fair value gains (losses) arising from the revaluation of certain AFS financial assets, net of applicable taxes.

Other reserves pertain to the difference between the Group's cost of investment and the capital stock of the acquired entities in a business combination accounted for under the pooling-of-interest method.

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

### **2.25 Earnings Per Share**

Basic earnings per share is computed by dividing net profit attributable to the Company's stockholders by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

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

## **2.26 Events After the End of the Reporting Period**

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

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

#### **3.1 Critical Management Judgments in Applying Accounting Policies**

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

##### *(a) Revenue Recognition for Charter Arrangements*

In determining the appropriate method to use in recognizing the Group's revenue from TC, CVC and BB agreements, management considers the following criteria: (1) whether the fulfillment of the arrangement is dependent on the use of a specific vessel; and, (2) whether the arrangement conveys a right to use the vessel. Management determined that if both criteria are met, the revenue should be recognized using the straight-line method over the term of the contract [see Note 2.16(a)].

##### *(b) Distinction Between Operating and Finance Leases*

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

As of March 31, 2018 and December 31, 2017, management has determined that its current lease agreements are all operating leases.

##### *(c) Capitalization of Borrowing Costs*

The Group determines whether the amount of borrowing costs qualify for capitalization as part of the cost of the qualifying asset, or should be expensed outright. The accounting treatment for the finance costs is determined by assessing whether the asset is a qualifying asset taking into consideration the period of time to bring the asset ready for its intended use. Failure to make the right judgment will result in misstatement of assets and net profit.

(d) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.15 and relevant disclosures are presented in Note 23.

(e) *Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management has not recognized any impairment loss on its AFS financial assets in 2016. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

**3.2 Key Sources of Estimation Uncertainty**

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

(a) *Impairment of Trade and Other Receivables, Subscription Receivable, Advances to Related Parties and Security deposits*

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

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 5. Meanwhile, based on management assessment, no impairment loss on subscription receivable, advances to related parties and security deposits is required to be recognized in 2018 and 2017 (see Notes 8, 11, 20.4, and 23.3).

(b) *Determination of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. Future realization of the carrying amounts of inventories as presented in Note 7 is affected by price changes and action from the competitors. These are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial reporting period.

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

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

The carrying amounts of property and equipment and drydocking costs are analyzed in Notes 9 and 11, respectively. Based on management's assessment as at March 31, 2018 and December 31, 2017, there is no change in the estimated useful lives of property and equipment and drydocking costs during those periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Fair Value Measurement of Vessels*

The Group's vessels, included as part of Property and Equipment, are carried at revalued amounts at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant methodologies as discussed in Note 28.4.

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

A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation recognized on the Group's vessels are disclosed in Note 9.

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at March 31, 2018 and December 31, 2017 will be fully utilized in the coming periods. The carrying value of deferred tax assets as of March 31, 2018 and December 31, 2017 is disclosed in Note 19.2.

(f) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.19). Though management believes that the assumptions used in the estimation of fair values reflected in the interim consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on the Group's non-financial assets in 2018 and 2017.

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

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 19.2.

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include the following components as of:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Cash on hand and in banks	<b>P 948,738,899</b>	P 1,426,064,323
Short-term placements	<b><u>14,117,458</u></b>	<u>15,639,867</u>
	<b><u>P 962,856,357</u></b>	<u>P 1,441,704,190</u>

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods from 30 to 90 days and earn effective interest ranging from 1.00% to 3.50% both in 2018 and 2017.

The balances of cash on hand and in banks as of December 31, 2017 did not include an amount of P31.0 million which is shown as Restricted cash under the Other Current Assets in the 2017 consolidated statement of financial position (see Note 8). Such amount is not available for the general use of the Group.

**5. TRADE AND OTHER RECEIVABLES**

This account is composed of the following as of:

	Note	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Trade receivables	20.1, 20.3	<b>P 1,102,684,060</b>	P 802,786,761
Due from agencies		<b>62,247,146</b>	54,229,144
Advances to officers and employees		<b>29,449,092</b>	19,001,031
Claims receivables		<b>15,856,139</b>	15,794,361
Others		<b><u>9,766,350</u></b>	<u>2,210,859</u>
		<b>1,220,002,787</b>	894,022,156
Allowance for doubtful accounts		<b>( <u>17,601,775</u> )</b>	( <u>17,601,775</u> )
		<b><u>P 1,202,401,012</u></b>	<u>P 876,420,381</u>

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables were found to be impaired; hence, adequate amount of allowance for impairment has been provided.

A reconciliation of the allowance for impairment at the beginning and end of March 31, 2018 and December 31, 2017 is shown below.

	<b>March 31, 2018 (Unaudited)</b>	<b>December 31, 2017 (Audited)</b>
Balance at beginning of period	<b>P 17,601,775</b>	P 14,566,313
Impairment losses during the period	<u>-</u>	<u>3,035,462</u>
Balance at end of period	<b><u>P 17,601,775</u></b>	<b><u>P 17,601,775</u></b>

Trade and other receivables are unsecured and do not bear any interest. All receivables, except for advances to officers and employees, are subject to credit risk exposure (see Note 26.2).

Due from agencies represent claims from authorized agencies for tickets issued to customers.

Claims receivables include charges made by the customer to the Group for claims on damages due to handling of items. These are reimbursable from the transacting agency.

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

Certain trade receivables amounting to P32.3 million and P28.3 million as of March 31, 2018 and December 31, 2017, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans and borrowings (see Note 12.1).

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account represents investments in equity securities that are listed in the PSE and in the New York Stock Exchange that have been designated by management as financial assets at FVTPL upon initial recognition.

The fair values of equity securities have been determined directly by reference to quoted bid prices in active markets (see Note 28.2). The carrying amounts of the above financial assets are designated as at FTVPL on initial recognition.

In 2015, the Group purchased 8,800 preference shares of San Miguel Corporation, a publicly listed company. Additional preference shares were purchased in 2016 at par with quantity of 29,400 and 93,400 shares. All investments stated herein are held by the Group with the intention of selling in the near term.

There were no changes in the fair value of financial assets at FVTPL for the periods ended March 31, 2018 and December 31, 2017.



## 7. INVENTORIES

This account includes the following:

	<u>Note</u>	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Spare parts		<b>P 138,670,436</b>	P 87,620,499
Fuel and lubricants	20.2	<b>88,901,414</b>	49,034,701
Shipping supplies		<b>64,812,731</b>	39,829,380
Food, beverage and other supplies		<b>3,470,053</b>	5,350,929
Electrical parts		<b>527,035</b>	3,028,474
		<b><u>P 296,381,669</u></b>	<b><u>P 184,863,983</u></b>

As of March 31, 2018 and December 31, 2017, based on management's assessment, the net realizable value of inventories is higher than its cost.

## 8. OTHER CURRENT ASSETS

The breakdown of this account as of March 31, 2018 and December 31, 2017 follows:

	<u>Notes</u>	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Advances to suppliers		<b>P 2,064,653,736</b>	P 1,477,527,421
Deferred input VAT		<b>167,798,149</b>	185,770,148
Input VAT		<b>124,604,257</b>	69,644,935
Creditable withholding taxes		<b>93,035,076</b>	96,556,752
Prepayments		<b>85,385,447</b>	31,937,943
Deferred charges		<b>38,845,093</b>	29,780,327
Deferred loss on sale and leaseback		<b>24,309,821</b>	-
Security deposits	20.3, 23.3	<b>5,122,339</b>	5,122,339
Restricted cash	4	-	29,406,231
Others		<b>3,488,264</b>	590,814
		<b><u>P 2,607,242,182</u></b>	<b><u>P 1,926,336,910</u></b>

Advances to suppliers include down payments made to suppliers for the acquisition of vessels, supply of spare parts, parcels of land and other services. It also includes advances for land acquisitions pertaining to Trans-Asia's advance payments for the purchase of certain parcels of land, which are bought for use in operations as container yards.

## 9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment loss of property and equipment at the beginning and end of March 31, 2018 and December 31, 2017, are shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	CIP	Total
<b>March 31, 2018</b>							
Cost or revalued amounts	P 211,673,989	P 12,838,670,322	P 116,068,485	P 56,424,183	P 113,859,392	P 1,644,728,822	P 14,981,425,193
Accumulated depreciation and amortization	-	( 2,926,858,175 )	( 50,228,018 )	( 31,645,504 )	( 74,912,923 )	-	( 3,083,644,620 )
Accumulated impairment loss	-	( 2,214,620 )	-	-	-	-	( 2,214,620 )
<b>Net carrying amount</b>	<b>P 211,673,989</b>	<b>P 9,909,597,527</b>	<b>P 65,840,467</b>	<b>P 24,778,679</b>	<b>P 38,946,469</b>	<b>P 1,644,728,822</b>	<b>P 11,895,565,953</b>
<b>December 31, 2017</b>							
Cost or revalued amounts	P 211,673,989	P 12,863,128,955	P 114,549,466	P 51,089,515	P 128,551,325	P 588,837,757	P 13,957,831,007
Accumulated depreciation and amortization	-	( 2,792,252,270 )	( 46,095,605 )	( 30,714,077 )	( 86,958,008 )	-	( 2,956,019,960 )
Accumulated impairment loss	-	( 2,214,620 )	-	-	-	-	( 2,214,620 )
<b>Net carrying amount</b>	<b>P 211,673,989</b>	<b>P 10,068,662,065</b>	<b>P 68,453,861</b>	<b>P 20,375,438</b>	<b>P 41,593,317</b>	<b>P 588,837,757</b>	<b>P 10,999,596,427</b>
<b>January 1, 2017</b>							
Cost or revalued amounts	P 104,250,013	P 9,366,967,816	P 58,950,480	P 44,644,547	P 57,993,472	P 335,657,251	P 9,968,463,579
Accumulated depreciation and amortization	-	( 2,053,621,702 )	( 23,075,954 )	( 26,555,834 )	( 44,427,026 )	-	( 2,147,680,516 )
Accumulated impairment loss	-	( 2,214,621 )	-	-	-	-	( 2,214,621 )
<b>Net carrying amount</b>	<b>P 104,250,013</b>	<b>P 7,311,131,493</b>	<b>P 35,874,526</b>	<b>P 18,088,713</b>	<b>P 13,566,446</b>	<b>P 335,657,251</b>	<b>P 7,818,568,442</b>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of March 31, 2018 and December 31, 2017 is shown below and in the succeeding page.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	CIP	Total
<b>Balance at January 1, 2018,</b> net of accumulated depreciation and amortization and impairment losses	P 211,673,989	P 10,068,662,065	P 68,453,861	P 20,375,438	P 41,593,317	P 588,837,757	P 10,999,596,427
Additions	-	772,530	2,951,342	5,101,398	3,385,893	1,055,891,065	1,068,102,228
Disposal	-	( 314,371 )	( 984,821 )	-	( 2,227,635 )	-	( 3,526,827 )
Depreciation and amortization charges for the year	-	( 159,522,697 )	( 4,579,915 )	( 698,157 )	( 3,805,106 )	-	( 168,605,875 )
<b>Balance at March 31, 2018,</b> net of accumulated depreciation and amortization and impairment losses	<b>P 211,673,989</b>	<b>P 9,909,597,527</b>	<b>P 65,840,467</b>	<b>P 24,778,679</b>	<b>P 38,946,469</b>	<b>P 1,644,728,822</b>	<b>P 11,895,565,953</b>
<b>Balance at January 1, 2017,</b> net of accumulated depreciation and amortization and impairment losses	P 104,250,013	P 7,311,131,493	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,251	P 7,818,568,442
<b>Balance from acquired subsidiaries at January 1, 2017,</b> net of accumulated depreciation and amortization	-	1,825,913,470	14,089,612	-	12,377,408	-	1,852,380,490
Additions	P 107,423,976	1,268,178,847	44,002,428	3,682,827	30,191,753	433,531,471	1,887,011,302
Revaluation increment	-	67,317,920	-	-	-	-	67,317,920
Reclassification	-	180,118,385	-	-	P 232,580	( 180,350,965 )	-
Disposal	-	( 9,335,148 )	( 8,507,385 )	-	( 1,606,112 )	-	( 19,448,645 )
Depreciation and amortization charges for the year	-	( 574,662,902 )	( 17,005,320 )	( 1,396,102 )	( 13,168,758 )	-	( 606,233,082 )
<b>Balance at December 31, 2017,</b> net of accumulated depreciation and amortization and impairment losses	<b>P 211,673,989</b>	<b>P 10,068,662,065</b>	<b>P 68,453,861</b>	<b>P 20,375,438</b>	<b>P 41,593,317</b>	<b>P 588,837,757</b>	<b>P 10,999,596,427</b>

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	CIP	Total
Balance of CSC at January 1, 2016, net of accumulated depreciation and amortization and impairment losses	P -	P 4,576,445,613	P 7,002,013	P 394,715	P 2,861,561	P 129,613,034	P 4,716,316,936
Balance from acquired subsidiaries at December 31, 2016, net of accumulated depreciation and amortization	104,250,013	1,082,671,008	768,677	17,836,662	10,099,512	327,543,911	1,543,169,783
Additions	-	1,073,870,174	34,183,273	190,018	2,618,283	5,983,585	1,116,845,333
Revaluation increment	-	801,886,530	-	-	-	-	801,886,530
Reclassification	-	72,873,835	-	-	-	( 126,932,888 )	( 54,059,053 )
Disposal	-	-	( 1,082,142 )	-	( 29,762 )	( 550,391 )	( 1,662,295 )
Depreciation and amortization charges for the year	-	( 296,615,667 )	( 4,997,295 )	( 332,682 )	( 1,983,148 )	-	( 303,928,792 )
Balance at December 31, 2016, net of accumulated depreciation and amortization and impairment losses	<u>P 104,250,013</u>	<u>P 7,311,131,493</u>	<u>P 35,874,526</u>	<u>P 18,088,713</u>	<u>P 13,566,446</u>	<u>P 335,657,251</u>	<u>P 7,818,568,442</u>

The fair values of the Group's vessels were based on the latest appraisal reports as shown below.

Name of Vessel	Date of Report	Net Appraised Values
MV Starlite Reliance	November 22, 2017	P 450,000,000
MT Denise	November 11, 2017	195,000,000
MT Jasaan	July 7, 2017	43,000,000
MT Excellence	June 14, 2017	150,000,000
MT BMI Patricia	June 5, 2017	56,000,000
MV Trans-Asia 3	February 11, 2017	207,385,000
M/Tug Pindasan	January 6, 2017	40,419,000
M/Tug Samal	January 6, 2017	33,451,000
M/Tug Sigaboy	January 6, 2017	28,880,000
M/Tug Fortis II	November 11, 2016	80,090,000
MT Chelsea Charlize	June 27, 2016	470,000,000
MT Chelsea Endurance	June 8, 2016	347,422,000
MT Great Princess	May 31, 2016	1,450,000,000
MV Trans-Asia 5	May 17, 2016	114,000,000
MV Asia Philippines	May 17, 2016	71,000,000
MV Trans-Asia 2	May 7, 2016	90,000,000
MV Trans-Asia 8	April 28, 2016	90,000,000
MV Trans-Asia 10	April 27, 2016	85,500,000
MV Asia Pacific	April 27, 2016	71,000,000
MV Trans-Asia 9	April 25, 2016	86,000,000
MV Starlite Annapolis	April 4, 2016	34,869,000
MV Starlite Blue Sea	March 31, 2016	5,495,000
MV Starlite Jupiter	March 31, 2016	29,568,000
MV Starlite Navigator	March 31, 2016	29,674,000
MV Starlite Pacific	March 31, 2016	17,956,000
MV Starlite Polaris	March 31, 2016	10,065,000
MV Starlite Ferry	March 31, 2016	19,675,000
MV Starlite Tamaraw	March 31, 2016	25,270,000
MT Chelsea Resolute	March 28, 2016	242,000,000
MT Chelsea Intrepid	March 17, 2016	120,000,000
MT Chelsea Enterprise	March 4, 2016	135,000,000
MV Starlite Pioneer	February 24, 2016	462,265,000
MT Chelsea Denise II	December 23, 2015	487,000,000
M/Tug Fortis I	November 17, 2015	85,000,000
MT Ernesto Uno	November 10, 2015	150,000,000
MT Great Diamond	August 5, 2015	1,021,886,700
MT Chelsea Cherylyn	December 29, 2014	880,000,000

Management believes that there is no significant change in the fair values of the Group's vessels since the dates of last appraisals. Further, no appraisal report was obtained for MV San Pedro Calungsod, MV San Lorenzo Ruiz Uno, MV St. Nicholas of Myra, MT Chelsea Dominance, MTug Fortis III, MTug Fortis V, MTug Fortis VII, MV Starlite Saturn, MV Starlite Eagle, MV Starlite Archer and MV Trans-Asia 12 as the Group has newly-acquired the vessels towards the end of 2016 and early 2017; hence, management believes that the acquisition costs approximate their fair values.

In 2017, the Group acquired new vessels namely, MV San Pedro Calungsod, MV San Lorenzo Ruiz Uno, MV St. Nicholas of Myra, MV Archer, Fortis V and Fortis VII.

In 2016, CSC acquired new vessels namely, MT Chelsea Charlize, MT Chelsea Endurance and MT Chelsea Dominance, which commenced operations in March 2016, August 2016 and November 2016, respectively. Total capitalized borrowing costs for these tankers amounted to P6.1 million for the year ended December 31, 2016. The capitalization rates used range from 4.32% to 4.50% per annum.

If the Group's vessels and vessel equipment were measured under the cost model, the cost, accumulated depreciation and net carrying amount as of March 31, 2018 and December 31, 2017 are as follows:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Cost	<b>P10,151,501,164</b>	P 10,096,699,931
Accumulated depreciation	<b>( 1,849,833,715 )</b>	( 1,768,872,688 )
Net carrying amount	<b><u>P 8,301,667,449</u></b>	<u>P 8,327,827,243</u>

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

	Notes	<b>2018 (Unaudited)</b>	2017 (Audited)
Cost of sales and services	15	<b>P 161,930,121</b>	P 120,492,558
Other operating expenses		<b><u>6,675,754</u></b>	<u>3,446,185</u>
	16	<b><u>P 168,605,875</u></b>	<u>P 123,938,743</u>

The Group's vessels with a net carrying amount of P8,916.3 million and P8,755.6 million as of March 31, 2018 and December 31, 2017, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 13).

## 10. INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

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

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Associate – KGLI-NM		
Cost	<b>P 2,210,299,689</b>	P 2,104,212,296
Equity share in other comprehensive income of an associate	-	108,049,607
Equity share in net profit (loss) of an associate	<u>11,093,284</u>	( <u>1,962,214</u> )
	<b>2,221,392,973</b>	2,210,299,689
Jointly controlled entity – Meridian Maritime Training Center Center (Meridian)	<u>58,635,925</u>	<u>58,635,925</u>
	<b><u>P 2,280,028,898</u></b>	<b><u>P 2,268,935,614</u></b>

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to CLC 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna. UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, which holds 39.85% economic interest in and owns 60% of the voting stock in Nenaco. Nenaco, in turn owns 88.31% of 2Go. Hence, the Company has a 28.15% indirect economic interest in 2Go.

In 2016, CSC entered into a Memorandum of Agreement with Meridian whereby both parties agree to establish and operate a training facility on a parcel of land at the Calaca Seaport (formerly Phoenix Petroterminals Industrial Park) in Calaca, Batangas. The training facility shall be called the Meridian Maritime Training Center. The establishment of the facility shall have a total project cost of P50.0 million, which includes the acquisition of the site, construction costs of the structures of the facility and government taxes, assessments and fees related thereto.

In 2017, CSC made additional investment in the Meridian amounting to P13.1 million.

As of March 31, 2018 and December 31, 2017, management believes that the investments in an associate and a joint venture are not impaired.

**11. OTHER NON-CURRENT ASSETS**

This account is composed of the following as of:

	<u>Notes</u>	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Drydocking costs – net		<b>P 322,996,209</b>	P 303,509,254
Security deposits	20.3, 23.3	<b>17,061,254</b>	12,730,611
Other investments		<b>8,615,100</b>	8,272,236
Restricted cash	4	-	1,637,081
Software		<b>1,600,000</b>	1,600,000
Others		<b>1,022,255</b>	-
		<b><u>P 351,294,818</u></b>	<b><u>P 327,749,182</u></b>

A reconciliation of the net carrying amount of drydocking costs at the beginning and end of March 31, 2018 and December 31, 2017 is shown below.

	<u>Note</u>	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Balance at beginning of period		<b>P 303,509,254</b>	P 169,125,830
Additions		<b>74,894,484</b>	325,647,628
Balance from acquired subsidiaries		-	21,259,891
Amortization charges for the period		<b>( 55,407,529)</b>	( 212,524,095)
Balance at end of period		<b><u>P 322,996,209</u></b>	<b><u>P 303,509,254</u></b>

Amortization of drydocking costs is presented as part of the Cost of Sales and Services account in the consolidated statements of profit and loss (see Note 15).

## 12. INTEREST-BEARING LOANS

The short-term and long-term interest-bearing loans are broken down as follows as of December 31:

	Note	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>Current:</b>			
Bank loans	12.2	P 3,291,061,290	P 2,445,380,253
Term loans	12.1	1,649,300,174	968,128,892
Mortgage loans	12.3	50,652,047	20,981,833
Obligations under finance lease	12.3	<u>11,523,776</u>	<u>20,981,833</u>
		<u>5,002,537,287</u>	<u>3,434,490,978</u>
<b>Non-current:</b>			
Term loans	12.1	6,487,735,415	6,746,237,521
Mortgage loans	12.3	106,738,186	140,997,812
Obligations under finance lease	12.4	44,111,557	-
Bank loans	12.2	<u>2,196,902</u>	<u>10,434,324</u>
		<u>6,640,782,060</u>	<u>6,897,669,657</u>
		<b><u>P11,643,319,347</u></b>	<b><u>P10,332,160,635</u></b>

A reconciliation of the carrying amounts of interest-bearing loans at the beginning and end of March 31, 2018 and December 31, 2017 is shown below.

	Term loans (see Note 12.1)	Bank loans (see Note 12.2)	Mortgage loans (see Note 12.3)	Obligations under finance lease (see Note 12.4)	Total
Balance as of January 1, 2018	P 7,714,366,413	P 2,455,814,577	P 161,979,645	P -	P 10,332,160,635
Additions	575,000,000	845,547,385	1,351,468	56,840,400	1,478,739,253
Repayments	( 178,302,102 )	( 8,103,770 )	( 5,940,880 )	( 1,205,067 )	( 193,551,819 )
Restatement of foreign currency denominated loans	<u>25,971,278</u>	-	-	-	<u>25,971,278</u>
Balance at March 31, 2018	<b><u>P 8,137,035,589</u></b>	<b><u>P 3,293,258,192</u></b>	<b><u>P 157,390,233</u></b>	<b><u>P 55,635,333</u></b>	<b><u>P 11,643,319,347</u></b>
Balance as of January 1, 2017	P 2,596,979,367	P 4,576,345,754	P 199,457,057	P -	P 7,372,782,178
Balance from acquired subsidiaries	2,446,689,650	7,561,112	-	-	2,454,250,762
Additions	1,404,093,151	1,184,823,399	40,735,902	-	2,629,652,452
Repayments	( 559,970,152 )	( 1,512,915,688 )	( 78,213,314 )	-	( 2,151,099,154 )
Reclassification	1,800,000,000	( 1,800,000,000 )	-	-	-
Conversion from USD to PHP	20,298,400	-	-	-	20,298,400
Restatement of foreign currency denominated loans	<u>6,275,997</u>	-	-	-	<u>6,275,997</u>
Balance at December 31, 2017	<b><u>P 7,714,366,413</u></b>	<b><u>P 2,455,814,577</u></b>	<b><u>P 161,979,645</u></b>	<b><u>P -</u></b>	<b><u>P 10,332,160,635</u></b>

### 13.1 Term Loans

The details of the Group's term loans as of March 31, 2018 and December 31, 2017 are as follows:

	Security	Terms	Interest Rates	Outstanding Balance	
				March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
China Banking Corporation (CBC)	Continuing Suretyship	6 years	4.50%	P 1,800,000,000	P 1,800,000,000
Philippine Business Bank (PBB)	MV Eagle, MV Navigator				
	MV Archer, MV Saturn	10 years	7.50%	1,029,944,850	1,037,444,850
PBB	Unsecured	15 years	7.00%	800,000,000	800,000,000
Development Bank of the Philippines (DBP)	MV Pioneer, MV Reliance	15 years	6.95%	606,000,000	606,000,000
DBP	MV San Pedro Calungsod				
	MV San Lorenzo Ruis Uno				
	MV St. Nicholas of Myra	15 years	6.50%	575,000,000	-
CBC	MT Chelsea Charlize	7 years	3.25%	365,449,000	366,102,000
PBB	MT Chelsea Dominance	7 years	6.06%	356,791,050	373,008,825
BDO Unibank, Inc. (BDO)	MT Great Princess	5 years	5.25%	321,595,120	335,482,560
PBB	MT Chelsea Endurance	7 years	6.06%	302,623,750	316,379,375
BDO	Trans - Asia 1, Trans - Asia 10	10 years	4.25%	297,155,113	299,361,844
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	292,500,000	296,250,000
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	292,500,000	296,250,000
CTBC Bank (Phils) Inc. (CTBC)	Continuing Suretyship	5 years	4.09%	292,500,000	296,250,000
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	195,000,000	197,500,000
BDO	MT Chelsea Denise II	5 years	6.46%	196,140,000	196,140,000
BDO	Trans - Asia 1	10 years	5.00%	131,000,000	179,959,247
BDO	MT Great Diamond	7 years	One year LIBOR plus 3.50%	112,148,372	134,052,501
BDO	Chattel Mortgage	8 years	4.50%	88,118,410	88,118,410
Asia United Bank (AUB)	Mtug Fortis III and Mtug Fortis V	7 years	5.56%	64,533,519	67,114,859
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal		6.00% to		
AUB	Mtug Sigaboy	5 years	6.50%	20,633,872	25,696,844
	Mtug Fortis I and Mtug Fortis II	5 years	7.00%	16,666,667	22,222,222
BDO	Trans - Asia 10	9.38 years	4.25%	38,021	39,584
				8,156,337,744	7,733,373,121
Discount on loans payable				( 19,302,155 )	( 19,006,708 )
				<u>P 8,137,035,589</u>	<u>P 7,714,366,413</u>

(a) *Omnibus Loan and Security Agreement (OLSA) with BDO – MT Great Princess and MT Chelsea Denise II*

In 2013, PNX-Chelsea entered into a MOA with China Shipbuilding & Exports Corporation (CSEC) for the acquisition of one unit of oil tank (MT Great Princess) in the amount of US\$21,187,500. In connection with the acquisition of an oil tank vessel, PNX-Chelsea entered into an OLSA amounting to US\$14 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. In September 2013, BDO granted the loan and released the first tranche amounting to US\$4 million. The second tranche was availed by PNX in February 2014. The loan is payable for a period of five periods from initial drawdown date in US\$560,000 quarterly principal installments and any unpaid balance on the maturity date, with two quarter grace period, commencing after the second tranche. The loan bears effective interest rate of 5.25% per annum.

In 2014, PNX-Chelsea entered into a MOA with CSEC for the importation of one unit of oil tank vessel (MT Chelsea Denise II) from China for a total cost of US\$7,300,000. In connection with the MOA, PNX-Chelsea entered in another OLSA with the same local bank for P300.0 million to finance the acquisition of MT Chelsea Denise II in 2014. The loan is subject to effective interest rate of 6.46% per annum and is payable for a quarterly basis for five periods commencing at the end of the fourth quarter of 2015.

Interest incurred on these loans amounted to P8.1 million and P12.2 million in 2018 and 2017, respectively, and are presented as part of Finance costs under the Other Income (Charges) account in the consolidated statements of profit or loss (see Note 18.1).



Debt issuance costs amounted to P0.8 million (first tranche) and P2.2 million (second tranche), of which P0.2 million and P0.7 million, respectively, were amortized in 2018 and 2017 using the effective interest rates of 5.54% and 5.58% for each tranche. Amortized debt issuance costs were recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account of the consolidated statement of profit or loss (see Note 18.1). Unamortized debt issuance costs are deducted against the current and non-current portion of the related interest-bearing loans.

The loans are secured by a chattel mortgage of MT Great Princess and MT Chelsea Denise II, respectively (see Note 9). The carrying amounts of these vessels, presented as part of the Property and Equipment account, amounted to P1,876.8 million and P1,894.5 million as of March 31, 2018 and December 31, 2017, respectively.

The OLSA requires PNX-Chelsea to maintain debt to equity ratio of not more than 2.00:1.00 and debt service coverage ratio (DSCR) of at least 1.20, except on drydocking year where minimum DSCR shall be 1.00. As of March 31, 2018 and December 31, 2017, the Company has complied with these covenants.

(b) *OLSA with BDO – MT Chelsea Great Diamond*

On April 26, 2011, CSC entered into a MOA with CSEC for the acquisition of one unit of oil tank (MT Chelsea Great Diamond) in the amount of US\$19.8 million.

In connection with the MOA, CSC entered into an OLSA amounting to US\$14.5 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. The loan is payable in 27 consecutive equal quarterly principal installments starting in August 2012. The loan is subject to quarterly repricing of interest computed at one-year LIBOR plus applicable margin of 3.5% per annum.

Related debt issuance costs amounted to P8.2 million, of which P0.1 million and P2.7 million was amortized in 2018 and 2017, respectively, using the effective interest rate of 4.65%. Amortized debt issuance costs were recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account of the consolidated statement of profit or loss (see Note 19.1). The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

The loan is secured by a chattel mortgage on certain vessels of CSC with a total net carrying amount of P904.6 million and P914.0 million as of March 31, 2018 and December 31, 2017, respectively (see Note 9). The loan is also secured by collateral on certain receivables under the Group's Assignment of Charter Party with BDO and guaranteed by certain stockholders of the Group (see Notes 5 and 20.8).

The OLSA requires CSC to maintain debt-to-equity ratio of not more than 1.50:1.00 and DSCR of at least 2.50. As of December 31, 2017, CSC has breached these covenants. CSC's management, however, believes that the breach has no material impact in the interim consolidated financial statements as the loan is due for settlement in 2018; hence, the current classification.

(c) *Term Loan Agreement (TLA) with CBC – MT Chelsea Charlize*

On May 23, 2016, PNX-Chelsea entered into loan agreement with CBC amounting to US\$8.0 million to finance the acquisition of MT Chelsea Charlize. The loan is subject to annual interest rate of 3.25% and is payable in 24 equal quarterly installments commencing on August 23, 2017.

Interest incurred on this loan amounting to 3.2 million and P3.3 million in 2018 and 2017, respectively, and is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 18.1). The related unpaid interest as of March 31, 2018 and December 31, 2017 amounted to P0.9 million and P1.3 million, respectively, and is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position.

The loan is secured by a chattel mortgage on MT Chelsea Charlize with net carrying amount of P441.1 million and P445.1 million as of March 31, 2018 and December 31, 2017, respectively (see Note 9).

(d) *TLA with PBB – MT Chelsea Endurance and MT Chelsea Dominance*

On July 25, 2016 and August 18, 2016, PNX-Chelsea entered into term loan agreements with PBB amounting to US\$6.5 million and US\$7.6 million to finance the acquisition of MT Chelsea Endurance and MT Chelsea Dominance, respectively. On the anniversary year, these loans were converted into Php loans. The loans are subject to annual effective interest rate of 6.06% and are payable in 24 equal quarterly installments with one-year grace period from date of each release.

Interest incurred on these loans totaling P15.7 million and P8.0 million, excluding capitalized borrowing costs of P6.1 million (see Note 9), in 2018 and 2017, respectively, and is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 19.1). The related unpaid interest as of March 31, 2018 and December 31, 2017 amounted to P5.1 million and P6.6 million, respectively, and is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totaling P724.9 million and P731.2 million, respectively, as of March 31, 2018 and December 31, 2017 (see Note 9).

(e) *TLA with AUB – MTug Fortis I, MTug Fortis II, MTug Fortis III and MTug Fortis V*

In 2013, FTC obtained interest-bearing loans from a bank to partially finance the acquisition of tugboats amounting to P100.0 million. The loan bears fixed interest rate at 7.0% for the first three periods from the initial drawdown date, and shall be repriced at the end of the third year from the initial drawdown date (the “Repricing Date”). The repriced rate shall be based on the relevant 2Y PDST-F as of the Repricing Date, plus a spread of 2.0% subject to a floor of 7.0%. The loan is payable in 18 quarterly installments over a period of five periods. The first payment will commence on the third interest payment date from the initial drawdown date. The last quarterly installment of the loan is due on November 6, 2018.

On April 12, 2017, FTC obtained additional interest-bearing loans amounting to P69.7 million from the same bank to partially refinance the acquisition of MTug Fortis III and MTug Fortis V and for working capital requirements. The loan bears fixed interest rate of 5.56% and the principal is payable in 28 monthly installments.

Interest expense related to these loans amounted to P1.4 million and P0.8 million in 2018 and 2017, respectively, and is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 18.1).

Certain trade receivables amounting to P32.3 million and P27.5 million as of March 31, 2018 and December 31, 2017, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 5). Moreover, certain tugboats of FTC with net carrying amounts of P248.2 million and P247.0 million as of March 31, 2018 and December 31, 2017, respectively, were used as collateral to secure the payment of these loans (see Note 9).

*(f) TLA with BDO – Trans-Asia 10, 8 and 9*

In 2014, Trans-Asia availed loans from BDO for the acquisition of MV Trans-Asia 10 totaling to P120.0 million at an interest rate of 4.5% per annum. Also, a loan amounting to P79.7 million was obtained from BDO to provide financing to Oceanstar for the purchase of MV Trans-Asia 8 and 9. Principal and interest payments on these loans are made monthly.

Trans-Asia made additional loans from BDO totaling to P263.5 million in 2016 at an interest rate of 4.25% per annum. Principal payments are made monthly with a grace period of one year and interest on these loans is payable monthly in arrears.

*(g) TLA with CBC – Trans-Asia*

Trans-Asia Shipping secured borrowings from CBC in 2010 in the amount of P135.0 million. This loan is payable for a term of ten periods inclusive of two periods grace period at 5.00% per annum. Interest is to be paid quarterly in arrears based on diminishing balance.

In addition, a loan from CBC amounting to P71.1 million was availed in 2015 at an interest rate of 4.50% per annum. Principal is payable monthly with a grace period of two periods and interest is payable monthly in arrears based on diminishing balance. This loan was used to partially finance the purchase of MV Trans-Asia 12, a vessel owned by one of its subsidiaries, Oceanstar. These loans have been fully settled as of December 31, 2017.

*(h) TLA with UCPB and PBCComm – DGMSI*

In 2014, DGMSI obtained loans from UCPB and PBCComm to fund its acquisition of secondhand tugboats imported from Japan and Korea for use in the expansion of its business activity. The same loans are collateralized with three of its tugboats acquired and a time deposit placement amounting to P5.0 million. These loans have interest rates of ranging from 6.00% to 6.50% per annum, and are subject to annual resetting. These loans will mature on various dates in 2019.

*(i) TLA with CBC – CLC*

In 2016, the Company obtained a P1.8 billion loan from CBC to finance the acquisition of the outstanding shares of CSC. The loan is subject to annual interest rate of 4.50% and is payable on a lump sum basis in 181 days. The loan is secured by means of mortgage, pledge, assignment or any other form of encumbrance upon any and all properties or assets of the Company's President and Chairman of the BOD (see Note 20.8).

In 2017, the Company converted its P1.8 billion bank loan to a six-year term loan from China Bank with a grace period of four quarters which commenced on the date of conversion. The principal is payable per quarter amounting to P45 million with balloon payment at maturity and shall commence on the quarter after the grace period and the interest shall be paid on arrears. The loan is secured by the same properties as mentioned in the initial bank loan.

(j) *TLA with CTBC, MICBC, RBC and FCB – Trans-Asia*

In 2017, Trans-Asia entered into a five-year loan facility agreement amounting to P300.0 million each with CTBC, MICBC and RBC and P200.0 million with FCB to bridge the facility obtained by CSC to fund the acquisition of Trans-Asia and for general working capital purposes. In the same year, Trans-Asia made a drawdown of P1,100.0 million loan to bridge the loan obtained by CSC in 2016. The loan is subject to annual interest rate of 6.10% and is payable on quarterly basis. Principal repayments shall be 5% of the loan in the first and second year, 15% in the third and fourth year and 60% in the fifth year of the drawdown. The loan is secured by Trans-Asia shares, a corporate guarantee by Udenna and individual surety of the Company's chairman of the BOD (see Note 20.8).

Interest expense incurred on these loans amounted to P3.6 million and is presented as part of Finance costs under the Other Income (Charges) account in the 2018 consolidated statement of profit or loss (see Note 18.1).

(k) *TLA with PBB – Starlite*

In 2015, Starlite entered into a 10-year term loan agreement amounting to P1,037.4 million with PBB to finance the acquisition of MV Eagle, MV Archer and MV Saturn. The loans are subject to a fixed interest rate of 7.5% and the principal is payable in arrears.

In 2017, Starlite obtained a 15-year term loan agreement amounting to P800.0 million with PBB. The loan is subject to annual interest rate of 7.0% and principal repayments including the interest shall commence on the first quarter after a grace period of one year from the date of availment.

Interest incurred on these loans amounted to P34.1 million in 2018 and is presented as part of Finance costs under the Other Income (Charges) account in the 2018 consolidated statement of profit or loss (see Note 18.1).

Certain vessels of Starlite with net carrying amounts of P1,285.0 million and P1,283.4 million as of March 31, 2018 and December 31, 2017 were used as collateral to secure the payment of these loans (see Note 9).

(l) *TLA with DBP - Starlite*

In 2016 and 2015, Starlite entered into a 15-year term loan agreement amounting to P306.0 million and P300.0 million, respectively, with DBP to finance the acquisition of MV Pioneer and MV Reliance. The loan is subject to annual interest rate of 6.95% and is payable on a quarterly basis. Principal repayments shall commence after the grace period of three periods.

Interest incurred on these loans amounted to P10.5 million in 2018 and is presented as part of Finance costs under the Other Income (Charges) account in the 2018 consolidated statement of profit or loss (see Note 18.1).

Certain vessels of Starlite with net carrying amounts of P791.4 million and P735.9 million as of March 31, 2018 and December 31, 2017 were used as collateral to secure the payment of these loans (see Note 9).

(m) *TLA with DBP – PNX-Chelsea*

On January 25, 2018, PNX-Chelsea entered into a loan agreement with DBP amounting to P575.0 million to refinance the acquisition of MV San Pedro Calungsod, MV San Lorenzo Ruiz Uno and MV St. Nicholas of Myra. The loan is subject to annual interest rate of 6.50% and is payable in 60 equal quarterly installments commencing on the first quarter from the initial drawdown.

Certain vessels of PNX-Chelsea with net carrying amounts of P562.1 million of March 31, 2018 were used as collateral to secure the payment of these loans (see Note 9).

### 13.2 Bank Loans

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

	Security	Terms	Interest Rates	Outstanding Balance	
				March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Primary Institutional Lenders		30 to 96 days	4.25% to 5.00%	P 1,057,443,591	P 923,290,258
UCPB	MT Chelsea Intrepid				
	MT BMI Patricia	90 days	5.00% to 5.75%	898,900,000	890,502,192
DBP	MT Chelsea Cherylyn	180 days	4.00 to 4.25%	298,500,000	300,000,000
Chinabank	TA 15, CY1 and Main Building	360 days	4.50%	278,427,397	-
Union Bank of the Philippines	Unsecured	360 days	4.50%	200,000,000	-
Unicapital	Unsecured	90 days	5.50%	199,000,000	140,000,000
PBCom	MT Ernesto Uno	180 to 270 days	4.75%	186,650,625	130,765,000
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	78,900,000	57,300,000
BDO	Unsecured	1 year	7.00%	48,459,247	-
PVB	Unsecured	180 days	4.18%	39,623,975	-
Security Bank Corporation (SBC)	Chattel Mortgage	5 years	6.50%	4,173,730	10,434,324
BPI	Unsecured	48 days	9.47% to 10.28%	2,198,808	2,436,125
Chinabank Savings	Unsecured	48 days	0.71%	980,819	1,086,678
				<b>P 3,293,258,192</b>	<b>P 2,455,814,577</b>

The bank loans were obtained to finance the drydocking of certain vessels and to support the Group's working capital requirements. These loans are secured by certain vessels owned by the Group with total net carrying amount of P1,626.9 million and P1,637.4 million as of March 31, 2018 and December 31, 2017, respectively (see Notes 9 and 20.8).

Interest expense on these bank loans is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit and loss (see Note 18.1).

### 13.3 Mortgage Payables

	Security	Terms	Interest Rates	P	Outstanding Balance	
					March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
BDO	Real Estate Mortgage	10 years	4.25%	P	117,500,000	P 120,000,000
AUB	Chattel Mortgage on Transportation Equipment	3 to 5 years	7.00% to 8.50%		26,828,593	27,411,954
CBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%		3,388,406	3,839,567
RCBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	P	3,275,706	3,996,246
BDO	Chattel Mortgage on Transportation Equipment	3 years	7.30%	P	3,017,973	3,129,183
PNB	Chattel Mortgage on Transportation Equipment	1 year	7.30%		2,341,193	2,358,952
BDO	Chattel Mortgage on Transportation Equipment	3 years	6.90% to 7.53%	P	1,038,362	1,243,743
CBC	Real Estate Mortgage	10 years	6.00%		-	-
					<b>P 157,390,233</b>	<b>P 161,979,645</b>

Mortgage loans pertain to loans obtained by the Group to finance the acquisition of certain properties and transportation equipment. These loans bear average effective interest rates ranging from 4.25% to 8.50% both in 2018 and 2017. Interest incurred on these loans are included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 18.1).

These loans are secured by certain properties and transportation equipment with total carrying amount of P58.0 million and P57.6 million as of March 31, 2018 and December 31, 2017, respectively (see Note 9).

### 13.4 Obligations Under Finance Lease

In 2018, the Group entered into a finance lease agreement through sale and leaseback arrangement with a local bank to seek additional funding and accommodate expenses for the acquisition of certain machinery and equipment. These finance lease agreements have effective interest rates of 6.49% to 6.76% per annum, payable in 48 equal monthly payments and are secured by a chattel mortgage on the Company's machinery and equipment. Total interest expense incurred amounted to P0.3 million for the three months ended March 31, 2018 and is shown as part of Finance Costs in the 2018 consolidated statement of profit or loss (see Note 18.1).

### 13. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade payables	20.2, 20.6	P 1,389,816,585	P 1,053,282,818
Accrued expenses	12	142,145,167	168,041,389
Deferred output VAT		93,188,447	69,258,421
Output VAT		15,856,565	19,601,544
Deposits payable		978,830	885,112
Provisions	23.4	800,000	801,086
Others		<u>84,357,271</u>	<u>68,979,036</u>
		<u>P 1,727,142,865</u>	<u>P 1,380,849,406</u>

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

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

Others include withholding taxes payable and other government-related liabilities.

### 14. DEPOSITS FOR FUTURE STOCK SUBSCRIPTION

An analysis of the movements in the balance of deposits on future stock subscription is presented below.

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	P 180,000,000	P 50,000,000
Addition during the period	-	180,000,000
Reversal to advances	<u>-</u>	<u>( 50,000,000)</u>
Balance at end of period	<u>P 180,000,000</u>	<u>P 180,000,000</u>

The balance as at March 31, 2018 and December 31, 2017 represents preferred shares subscription of certain individuals in Trans-Asia. These are presented as current liability in the consolidated statements of financial position as the requirements of SEC Financial Reporting Bulletin No. 006 (as revised in 2013) for classification as equity has not been complied with as of the end of the reporting period.

**15. COST OF SALES AND SERVICES**

The details of this account are shown below.

	<u>Notes</u>	<b>2018</b> <b>(Unaudited)</b>	<b>2017</b> <b>(Audited)</b>
Bunkering	20.2	<b>P 218,204,394</b>	P 69,628,578
Depreciation and amortization	9, 11	<b>217,337,650</b>	162,960,491
Salaries and employee benefits	17.1	<b>127,690,476</b>	65,039,571
Port expenses		<b>40,484,171</b>	34,846,268
Repairs and maintenance		<b>33,105,069</b>	16,886,189
Insurance		<b>30,275,042</b>	21,849,480
Supplies		<b>18,388,414</b>	16,579,612
Outside services		<b>15,001,749</b>	18,191,032
Charter hire fees		<b>14,986,458</b>	26,934,356
Delivery		<b>11,206,531</b>	-
Rentals	23.3	<b>8,461,887</b>	-
Taxes and licenses		<b>4,446,428</b>	3,819,028
Utilities and communication		<b>4,291,037</b>	2,185,273
Transportation and travel		<b>3,860,629</b>	3,524,305
Technology		<b>2,031,455</b>	-
Cost of inventories sold		<b>1,861,671</b>	1,915,635
Professional fees		<b>986,797</b>	100,514
Commission		<b>601,915</b>	966,097
Representation and entertainment		<b>53,993</b>	189,456
Miscellaneous		<b>5,394,903</b>	3,046,063
		<b><u>P 758,670,669</u></b>	<b><u>P 448,661,948</u></b>



## 16. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the three months ended March 31 are presented below.

	Notes	2018 (Unaudited)	2017 (Audited)
Depreciation and amortization	9, 11	P 224,013,404	P 166,406,676
Bunkering	20.2	218,204,394	69,856,761
Salaries and employee benefits	17.1	181,664,021	89,184,230
Taxes and licenses		45,524,447	14,336,606
Port expenses		40,487,571	34,846,268
Repairs and maintenance		35,504,612	17,694,533
Insurance		31,032,093	22,501,673
Outside services		25,079,809	24,477,753
Supplies		22,770,017	20,008,296
Rentals	20.3, 23.3	18,136,872	6,516,759
Charter hire fees		14,986,458	26,934,356
Transportation and travel		11,359,291	7,727,680
Delivery		11,206,531	-
Utilities and communication		8,369,197	4,444,697
Professional fees		8,264,050	2,413,273
Commission		2,600,831	966,097
Representation and entertainment		2,104,203	1,654,321
Technology		2,031,455	-
Cost of inventories sold		1,861,671	-
Advertising and promotions		126,003	-
Miscellaneous	20.8(b)	27,230,976	14,417,097
		<b>P 932,557,906</b>	<b>P 518,291,169</b>

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

	Note	2018 (Unaudited)	2017 (Audited)
Cost of sales and services	15	P 758,670,669	P 448,661,948
Other operating expense		173,887,237	69,629,221
		<b>P 932,557,906</b>	<b>P 518,291,169</b>

## 17. SALARIES AND EMPLOYEE BENEFITS

### 17.1 Salaries and Employee Benefits

The details of salaries and employee benefits are presented below.

	<u>Notes</u>	<b>2018</b> <b>(Unaudited)</b>	2017 <b>(Audited)</b>
Short-term employee benefits		<b>P 176,400,724</b>	P 86,171,463
Other employee benefits		<b>5,263,297</b>	332,025
Post-employment benefits	17.2(b)	<u>-</u>	<u>2,680,742</u>
	16	<b><u>P 181,664,021</u></b>	<b><u>P 89,184,230</u></b>

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

	<u>Notes</u>	<b>2018</b> <b>(Unaudited)</b>	2017 <b>(Audited)</b>
Cost of sales and services	15	<b>P 127,690,476</b>	P 65,039,571
Other operating expense		<b><u>53,973,544</u></b>	<u>24,144,659</u>
	16	<b><u>P 181,664,021</u></b>	<b><u>P 89,184,230</u></b>

### 17.2 Post-employment Defined Benefits

#### (a) Characteristics of Post-employment Defined Benefit Plan

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

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

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

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

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

(b) *Explanation of Amounts Presented in the Interim consolidated financial Statements*

Actuarial valuations are made regularly to update the post-employment benefit expense and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from an independent actuary covering the year ended December 31, 2017.

(i) *Post-employment Benefit Asset*

The amounts of post-employment defined benefit asset of Trans-Asia and MI as of March 31, 2018 and December 31, 2017, which is recognized in the consolidated statements of financial position are determined as follows:

	<b>March 31, 2018 (Unaudited)</b>	<b>December 31, 2017 (Audited)</b>
Fair value of plan assets	<b>P 41,456,400</b>	P 41,456,400
Present value of the obligation	<b>( 32,885,129)</b>	( 32,885,129)
	<b>8,571,271</b>	8,571,271
Effect of the asset ceiling	<b>( 381,217)</b>	( 381,217)
	<b><u>P 8,190,054</u></b>	<b><u>P 8,190,054</u></b>

The movements in the present value of post-employment defined benefit obligation recognized in the 2018 and 2017 books are as follows:

	<b>March 31, 2018 (Unaudited)</b>	<b>December 31, 2017 (Audited)</b>
Balance at beginning of period	<b>P 32,885,129</b>	P 34,820,143
Current service cost	-	6,856,642
Interest cost	-	1,848,950
Actuarial gains	-	( 10,007,052 )
Benefits paid	-	( 633,554 )
Balance at end of period	<b><u>P 32,885,129</u></b>	<b><u>P 32,885,129</u></b>

The movements in the fair value of plan assets in 2018 and 2017 are presented below.

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Balance at beginning of period	<b>P 41,456,400</b>	P 39,693,662
Balance from MI	-	1,502,033
Interest income	-	2,090,913
Return on plan assets (excluding amounts included in net interest)	-	( 1,196,654)
Benefits paid	-	( 633,554)
 Balance at end of period	 <b><u>P 41,456,400</u></b>	 <b><u>P 41,456,400</u></b>

The composition of the fair value of plan assets as at March 31, 2018 and December 31, 2017 by category and risk characteristics is shown below.

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Cash and cash equivalents	<b>P 22,866,053</b>	P 22,866,053
Debt securities:		
Philippine government bonds	<b>11,373,808</b>	11,373,808
Corporate bonds	<b>6,140,132</b>	6,140,132
Equity securities	<b>332,850</b>	332,850
Unit investment trust funds	<b>743,292</b>	743,292
Others	<b>265</b>	265
	<b><u>P 41,456,400</u></b>	<b><u>P 41,456,400</u></b>

*(ii) Post-employment Benefit Obligation*

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

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Present value of the obligation	<b>P 42,261,263</b>	P 42,261,263
Fair value of plan assets	<b>( 5,672,383)</b>	( 5,672,383)
	<b><u>P 36,588,880</u></b>	<b><u>P 36,588,880</u></b>

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

	<b>March 31, 2018 (Unaudited)</b>	<b>December 31, 2017 (Audited)</b>
Balance at beginning of period	P 11,078,452	P 11,078,452
Balance from acquired subsidiaries	15,709,900	15,709,900
Actuarial gains	10,209,258	10,209,258
Current service cost	9,154,718	9,154,718
Interest cost	1,234,567	1,234,567
Benefits paid	( 5,125,632 )	( 5,125,632 )
 Balance at end of period	 <b><u>P 42,261,263</u></b>	 <b><u>P 42,261,263</u></b>

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

	<b>March 31, 2018 (Unaudited)</b>	<b>December 31, 2017 (Audited)</b>
Balance at beginning of period	P 5,672,383	P 7,031,908
Balance of MI reclassified to asset	-	( 1,502,033 )
Interest income	-	296,954
Return on plan assets (excluding amounts included in net interest)	-	( 154,446 )
 Balance at end of period	 <b><u>P 5,672,383</u></b>	 <b><u>P 5,672,383</u></b>

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

	<b>March 31, 2018 (Unaudited)</b>	<b>December 31, 2017 (Audited)</b>
Cash and cash equivalents	P 9,923	P 9,923
Equity securities	1,689,378	1,689,378
Debt securities	1,956,795	1,956,795
Unit investment trust funds	2,011,278	2,011,278
Others	5,009	5,009
	<b><u>P 5,672,383</u></b>	<b><u>P 5,672,383</u></b>

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of P1.0 million in 2017 and P0.1 million in 2016.

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

(iii) Post-employment benefit expense

The amounts of post-employment benefit expense recognized in the 2017 consolidated statement of profit or loss and consolidated statements of comprehensive income in respect of the defined benefit post-employment plan are as follows:

*Recognized in profit or loss:*

Current service cost	P	2,680,742
Net interest income	(	<u>268,783</u> )
	P	<u>2,421,959</u>

*Recognized in other comprehensive loss –*

Return on plan assets (excluding amounts included in net interest expense)	P	<u>1,930,731</u>
--	---	------------------

Current service cost is allocated and presented in the 2017 consolidated statements of profit or loss under the following accounts:

	<u>Notes</u>		
Cost of sales and services	15	P	1,875,881
Other operating expenses			<u>805,861</u>
	17.1	P	<u>2,680,742</u>

The net interest expense incurred related to the post-employment defined benefit obligation is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 18.1).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Discount rates	<b>5.70%</b>	5.70%
Expected rate of salary increase	<b>5.00% - 8.00%</b>	5.00% - 8.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 21 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in cash and cash equivalents, debt and equity securities and UITF. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) *Sensitivity Analysis*

The table in the succeeding page summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of March 31, 2018 and December 31, 2017.

	<b>Impact on Post-employment Benefit Obligation</b>		
	<b>Change in Assumption</b>	<b>Increase in Assumption</b>	<b>Decrease in Assumption</b>
Discount rate	+/- 1.0%	(P 7,316,857)	P 8,852,349
Salary growth rate	+/- 1.0%	7,960,557	( 6,748,143)

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

*(ii) Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of March 31, 2018 and December 31, 2017 consists of cash and cash equivalents and equity and debt securities, although the Group also invests in UITF. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are in a diversified portfolio of local blue chip entities.

There has been no change in the Group's strategies to manage its risks from the previous period.

*(iii) Funding Arrangements and Expected Contributions*

As of March 31, 2018, the plan is underfunded by P36.6 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 21 periods' time when a significant number of employees is expected to retire.

The Group expects to make contribution of P2.4 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan within the next ten periods follows:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Within one year	<b>P 6,573,460</b>	P 6,573,460
More than one year but not more than five years	<b>29,145,966</b>	29,145,966
More than five periods but not more than ten years	<b>40,137,840</b>	40,137,840
	<b><u>P 75,857,266</u></b>	<u>P 75,857,266</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is not presented since the Group had not engaged the services of a qualified actuary in the measurement of its post-employment defined benefit obligation as of December 31, 2017.



**18. OTHER INCOME (CHARGES)**

**18.1 Finance Costs**

The details of this account follow:

	<u>Notes</u>	<b>2018</b> <b>(Unaudited)</b>	<b>2017</b> <b>(Audited)</b>
Interest expense on -			
Interest-bearing loans	12	<b>P 130,306,595</b>	P 86,691,820
Bank charges		<b>619,211</b>	113,739
Foreign currency exchange losses – net		<b><u>34,169,768</u></b>	<u>18,532,580</u>
		<b><u>P 165,095,574</u></b>	<u>P 105,338,139</u>

**18.2 Finance Income**

The breakdown of this account is shown below.

	<b>2018</b> <b>(Unaudited)</b>	<b>2017</b> <b>(Audited)</b>
Foreign currency exchange gains	<b>P -</b>	P 1,219,987
Interest income	<b><u>1,614,316</u></b>	<u>684,726</u>
	<b><u>P 1,614,316</u></b>	<u>P 1,904,713</u>

**18.3 Other Income**

Presented below are the details of other income for the periods ended March 31, 2018 and 2017.

	<u>Note</u>	<b>2018</b> <b>(Unaudited)</b>	<b>2017</b> <b>(Audited)</b>
Handling and tracking		<b>13,685,860</b>	25,532,543
Rebates		<b>8,000,000</b>	11,601,568
Rental income	20.3, 23.2	<b>1,950,734</b>	1,757,849
Miscellaneous		<b><u>6,602,667</u></b>	<u>4,141,725</u>
		<b><u>P 30,239,261</u></b>	<u>P 43,033,685</u>

Handling and trucking pertains to excess customer charges over amounts payable to various truckers.

Rebates pertain to the share of Trans-Asia on all cargo handling charges based on the Cebu Port Authority Tariff rates.

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

## 19. TAXES

### 19.1 Registration with the Board of Investments (BOI)

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

Starlite had also registered MV Archer, MV Saturn, MV Eagle, MV Reliance and MV Pioneer which commenced on March 2017, August 2016, May 2016, April 2016 and December 2015, respectively, for a period of four periods. As a registered entity, Starlite is entitled to tax and non-tax incentives, which includes a four-year ITH. ITH incentives shall be limited only to the revenues generated by the registered activities.

In 2018 and 2017, the PNx's BOI registration of MT Chelsea Dominance and MT Chelsea Charlize, which commenced in November 2016 and September 2015, respectively, for a period of four periods, was transferred to the Company following its acquisition. The tax and non-tax incentives of MT Chelsea Dominance and MT Chelsea Charlize are similar to that of MT Great Princess and MT Chelsea Denise II.

### 19.2 Current and Deferred Taxes

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

	<u>2018</u> <u>(Unaudited)</u>	<u>2017</u> <u>(Audited)</u>
<i>Recognized in profit or loss:</i>		
Regular corporate income tax	P 34,389,531	P 39,133,328
Minimum corporate income tax (MCIT)	320,475	-
Final tax at 20% and 7.5%	<u>45,994</u>	<u>21,168</u>
	<b>34,756,000</b>	39,154,496
Deferred tax income relating to origination and reversal of temporary differences	( <u>24,835,795</u> )	( <u>28,304,342</u> )
	<u><b>P 9,920,205</b></u>	<u>P 10,850,154</u>
<i>Recognized in other comprehensive income:</i>		
Deferred tax expense relating to origination and reversal of temporary differences	<u>P -</u>	<u>P 579,219</u>

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated statements of profit or loss for the periods ended March 31 is as follows:

	<b>2018</b> <b>(Unaudited)</b>	<b>2017</b> <b>(Audited)</b>
Tax on pretax profit (loss) at 30%	<b>P 37,506,241</b>	P 11,395,970
Adjustments for income subjected to lower tax rates	<b>( 27,948 )</b>	( 7,003 )
Tax effects of:		
Net profit on BOI-registered activities	<b>( 32,781,803 )</b>	( 5,844,379 )
Nontaxable income	<b>( 4,242,700 )</b>	( 4,990,549 )
Nondeductible expenses	<b>6,714,180</b>	9,155,346
Unrecognized DTA on Net Operating Loss Carry Over (NOLCO)	<b>2,681,515</b>	5,698,744
Excess of optional standard deduction	<b>70,720</b>	( 649,543 )
OSD	<b>-</b>	( 213,966 )
	<b><u>P 9,920,205</u></b>	<b><u>P 10,850,154</u></b>

The net deferred tax assets of the Group and certain subsidiaries pertain to the following:

	<b>March 31,</b> <b>2018</b> <b>(Unaudited)</b>	<b>December 31,</b> <b>2017</b> <b>(Audited)</b>
NOLCO	<b>P 191,690,679</b>	P 205,236,419
Retirement benefit obligation	<b>7,826,009</b>	7,826,009
Impairment losses on trade and other receivables	<b>1,829,076</b>	1,829,076
Impairment losses on property and equipment	<b>611,054</b>	611,054
MCIT	<b>482,989</b>	482,989
Accrued expenses	<b>90,000</b>	90,000
Revaluation reserves on property and equipment	<b>( 559,367 )</b>	( 559,367 )
	<b><u>P 201,970,440</u></b>	<b><u>P 215,516,180</u></b>

The net deferred tax liabilities (DTL) of the Group are as follows:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Revaluation reserves on property and equipment	(P 247,559,158)	(P 250,001,452)
NOLCO	109,002,138	73,383,371
MCIT	8,360,599	8,040,180
Capitalized borrowing costs	( 7,165,158)	( 7,165,158)
Revaluation surplus on disposed vessel	( 3,036,983)	( 3,036,983)
Impairment losses on long-term financial assets	2,721,268	2,721,268
Provision on estimated liability	2,659,620	2,659,620
Loss on contamination	2,057,831	2,057,831
Post-employment benefit obligation	1,975,112	1,975,112
Impairment losses on trade and other receivables	730,189	730,189
Unrealized foreign currency loss – net	( 403,390)	403,390
Others	( 1,498,116)	( 1,498,116)
	<b>(P 132,156,048)</b>	<b>(P 170,537,584)</b>

The net deferred tax expense (income) reported in the consolidated statements of profit or loss and consolidated statements of comprehensive income is shown below.

	2018 (Unaudited)		2017 (Audited)	
	Profit or Loss	Other Comprehensive Income	Profit or Loss	Other Comprehensive Income
Deferred tax expense (income):				
NOLCO	( P 22,073,027)	P -	( P 16,608,872)	P -
Revaluation reserves of vessels	( 2,442,294)	-	( 15,926,585)	-
Unrealized foreign currency loss – net	-	-	6,891,535	-
Post-employment benefit obligation	-	-	( 923,688)	( 579,219)
Impairment loss on receivables	-	-	( 2,057,831)	-
MCIT	( 320,475)	-	-	-
Impairment loss on property and equipment	-	-	13,333	-
Others	-	-	307,766	-
	<b>( P 24,835,796)</b>	<b>-</b>	<b>( P 28,304,342)</b>	<b>( P 579,219)</b>

The Group is subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations or regular corporate income tax, whichever is higher.

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

Year	Original Amount	Applied in Previous Periods	Applied in Current Period	Expired Balance	Remaining Balance	Valid Until
<b>NOLCO:</b>						
2018	P 39,869,943	P -	P -	P -	P 39,869,943	2021
2017	906,451,769	-	( 23,067,992 )	-	929,519,761	2020
2016	10,638,820	-	( 10,638,820 )	-	21,277,640	2019
2015	11,642,046	-	-	-	11,642,046	2018
	<b>P 968,602,578</b>	<b>P -</b>	<b>( P 33,706,812 )<sup>F</sup></b>	<b>P -</b>	<b>P 1,002,309,390</b>	
<b>MCIT:</b>						
2018	P 320,475	P -	P -	P -	P 320,475	2021
2017	772,955	-	-	-	772,955	2020
2016	4,392,543	-	-	-	4,392,543	2019
2015	3,357,615	-	-	-	3,357,615	2018
	<b>P 8,843,588<sup>F</sup></b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P 8,843,588</b>	

Except for Trans-Asia, DGMSI and FTC, which opted to claim OSD, the Group opted to claim itemized deductions in computing for its income tax due in 2017. In 2016, the Group opted to claim itemized deductions in computing for its income tax due.

## 20. RELATED PARTY TRANSACTIONS

The Group's related parties include its parent company, related parties under common ownership, the Group's key management personnel and stockholders.

A summary of the Group's transactions with its related parties for the periods ended March 31, 2018 and 2017 and the related outstanding balances as of March 31, 2018 and December 31, 2017 is presented below.

Related Party Category	Notes	Amounts of Transactions		Outstanding Balances	
		March 31, 2018 (Unaudited)	March 31, 2017 (Audited)	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>Udenna --</b>					
Cash advances granted	20.4	P 117,618,775	P 10,000,000	P 2,545,852,784	P 2,428,234,009
Cash advances obtained	20.4	-	39,708,002	-	-
<b>P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI)</b>					
Chartering of services rendered	20.1	148,076,862	114,651,167	285,689,471	271,054,727
Fuel purchases	20.2	28,700,002	9,922,105	( 50,437,618 )	( 77,121,463 )
Cash advances obtained	20.4	-	-	( 929,026 )	( 929,026 )
Repayment of advances	20.4	-	84,830,229	-	-
Acquisition of CSC's shares	20.6	-	-	( 500,000,000 )	( 500,000,000 )
<b>Related party under common ownership</b>					
Rental income	20.3	1,267,241	1,243,859	1,704,124	1,131,385
Rental expense	20.3	683,273	591,974	( 378,191 )	( 378,191 )
Donation	20.7	90,000	90,000	( 60,000 )	( 90,000 )
Cash advances granted		33,382,044	-	93,582,828	60,200,784
Cash advances obtained	20.4	1,038,914,100	-	( 929,026 )	( 1,039,843,126 )

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

### **20.1 Charter Fees and Standby Charges**

The Group entered into chartering agreements with PPPI, which are made on the same terms as those transactions with third parties. The amounts of revenue recognized are presented as part of Charter fees and Standby charges under the Revenues section of the consolidated statements of profit or loss. The related outstanding receivable as of March 31, 2018 and December 31, 2017, is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest. Further, no impairment loss was recognized on the outstanding receivables from related parties in 2018 and 2017 based on management's assessment.

### **20.2 Fuel Purchases**

The Group purchases fuel and lubes from PPPI. Fuel consumed is included as part of Bunkering under the Cost of Sales and Services account in the consolidated statements of profit and loss (see Note 15) while the remaining fuel and lubricants inventory amounting to P88.9 million and P49.0 million as of March 31, 2018 and December 31, 2017, respectively, are included as part of the Inventories account in the consolidated statements of financial position (see Note 7). The outstanding liability arising from these transactions as of March 31, 2018 and December 31, 2017 is presented as part of Trade under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13). The outstanding liability is unsecured and non-interest bearing.

### **20.3 Rentals**

The Group entered into a one-year contract of lease covering vehicles with Valueleases, Inc., a related party under common ownership. Related rent expense is presented as part of Rentals under Other Operating Expenses in the consolidated statements of profit or loss (see Note 16). The outstanding security deposit arising from this transaction is presented as part of Security deposits under the Other Current Assets account in the consolidated statements of financial position (see Notes 8 and 11).

Furthermore, the Group bills certain related parties under common ownership for their corresponding share on the office space rent. Income from this transaction is presented as Other Income under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 18.3). The related receivable as of March 31, 2018 and December 31, 2017, is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest. No impairment loss was recognized on the outstanding receivables from these transactions as management has determined that such financial assets are fully collectible.

### **20.4 Advances to and from Related Parties**

In the normal course of business, the Group grants to and obtains unsecured, noninterest-bearing cash advances from its related parties mainly for working capital requirements and other purposes. As of March 31, 2018 and December 31, 2017, the outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position. These advances have no repayment terms and are generally payable in cash on demand or through offsetting arrangement with the related parties.

The movement of Advances to Related Parties in 2018 and 2017 follows:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Balance at beginning of period	<b>P 2,488,434,793</b>	P 194,446,078
Net advances during the period	<u><b>318,238,207</b></u>	<u>2,293,988,715</u>
Balance at end of period	<b><u>P 2,806,673,000</u></b>	<b><u>P 2,488,434,793</u></b>

Based on management's assessment, no impairment loss is recognized in 2018 and 2017 related to the advances granted to related parties.

The movement in the Advances from Related Parties account in 2018 and 2017 follows:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Balance at beginning of period	<b>P 1,040,772,152</b>	P 85,759,255
Net advances during the period	<u><b>104,129,760</b></u>	<u>955,012,897</u>
Balance at end of period	<b><u>P 1,144,901,912</u></b>	<b><u>P 1,040,772,152</u></b>

#### **20.5 Transactions with Post-employment Benefit Plan**

The Group's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in cash and cash equivalents, equity and debt securities, and UITF with fair value totaling P47.1 million as of March 31, 2018 and December 31, 2017.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 17.2.

#### **20.6 Acquisition of CSC's Shares**

On November 24, 2016, the Company acquired all of the outstanding shares of CSC from PPPI, a related party under common ownership, for a total consideration of P2.0 billion.

As of March 31, 2018 and December 31, 2017, the outstanding liability to PPPI arising from this transaction amounted to P500.0 million, which is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statement of financial position (see Note 13).

#### **20.7 Key Management Personnel Compensation**

The Group's key management personnel compensation includes short-term benefits and post-employment defined benefit and are included as part of Salaries and employee benefits under the Other Operating Expenses account in the consolidated statements of profit or loss (see Note 16).

## 20.8 Others

- (a) Certain interest-bearing loans of the Group were secured by a corporate guarantee of Udenna and by certain stockholders through a continuing surety agreement with the respective banks (see Note 12).
- (b) The Group granted donations amounting to P0.1 million in 2018 and 2017 to Udenna Foundation, Inc., a non-stock, non-profit organization, established by Udenna. This is presented as part of Miscellaneous under the Other Operating Expenses account in the consolidated statement of profit and loss (see Note 16).

## 21. EQUITY

### 21.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)	March 31, 2018 (Unaudited)	March 31, 2017 (Audited)
<b>Authorized - P1 par value:</b>	<b><u>2,000,000,000</u></b>	<u>2,000,000,000</u>	<b><u>P 2,000,000,000</u></b>	<u>P 2,000,000,000</u>
<b>Issued and outstanding –</b>				
Balance at beginning of period	<b>1,821,977,615</b>	500,000,000	<b>P 1,821,977,615</b>	P 500,000,000
Issuance and subscription during the period	<u>-</u>	<u>1,321,977,615</u>	<u>-</u>	<u>1,321,977,615</u>
Balance at end of period	<b><u>1,821,977,615</u></b>	<u>1,821,977,615</u>	<b><u>P 1,821,977,615</u></b>	<u>P 1,821,977,615</u>

As of December 31, 2016, 500,000,000 shares have been subscribed amounting to P500.0 million, of which P150.0 million have already been collected. Subscription receivable amounting to P350.0 million as of December 31, 2016 is presented under current assets in the 2016 consolidated statement of financial position and was collected in full in 2017.

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to CLC 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna (see Note 10).

On July 11, 2017, the SEC issued an Order approving the Registration Statement covering the securities which comprised the Company's outstanding capital stock. On August 8, 2017, the Company's shares were listed in the PSE and the trading of offer shares commenced. The Company offered to the public 546,593,000 primary shares at an offer price of P10.68 per share. In addition, the Group recognized the APIC amounting to P9,998,370,157, net of issuance costs amounting to P565,265,468, in the 2017 consolidated statement of financial position. As at March 31, 2018, the Company's listed shares closed at P8.02 per share.



## 21.2 Revaluation Reserves

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

	Property and Equipment (see Note 9)	AFS Financial Assets	Post-employment Benefit Obligation (see Note 17.2)	Investment in Associate and a Joint Venture (see Note 10)	Cumulative translation adjustments	Total
Balance as of January 1, 2017	P 1,287,281,993	P -	P 34,808,921	P 108,049,607	( P 223,517 )	P 1,429,917,004
Depreciation transferred to retained earnings - revalued tankers	( 30,705,174 )	-	-	-	-	( 30,705,174 )
Other comprehensive income before tax	( 30,705,174 )	-	-	-	-	( 30,705,174 )
Tax income	9,211,552	-	-	-	-	9,211,552
Other comprehensive income after tax	( 21,493,622 )	-	-	-	-	( 21,493,622 )
<b>Balance at March 31, 2018</b>	<b>P 1,265,788,371</b>	<b>P -</b>	<b>P 34,808,921</b>	<b>P 108,049,607</b>	<b>( P 223,517 )</b>	<b>P 1,408,423,382</b>
Balance as of January 1, 2017	P 1,335,232,117	P 34,725	P 35,731,425	P -	P -	P 1,370,998,267
Remeasurements of post-employment benefit obligation	-	-	( 1,317,864 )	-	-	( 1,317,864 )
Disposal of AFS financial assets	-	( 49,607 )	-	-	-	( 49,607 )
Gain on revaluation of tankers	67,317,920	-	-	108,049,607	-	175,367,527
Pre-acquisition other comprehensive income	( 55,484,964 )	-	-	-	-	( 55,484,964 )
Currency exchange differences on translating financial statements of foreign operations	-	-	-	-	( 223,517 )	( 223,517 )
Depreciation transferred to retained earnings - revalued tankers	( 65,518,941 )	-	-	-	-	( 65,518,941 )
Other comprehensive income before tax	( 53,685,985 )	( 49,607 )	( 1,317,864 )	108,049,607	( 223,517 )	52,772,634
Tax income (expense)	5,735,861	14,882	395,360	-	-	6,146,103
Other comprehensive income after tax	( 47,950,124 )	( 34,725 )	( 922,504 )	108,049,607	( 223,517 )	58,918,737
<b>Balance at December 31, 2017</b>	<b>P 1,287,281,993</b>	<b>P -</b>	<b>P 34,808,921</b>	<b>P 108,049,607</b>	<b>( P 223,517 )</b>	<b>P 1,429,917,004</b>

## 21.3 Other Reserves

Other reserves pertain to the excess of the acquisition price over the net identifiable assets of CSC amounting to P1.0 billion. The business combination entered on December 12, 2016 is accounted for under the pooling-of-interest method (see Note 20.6).

## 22. EARNINGS PER SHARE

Basic and diluted earnings for profit attributable to the Company's stockholders are computed as follows:

	<b>2018</b> <b>(Unaudited)</b>	<b>2017</b> <b>(Audited)</b>
Net profit	<b>P 115,100,598</b>	P 27,136,411
Divided by weighted average shares outstanding	<b><u>1,821,977,615</u></b>	<u>500,000,000</u>
Earnings per share – basic and diluted	<b><u>P 0.06</u></b>	<u>P 0.05</u>

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2018 and December 31, 2017; hence, diluted earnings per share is equal to the basic earnings per share.

## 23. COMMITMENTS AND CONTINGENCIES

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

### 24.1 Charter Agreements

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

### 24.2 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering certain office space. The leases have terms ranging from one to five years, with renewal options, and include annual escalation from 5.00% to 10.00%. The future minimum lease receivables under these agreements are presented below.

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Within one year	P 919,465	P 919,465
More than one year but not more than five years	<u>635,685</u>	<u>635,685</u>
	<b><u>P 1,555,150</u></b>	<b><u>P 1,555,150</u></b>

Rent income amounted to P1.9 million and P1.8 million in 2018 and 2017, respectively, and is presented as part of Other income account under Other Income (Charges) – net section of the consolidated statement of profit and loss(see Note 18.3).

### 24.3 Operating Lease Commitments – Group as Lessee

The Company has finance leases covering certain machinery and equipment with terms maturing in 2021. The future minimum lease payment (MLP) under finance leases together with the present value (PV) of net minimum lease payments (NMLP) as of March 31, 2018 follows:

	<u>MLP</u>	<u>PV of NMLP</u>
Within one year	P 15,046,656	P 11,523,776
After one year but not more than five years	<u>48,086,552</u>	<u>44,111,557</u>
	<b><u>P 63,133,208</u></b>	<b><u>P 55,635,333</u></b>

The Group is a lessee under an operating lease covering certain office and warehouse spaces. The lease has a term of five years commencing on June 10, 2009, with renewal options, and includes annual escalation rate of 3.0% on the second year and 6.0% from third to fifth year. The future minimum lease payables under this operating lease are as follows as of:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Within one year	P 20,217,519	P 4,177,691
More than one year but not more than five years	<u>111,492,038</u>	-
	<u>P 131,709,557</u>	<u>P 4,177,691</u>

Total rentals from these operating leases amounted to P18.1 million and P6.5 million and is included as part of Rentals under the Cost of Sales and Services and Other Operating Expenses account in the consolidated statement of profit or loss (see Notes 15 and 16).

The related security deposit on this operating lease amounted to P5.7 million and P5.1 million as of March 31, 2018 and December 31, 2017, respectively, and is shown as Security deposits under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 11).

#### **24.4 Legal Claims**

Trans-Asia is a defendant in an ongoing litigation related to the sinking of MV Asia South Korea. The Regional Trial Court had provided a decision to award the plaintiffs of the case a total of P8.9 million for four casualties and 11 survivors. The Group's legal counsel has advised that it is probable that Trans-Asia will be found liable; hence, a provision for the claim has been made in the interim consolidated financial statements. The related liability is presented as part of Provisions under Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

Various legal and labor claims were brought against the Trans-Asia in 2017. Management considers these claims to be unjustified and the probability that these will require settlement at the Trans-Asia's expense is remote.

#### **24.5 Unused Lines of Credit**

As of March 31, 2018 and December 31, 2017, the Group has unused lines of credit amounting to P497.0 million and P236.0 million, respectively.

#### **24.6 Others**

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations which have not been reflected in the Group's interim consolidated financial statements. Management is of the opinion that losses, if any, from other commitments and contingencies will not have material effects on the Group's interim consolidated financial statements.

## 25. GOODWILL

The fair value of the net assets of BMI and MI as of the acquisition date amounted to P21.6 million and P1.1 million, respectively. As such, goodwill amounting to P10.4 million for BMI and P63.9 million for MI representing excess of purchase price over the fair value of their respective net assets and net liability was recognized in the consolidated statements of financial position.

In 2017, the Company acquired 100% ownership interest in UIBV, WSI and Starlite for a total cost of P6,048.0 million, P600.0 million and P1,677.8 million, respectively. The fair values of the identifiable assets acquired and liabilities assumed from these subsidiaries as at the date of acquisition were as follows:

	UIBV		WSI		Starlite		Total	
Cash and cash equivalents	P	25,508,842	P	65,588,642	P	88,983,637	P	180,081,121
Trade and other receivables		765,659		63,365,673		844,057,036		908,188,368
Prepayments and other current assets		-		4,936,396		89,270,689		94,207,085
Property and equipment		-		13,864,952		2,301,692,380		2,315,557,332
Investment in an associate		2,104,212,296		-		-		2,104,212,296
Other non-current assets		-		5,614,686		11,470,799		17,085,485
Trade and other payables		-	(	18,282,601)	(	360,025,772)	(	378,308,374)
Interest-bearing loans		-	(	7,561,112)	(	2,446,689,650)	(	2,454,250,762)
Other non-current liabilities		-	(	6,025,955)	(	18,663,921)	(	24,689,876)
<b>Net Assets</b>	<b>P</b>	<b>2,130,486,797</b>	<b>P</b>	<b>121,500,681</b>	<b>P</b>	<b>510,095,198</b>	<b>P</b>	<b>2,762,082,676</b>

The excess of acquisition costs over the net assets of UIBV, WSI and Starlite amounting to P3,917.4 million, P478.5 million and P1,167.7 million, respectively, is presented as part of Goodwill account in the 2017 consolidated statement of financial position. The goodwill recognized comprises the value of expected synergies from the acquisition of the subsidiaries.

The revenues and net profit recognized by UIBV, WSI and Starlite at the date of acquisition were as follows:

	UIBV		WSI		Starlite		Total	
Revenues	P	-	P	192,467,905	P	786,745,751	P	979,213,656
Net profit	P	-	P	45,611,439	P	59,764,337	P	105,375,776

Based on management's assessment, no impairment of goodwill is required to be recognized in 2018 and 2017.

## 26. SEGMENT INFORMATION

### 26.1 Business Segments

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

- (a) Shipping services is involved in the conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind;

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

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

### **26.2 Segment Assets and Segment Liabilities**

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

### **26.3 Intersegment Transactions**

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation and combination in 2017.

### **26.4 Analysis of Segment Information**

The tables presented in the succeeding page present revenue and profit information regarding business segments for the periods ended March 31, 2018 and 2017 and certain asset and liability information regarding segments as at March 31, 2018 and December 31, 2017.

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
<b>2018</b>								
<b>SEGMENT RESULTS</b>								
Sales to external customers	P -	P 427,613,678	P 83,268,362	P 610,888,064	P 57,957,318	P -	P -	P 1,179,727,422
Intersegment sales	68,146,523	-	-	-	-	73,037,911	( 141,184,434)	-
Total revenues	68,146,523	427,613,678	83,268,362	610,888,064	57,957,318	73,037,911	( 141,184,434)	1,179,727,422
Cost of sales and services	-	254,138,590	42,676,747	433,664,754	29,704,643	71,523,846	( 73,037,911)	758,670,669
Other operating expenses	45,696,164	71,608,938	14,221,595	86,046,549	12,650,503	11,810,011	( 68,146,523)	173,887,237
Operating profit (loss)	22,450,359	101,866,150	26,370,020	91,176,761	15,602,172	( 10,295,946)	-	247,169,516
Finance costs	( 15,533,813)	( 83,708,631)	( 2,958,078)	( 66,746,628)	( 1,115,548)	( 133,443)	-	( 170,196,142)
Finance income	5,253,695	89,973	153,768	201,342	1,013,427	2,679	-	6,714,884
Share in net income of an associate	11,093,284	-	-	-	-	-	-	11,093,284
Other income	-	2,413,691	-	27,825,570	-	-	-	30,239,261
Profit (loss) before tax	23,263,525	20,661,182	23,565,710	52,457,045	15,500,051	( 10,426,710)	-	125,020,803
Tax expense (income)	10,140,801	( 22,581,245)	7,140,046	10,210,476	4,650,016	360,111	-	9,920,205
Net profit (loss)	P 13,122,724	P 43,242,427	P 16,425,664	P 42,246,569	P 10,850,035	( P 10,786,821)	P -	P 115,100,598
<b>SEGMENT ASSETS AND LIABILITIES</b>								
Total assets	P 17,059,018,159	P 12,917,070,946	P 1,084,807,545	P 7,161,966,545	P 185,137,230	P 83,679,964	( P 10,237,251,623)	P 28,254,428,766
Total liabilities	P 2,892,596,162	P 9,074,220,757	P 729,089,214	P 6,044,086,871	P 47,626,616	P 80,984,063	( P 3,886,663,927)	P 14,981,939,756
<b>2017</b>								
Sales to external customers	P -	P 262,807,995	P 63,944,044	P 289,925,436	P -	P -	P -	P 616,677,475
Intersegment sales	-	14,123,546	2,913,214	-	-	47,576,243	( 64,613,003)	-
Total revenues	-	276,931,541	66,857,258	289,925,436	-	47,576,243	( 64,613,003)	616,677,475
Cost of sales and services	-	266,657,221	32,584,717	159,020,306	-	40,889,161	( 50,489,457)	448,661,948
Other operating expenses	-	38,109,223	9,582,056	33,374,519	-	9,615,401	( 21,051,978)	69,629,221
Operating profit (loss)	-	( 27,834,903)	24,690,485	97,530,611	-	( 2,928,319)	6,928,432	98,386,306
Finance costs	-	( 95,760,511)	( 1,545,242)	( 7,885,483)	-	( 146,903)	-	( 105,338,139)
Finance income	-	1,010,892	320,841	570,699	-	2,281	-	1,904,713
Other income	-	9,096,031	-	40,624,785	-	241,301	( 6,928,432)	43,033,685
Profit (loss) before tax	-	( 113,488,491)	23,466,084	130,840,612	-	( 2,831,640)	-	37,986,565
Tax expense (income)	-	( 24,930,888)	6,176,245	30,163,255	-	( 588,458)	-	10,850,154
Net profit (loss)	-	( P 88,557,603)	P 17,289,839	P 100,677,357	-	( P 2,273,182)	P -	P 27,136,411
<b>SEGMENT ASSETS AND LIABILITIES</b>								
Total assets	P 18,951,605,041	P 11,412,401,836	P 853,196,994	P 6,338,410,534	P 168,650,550	P 64,814,514	( P 11,409,465,150)	P 26,379,614,319
Total liabilities	P 4,684,787,143	P 7,772,852,340	P 516,755,576	P 5,261,321,618	P 37,821,516	P 64,171,046	( P 5,115,483,332)	P 13,222,225,907

## 27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to its financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 28. The main types of risks are market risk, credit risk and liquidity risk.

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

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

### 27.1 Market Risks

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

#### (a) Foreign Currency Risk

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

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

U.S. dollar denominated financial assets and financial liabilities, translated into Philippine pesos at the March 31, 2018 and December 31, 2017 closing rates follow:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Financial assets	<b>P 156,300,728</b>	P 191,301,896
Financial liabilities	<b>( 799,192,492)</b>	( 834,908,373)
Net exposure	<b>(P 642,891,764)</b>	(P 643,606,477)

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P47.1 million and P69.3 million in 2018 and 2017, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax in 2018 and 2017 by the same amount. This sensitivity of the net result for the period assumes a +/- 7.33% and +/-10.77% change of the Philippine peso/U.S. dollar exchange rate for the periods ended March 31, 2018 and December 31, 2017, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous three months for 2018 and twelve months in 2017 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

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

*(b) Interest Rate Sensitivity*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At March 31, 2018 and December 31, 2017, the Group is exposed to changes in market interest rates through cash in bank and certain bank borrowings which are subject to variable interest rates (see Note 12). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.

Cash in banks are tested on a reasonably possible change of +/- 0.64% and +/- 0.54% in 2018 and 2017, respectively. Banks loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.24% and +/- 0.23% in 2018 and 2017, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous nine months estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/- P1.0 million and +/-P18.6 million for the periods ended March 31, 2018 and December 31, 2017, respectively.

## 27.2 Credit Risk

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

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. Also, it is the Group's policy that all customers are subject to credit verification procedures.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position as summarized below.

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	4	<b>P 962,856,356</b>	P 1,441,704,190
Trade and other receivables – net (excluding advances to officers and employees)	5	<b>1,172,951,920</b>	857,419,350
Restricted cash	8, 11	-	31,043,312
Security deposits	8, 11	<b>22,183,593</b>	17,852,950
Advances to related parties	20.4	<b><u>2,806,673,000</u></b>	<u>2,488,434,793</u>
		<b><u>P 4,964,664,869</u></b>	<u>P 4,836,454,595</u>

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

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

In respect of trade and other receivables, 37.20% and 31.61% of the Group's outstanding receivables as of March 31, 2018 and December 31, 2017, respectively, represent claims from related parties. Based on historical information about default rates, management considers the credit quality of trade and other receivables that are not past due or impaired to be good.

Financial assets that are past due but not impaired pertain only to trade and other receivables as detailed below.

	<u>2018</u>	<u>2017</u>
Not more than three months	<b>P 569,538,998</b>	P 271,416,774
More than three months but not more than one year	<b>64,281,655</b>	77,355,212
More than one year	<b><u>134,117,212</u></b>	<u>118,815,142</u>
	<b><u>P 767,937,865</u></b>	<u>P 467,587,128</u>

The credit risk for security and other deposits is also considered negligible as the Group has ongoing lease agreements with the counterparty and the latter is considered to be with sound financial condition.



### 27.3 Liquidity Risk

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

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

As at March 31, 2018, the Group's financial liabilities have contractual maturities which are presented below.

	Notes	Current		Non-current	
		Within Six Months	Six to Twelve Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 2,769,765,833	P 1,551,958,701	P 6,846,018,596	P 815,503,270
Trade and other payables (except for government-related obligations)	13	1,532,940,582	-	-	-
Advances from related parties	20.4	572,450,956	572,450,956	-	-
		<b>P 4,875,157,371</b>	<b>P 2,124,409,657</b>	<b>P 6,846,018,596</b>	<b>P 815,503,270</b>

As at December 31, 2017, the Group's financial liabilities have contractual maturities which are presented below.

	Notes	Current		Non-current	
		Within Six Months	Six to Twelve Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 2,852,209,328	P 1,626,989,697	P 6,652,104,772	P 805,378,747
Trade and other payables (except for government-related obligations)	13	1,222,209,318	-	-	-
Advances from related parties	20.4	520,386,076	520,386,076	-	-
		<b>P 4,594,804,722</b>	<b>P 2,147,375,773</b>	<b>P 6,652,104,772</b>	<b>P 805,378,747</b>

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

## 28. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 28.1 Carrying Amounts and Fair Values by Category

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

	Notes	March 31, 2018		December 31, 2016	
		Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<i>Financial Assets:</i>					
<i>Loans and Receivables</i>					
Cash and cash equivalents	4	P 962,856,356	P 962,856,356	P 1,441,704,190	P 1,441,704,190
Trade and other receivables - net	5	1,172,951,920	1,172,951,920	857,419,350	857,419,350
Restricted cash	8, 11	-	-	31,043,312	31,043,312
Security deposits	8, 11	22,183,593	22,183,593	17,852,950	17,852,950
Advances to related parties	20.4	2,806,673,000	2,806,673,000	2,488,434,793	2,488,434,793
<i>Financial Assets at FVTPL -</i>					
Equity securities	6	3,947,736	3,947,736	3,947,736	3,947,736
		<b>P 4,968,612,605</b>	<b>P 4,968,612,605</b>	<b>P 4,840,402,331</b>	<b>P 4,840,402,331</b>
<i>Financial Liabilities:</i>					
<i>At amortized cost:</i>					
Trade and other payables	13	P 1,532,940,582	P 1,532,940,582	P 1,222,209,318	P 1,222,209,318
Interest-bearing loans	12	11,643,319,347	11,643,319,347	10,332,160,635	10,332,160,635
Advances from related parties	20	1,144,901,912	1,144,901,912	1,040,772,152	1,040,772,152
		<b>P 14,321,161,841</b>	<b>P 14,321,161,841</b>	<b>P 12,595,142,105</b>	<b>P 12,595,142,105</b>

See Notes 2.5 and 2.10 for the description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 26.

### 28.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2018 and 2017 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instruments may have the option to settle on a net basis in the event of default of one of the parties through approval by the respective BOD and stockholders of both parties or upon instruction by the parent company. In addition, the Group's outstanding interest-bearing loans from certain banks can be potentially set off to the extent of the Group's outstanding cash deposited in the same banks.

## 29. FAIR VALUE MEASUREMENTS AND DISCLOSURES

### 29.1 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

### 29.2 Financial Instruments Measured at Fair Value

The Group's financial instruments measured at fair value includes the Financial assets at FVTPL amounting to P3.9 million and is presented in the consolidated statements of financial position on a recurring basis.

These are included in Level 1 as the prices of the shares were valued based on their market prices quoted in the Philippines and U.S. stock exchanges at the end of each reporting period.

The Group has no financial liabilities measured at fair value as of December 31, 2017 and December 31, 2016.

### 29.3 Financial Instruments Measured at Amortized Cost but for which Fair Value is Disclosed

The tables below summarize the fair value hierarchy of the Group's financial assets and financial liabilities as of March 31, 2018 and December 31, 2017, which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

	2018			
	Level 1	Level 2	Level 3	Total
<i>Financial Assets:</i>				
<i>Loans and Receivables</i>				
Cash and cash equivalents	P 962,856,356	P -	P -	P 962,856,356
Trade and other receivables - net	-	-	1,172,951,920	1,172,951,920
Restricted cash	-	-	-	-
Security deposits	-	-	22,183,593	22,183,593
Advances to related parties	-	-	2,806,673,000	2,806,673,000
	<b>P 962,856,356</b>	<b>P -</b>	<b>P 4,001,808,513</b>	<b>P 4,964,664,869</b>
<i>Financial Liabilities:</i>				
<i>At amortized cost:</i>				
Trade and other payables	P -	P -	P 1,532,940,582	P 1,532,940,582
Interest-bearing loans	-	-	11,643,319,347	11,643,319,347
Advances from related parties	-	-	1,144,901,912	1,144,901,912
Obligations under finance lease	-	-	-	-
	<b>P -</b>	<b>P -</b>	<b>P 14,321,161,841</b>	<b>P 14,321,161,841</b>

	2017			
	Level 1	Level 2	Level 3	Total
<i>Financial Assets:</i>				
<i>Loans and Receivables</i>				
Cash and cash equivalents	P 1,441,704,190	P -	P -	P 1,441,704,190
Trade and other receivables - net	-	-	857,419,350	857,419,350
Restricted cash	31,043,312	-	-	31,043,312
Security deposits	-	-	17,852,950	17,852,950
Advances to related parties	-	-	2,488,434,793	2,488,434,793
	<u>P 1,472,747,502</u>	<u>P -</u>	<u>P 3,363,707,093</u>	<u>P 4,836,454,595</u>
<i>Financial Liabilities:</i>				
<i>At amortized cost:</i>				
Trade and other payables	P -	P -	P 1,222,209,318	P 1,222,209,318
Interest-bearing loans	-	-	10,332,160,635	10,332,160,635
Advances from related parties	-	-	1,040,772,152	1,040,772,152
	<u>P -</u>	<u>P -</u>	<u>P 12,595,142,105</u>	<u>P 12,595,142,105</u>

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

#### **29.4 Fair Value Measurements of Non-financial Assets**

The fair values of the Group's vessels, included as part of Property and Equipment account, were determined based on the appraisal reports of a professional and independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Note 10). To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the vessels. In estimating the fair value of these vessels, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's non-financial assets indicated above is their current use.

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

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.

### 30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

	<u>2018</u>	<u>2017</u>
Total liabilities	<b>P 14,981,939,756</b>	P13,222,225,907
Total equity	<b><u>13,272,489,010</u></b>	<u>13,157,388,412</u>
Debt-to-equity ratio	<b><u>1.13 : 1.00</u></b>	<u>1.00 : 1.00</u>

The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not more than 3.00 : 1.00. This is in line with the Group's bank covenants related to its borrowings.

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

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

### Comparable discussion on Material Changes in Results of Operations for the Three Months Ended March 31, 2018 vs. March 31, 2017.

Amounts in millions	Q1 2018		P		% Change
Revenues	P	1,180	P	617	91%
Costs of Sales and Services		759		449	69%
Gross Profit		421		168	151%
Other Operating Expenses		174		70	149%
Operating Income		247		98	152%
Other Charges	(	122)	(	60)	103%
Profit Before Tax		125		38	229%
Tax Expense		10		11	-9%
<b>Net Profit</b>	<b>P</b>	<b>115</b>	<b>P</b>	<b>27</b>	<b>326%</b>
<b>Add back:</b>					
Tax Expense		10		11	-9%
Interest Expense		130		87	49%
Depreciation and Amortization		224		166	35%
Less: Interest Income	(	1)	(	1)	0%
<b>EBITDA</b>	<b>P</b>	<b>478</b>	<b>P</b>	<b>290</b>	<b>65%</b>

Chelsea Logistics Holdings Corp. and subsidiaries (CLC or the Group) posted a Net Profit of ₱115 million for the 1st quarter of 2018. This represents a 326% increase to the Net Profit of ₱27 million during the same period in 2017. The improvement in CLC's profitability is a result of the consolidation of the acquired subsidiaries, namely: Worklink Services, Inc. (Worklink) and Starlite Ferries, Inc. (Starlite) in November 2017 following the Group's initial public offering on August 8, 2017.

Similarly, EBITDA grew by 65% from ₱290 million in 2017 to ₱478 million in 2018.

### Revenues

Presented below is the comparison of the Group's consolidated revenues for the three (3) months ended March 31, 2018 as compared to the pro-forma combined revenues for the same period in 2017.

Amounts in millions	Consolidated		Pro-Forma		% Change
	Q1 2018		Combined		Q1 2017
Freight	P	490	P	270	81%
Tankering		307		262	17%
Passage		218		192	14%
Tugboats		83		64	30%
Logistics		58		56	4%
Others		24		6	300%
	<b>P</b>	<b>1,180</b>	<b>P</b>	<b>850</b>	<b>39%</b>

Based on the comparison of actual first quarter 2018 performance against pro-forma of first quarter 2017, the Group's revenues increased by ₱330 million or 39% to ₱1.18 billion from ₱850 million. Each business segment of the Group showed robust growth and improved profitability. The freight segment increased by 81% from ₱270 million for the first three (3) months of 2017 to ₱490 million during the same period in 2018 as a result of the acquisition of three freighters in November 2017. Similarly, the chartering revenues increased from ₱262 million to ₱307 million as a result of higher freight rates charged for farther distance of port calls during the same period. On the other hand, passage revenues increased by 14% which was attributable to the operations of MV Starlite Eagle which started commercial operations in April 2017 plying the Roxas – Caticlan route.

Tugboat fees improved by 30% for the three (3) months ended March 31, 2018 from ₱64 million to ₱83 million. The increase in tugboat fees was primarily due to additional customers acquired during the last quarter of 2017.

### Costs and Expenses

A breakdown of the Group's consolidated Costs of Sales and Services for the three (3) months ended March 31, 2018 as compared to the pro-forma combined costs of sales and services for the same period in 2017 is shown below.

Amounts in millions	Consolidated		Pro-Forma		% Change
	Q1 2018		Q1 2017		
Bunkering	P	218	P	131	66%
Depreciation and amortization		217		191	14%
Salaries and employee benefits		128		86	49%
Port expenses		41		40	3%
Repairs and maintenance		33		24	38%
Insurance		30		31	-3%
Supplies		18		20	-10%
Charter hire costs		15		27	-44%
Outside services		15		20	-25%
Delivery		11		10	10%
Rentals		9		4	125%
Taxes and licenses		5		5	0%
Utilities and communication		4		4	0%
Transportation and travel		4		5	-20%
Cost of inventories sold		2		2	0%
Technology		2		1	100%
Professional fees		1		-	100%
Commission		1		2	-50%
Miscellaneous		5		7	-29%
	P	759	P	610	24%

As can be seen from the table above, the most significant increases in Costs of Sales and Services came from increased bunkering costs, depreciation and amortization and crew salaries and employee benefits. Bunkering costs grew 66% from ₱131 million to ₱218 million due to additional vessels deployed and increased prices of fuels. Depreciation and amortization and crew salaries and employee benefits increased as a result of the acquisition of four (4) additional vessels.

On the other hand, the details of other Operating Expenses for the three (3) months ended March 31, 2018 as compared to the pro-forma combined other Operating Expenses for the same period in 2017 are as follows:

Amounts in millions	Consolidated		Pro-Forma		% Change
	Q1 2018		Q1 2017		
Salaries and employee benefits	<b>P</b>	<b>54</b>	P	41	32%
Taxes and licenses		<b>41</b>		14	193%
Rentals		<b>10</b>		8	25%
Outside services		<b>10</b>		5	100%
Transportation and travel		<b>7</b>		5	40%
Professional fees		<b>7</b>		3	133%
Depreciation and amortization		<b>7</b>		7	0%
Supplies		<b>4</b>		2	100%
Utilities and communication		<b>4</b>		1	300%
Repairs and maintenance		<b>2</b>		1	100%
Representation and entertainment		<b>2</b>		2	0%
Commission		<b>2</b>		1	100%
Dues and membership		<b>1</b>		1	0%
Insurance		<b>1</b>		1	0%
Miscellaneous		<b>22</b>		12	83%
	<b>P</b>	<b>174</b>	P	104	67%

Other Operating Expenses increased from ₱104 million to ₱174 million due to increases in salaries and employee benefits, outside services, professional fees, utilities and communication and supplies as a result of the Group's continued expansion. In addition, the Group paid additional taxes and licenses related to conversion of certain loans, and filing fees related to incorporation of new companies. Finally, Miscellaneous Expenses increased as a result of fines and penalties paid to the Philippine Competition Commission amounting to ₱20 million related to the acquisition of a significant interest in the 2Go Group, Inc.

#### **Net Profit**

The Group's Net Profit for the three (3) months ended March 31, 2018 amounted to ₱115 million as compared to only ₱27 million for the same period in 2017. The Group was able to grow the profit primarily from its expansion programs and optimization of synergies between the operating entities within the Group. In addition, the Group also recognized equity share in the net income of 2Go Group, Inc. amounting to ₱11 million.

Finance costs amounting to ₱170 million include ₱34 million of unrealized foreign currency exchange losses resulting from the Group's foreign currency denominated loans.



## Financial Condition

(March 31, 2018 vs. December 31, 2017)

Amounts in millions	Mar. 31, 2018	Dec. 31, 2017	% Change
Current Assets	P 7,880	P 6,922	14%
Non-Current Assets	20,375	19,458	5%
<b>Total Assets</b>	<b>P 28,255</b>	<b>P 26,380</b>	<b>7%</b>
Current Liabilities	P 7,885	P 6,101	29%
Non-Current Liabilities	7,097	7,121	0%
<b>Total Liabilities</b>	<b>P 14,982</b>	<b>P 13,222</b>	<b>13%</b>
<b>Total Equity</b>	<b>P 13,273</b>	<b>P 13,158</b>	<b>1%</b>

Total resources of the Group grew to ₱28,255 million as of March 31, 2018 from ₱26,380 million as of December 31, 2017. The increase was brought about by the Group's continued expansion programs through the acquisition of various capital asset expenditures.

Cash and cash equivalents declined by 33% from ₱1,442 million as of December 31, 2017 to only ₱963 million as of March 31, 2018 as a result of continued disbursement of the Group's proceeds from its initial public offering in August 2017.

Trade and other receivables surged by 37% from ₱876 million as of December 31, 2017 to ₱1,202 million as of March 31, 2018 primarily as a result of timing of collections from customers.

Increase in inventories of approximately ₱111 million was due to acquisition of spare parts inventories in preparation for drydocking of certain vessels, and additional fuel and lubricants inventory in anticipation of increased fuel prices as a result of the implementation of the Tax Reform for Acceleration and Inclusion. Spare parts inventories rose from ₱88 million as of December 31, 2017 to ₱139 million as of March 31, 2018 while fuel and lubricants rose from ₱49 million to ₱89 million as of the end of the reporting period.

Advances to related parties increased significantly from ₱2,488 million as of December 31, 2017 to ₱2,807 million as of March 31, 2018 as a result of additional advances granted to related parties for working capital requirements and other purposes. These advances are expected to be settled in cash or through offsetting arrangements with the related parties.

The increase in Other Current Assets from ₱1,926 million as of December 31, 2017 to ₱2,607 million as of March 31, 2018 was primarily the result of advance payments paid for the acquisition of a medium-range tanker. The medium-range tanker was subsequently delivered on April 25, 2018.

Property and equipment grew from ₱11,000 million as of December 31, 2017 to ₱11,896 million as a result of additional vessel acquisitions during the first quarter of 2018. These vessels are currently undergoing repairs and/or drydocking and are expected to be in operations starting the second quarter of the current year.

The increase in Investments in an associate and a joint venture from ₱2,269 million as of December 31, 2017 to ₱2,280 million as of March 31, 2018 was due to the recognition of the Company's share in net income of 2Go Group, Inc.

Trade and other payables increased by ₱368 million from ₱1,381 million as of December 31, 2017 to ₱1,749 million as of March 31, 2018. The increase in Trade and other payables was primarily due to timing of payment of trade payables.

Interest-bearing loans significantly increased by 12% from ₱10,332 million as of December 31, 2017 to ₱11,643 million as of March 31, 2018 primarily as a result of additional loan drawdown during the period as part of the Group's continued expansion programs.

The slight increase in Advances from Related Parties was due to unsecured, noninterest-bearing cash advances from entities under common ownership.

The increase in Income Tax Payable was primarily due to the tax due for the first quarter of 2018. Note that income tax payable for the year ended December 31, 2017 remains unpaid as of March 31, 2018 as these were only paid in April 2018.

The significant decline in deferred tax liabilities by 35% was mainly due to the tax effect of depreciation on revaluation increment related to vessels.

The increase in equity, primarily retained earnings, was due to the results of the Company's financial performance for the three (3) months ended March 31, 2018.

#### **Key Performance Indicators and Relevant Ratios**

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Current ratio	1.00	1.13
Debt-to-equity ratio	1.13	1.00
Book value per share	7.28	7.22
EBITDA margin	41%	44%
Return on equity	0.87%	
Earnings per share	0.06	

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

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

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

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

As discussed in the Note 13 of the interim consolidated financial statements, certain subsidiaries of the Company have breached its financial covenants with lender banks. Management, however,

believes that such breach will not have an adverse effect on the Company's financial condition given their history of prompt payment and Management's excellent relationships with the lender banks. Except for contingencies, the Company is not aware of other events that will materially trigger direct or contingent financial obligation.

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

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

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

The Company estimates capital expenditures for the year 2018 to amount to ₱4,500 million for various acquisition of land and related development costs, acquisition of vessels, vessel equipment and upgrade of facilities. The purchase and/or construction of these capital expenditures will be financed primarily through the proceeds from the Company's initial public offering and through debt.

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

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

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

The Company is not aware of any element of income or loss that did not arise from continuing operations.

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

The RoPax segment transports passengers and cargoes within Philippine territorial waters and/or on the high seas. Due to the seasonal nature of this segment, higher passage revenues and operating profits are usually experienced in the summer months of the year (March, April and May), school holidays (October and November) and Christmas holidays (December and January) rather than in the other months of the year. Freight revenues, on the other hand, are higher at the last quarter of the year rather than in the early months.

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

## PART II OTHER INFORMATION

1. Fortis Tugs Corporation accepted the delivery of MTug Ena Sumo, MTug Hae Kang and MTug Yun Tong on 10 February, 22 February and 12 April, respectively. These tugboats will be renamed as Fortis X, Fortis VIII and, Fortis IX, respectively.
2. On 17 February 2018, Trans-Asia Shipping Lines, Incorporated (Trans-Asia) accepted the delivery of MV Sakura, which was renamed MV Trans-Asia 18.
3. On 23 March 2018, Trans-Asia accepted the delivery of MV Meratus Tangguh 2 (renamed MV Trans-Asia 17). Subsequently, on 20 April 2018, Trans-Asia accepted its sister vessel, MV Meratus Tangguh 1 (renamed MV Trans-Asia 16).
4. On 31 March 2018, Chelsea Shipping Corp. accepted the delivery of Floating Dock Wan Ho to be renamed as Chelsea Exuberance.
5. On 19 March 2018, the Company's Board of Directors and shareholders approved the (1) expansion of the Primary Purpose of the Corporation as stated in its Articles of Incorporation to include the authority to engage in the business of development, management and operation of infrastructure facilities and systems; (2) creation of Preferred Shares; and, (3) amendment of the Second and Seventh Articles of the Articles of Incorporation for these purposes.
6. On 25 April 2018, Chelsea Shipping Corp. accepted delivery of a medium range tanker with a t 29,877 GRT. This medium-range tanker will be renamed as MT Chelsea Providence and will primarily handle the importation requirements of Phoenix Petroleum Philippines, Inc.

**SIGNATURES**

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

**CHELSEA LOGISTICS HOLDINGS CORP.**

By:



**DENNIS A. UY**

*Chairman of the Board*

~~CHRYSS ALFONSUS V. DAMUY~~

*President and CEO*

~~IGNACIA S. BRAGA IV~~

*Vice President - Finance*

Signed this 8th day of May 2018