COVER SHEET

SEC Registration Number

CS201619734

Company Name

CHELSEA LOGISTICS HOLDINGS CORP.

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

STELLA HIZON REYES ROAD, BO. PAMPANGA, DAVAO CITY PHILIPPINES 8000

Form Type	Department requiring the report	Secondary License Type, if applicable
17-Q		NA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
www.chelsealogistics.ph	+632 403-4015	N/A

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
8	Last Monday of March	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
IGNACIA S. BRAGA IV	igna.braga@udenna.ph	+632 403-4015	

Contact Person's Address

26th Floor, Fort Legend Tower, 3rd Ave. corner 31st St., Bonifacio Global City 1634 Taguig City

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 **30 September 2017**

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. Pampanga, 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
COMMON	**1,821,977,615**

Amount of debt outstanding: **PHP13,188,381,713**

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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(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Notes	**September 30, 2017 (Unaudited)**	December 31, 2016 (Audited)
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	4	**P 4,571,873,436**	P 508,940,431
Trade and other receivables - net	5	**1,088,369,352**	944,516,250
Subscription receivable	22	**-**	350,000,000
Financial assets at fair value through profit or loss	6	**11,279,636**	11,279,636
Available-for-sale financial assets	9	**3,065,089**	3,065,089
Inventories	7	**152,848,817**	78,874,626
Advances to related parties	21	**6,290,067,914**	194,446,078
Other current assets	8	**1,490,835,079**	542,685,688
Total Current Assets		**13,608,339,323**	2,633,807,798
NON-CURRENT ASSETS			
Property and equipment - net	10	**8,223,466,496**	7,818,568,442
Investments in an associate and a joint venture	11	**2,322,856,505**	45,560,925
Goodwill	25	**3,991,726,357**	74,294,814
Post-employment benefit asset	18	**520,829**	4,873,519
Deferred tax assets	20	**37,473,553**	7,300,178
Other non-current assets - net	12	**198,512,447**	175,499,300
Total Non-current Assets		**14,774,556,187**	8,126,097,178
TOTAL ASSETS		**P 28,382,895,510**	P 10,759,904,976

	Notes	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	14	**P 1,435,447,035**	P 1,358,754,469
Interest-bearing loans	13	**8,500,007,154**	5,029,479,642
Advances from related parties	21	**118,267,305**	85,759,255
Advances from customers	2	**14,484,000**	14,484,000
Deposits for future stock subscription	15	**50,000,000**	50,000,000
Income tax payable		**22,094,506**	75,923,029
Total Current Liabilities		**10,140,300,000**	6,614,400,395
NON-CURRENT LIABILITIES			
Interest-bearing loans	13	**4,688,374,559**	2,343,302,536
Post-employment benefit obligation	18	**4,046,544**	4,046,544
Deferred tax liabilities - net	20	**221,597,748**	223,354,572
Other non-current liabilities		**3,502,643**	14,131,942
Total Non-current Liabilities		**4,917,521,494**	2,584,835,594
Total Liabilities		**15,057,821,494**	9,199,235,989
EQUITY			
Capital stock	22	**1,821,977,615**	500,000,000
Additional paid-in capital		**10,003,811,195**	-
Revaluation reserves	22	**1,354,183,242**	1,370,998,267
Other reserves	22	**(1,058,033,280)**	(1,058,033,280)
Retained earnings		**1,203,135,244**	747,704,000
Total Equity		**13,325,074,016**	1,560,668,987
TOTAL LIABILITIES AND EQUITY		**P 28,382,895,510**	P 10,759,904,976

See Notes to Interim 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 NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2017
AND THE PERIOD AUGUST 26 TO SEPTEMBER 30, 2016
(Amounts in Philippine Pesos)
(Unaudited)

	Notes	2017 (Nine months)	2017 (Three months)	2016 (One month)
REVENUES				
Charter fees	21	P 1,047,277,604	P 372,713,023	P -
Passage		646,434,580	211,213,389	-
Freight		339,528,146	86,812,180	-
Tugboat fees		192,695,282	65,096,501	-
Standby charges	21	40,406,157	9,162,991	-
Sale of goods		28,163,983	13,749,399	-
Rendering of services		1,605,113	538,417	-
		2,296,110,865	759,285,900	-
COST OF SALES AND SERVICES	16	1,480,780,788	547,850,178	-
GROSS PROFIT (LOSS)		815,330,077	211,435,722	-
OTHER OPERATING EXPENSES	17	298,113,702	108,099,048	6,540,510
OPERATING INCOME (LOSS)		517,216,375	103,336,674	(6,540,510)
OTHER INCOME (CHARGES) - Net				
Finance costs	19	(404,747,966)	(182,157,235)	(400)
Share in net income of an associate	11	168,083,284	(16,479,600)	-
Finance income	19	106,131,731	97,197,120	20,667
Other income	19	67,947,983	20,657,421	-
		(62,584,968)	(80,782,293)	20,267
PROFIT (LOSS) BEFORE TAX		454,631,407	22,554,380	(6,520,243)
TAX EXPENSE (INCOME)	20	48,910,689	16,608,231	4,133
NET PROFIT (LOSS)		P 405,720,718	P 5,946,149	(P 6,524,376)
Earnings (Loss) Per Share (Basic and Diluted)	23	P 0.36	P 0.00	(P 0.01)

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2017
AND THE PERIOD AUGUST 26 TO SEPTEMBER 30, 2016
(Amounts in Philippine Pesos)
(Unaudited)

	Notes	2017 (Nine months)	2017 (Three months)	2016 (One month)
NET PROFIT (LOSS)		P 405,720,718	P 5,946,149	(P 6,524,376)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Revaluation of vessels	10	49,040,962	(1,247,994)	-
Tax expense	20	(14,712,289)	374,398	
Remeasurement of post-employment benefit obligation	18	(1,930,731)	-	-
Currency exchange differences on translating financial statements of foreign operations	22	(81,660)	-	-
Tax expense	20	579,219	-	-
		32,895,501	(873,596)	-
TOTAL COMPREHENSIVE INCOME (LOSS)		P 438,616,219	P 5,072,553	(P 6,524,376)

See Notes to Interim 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 NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2017
AND THE PERIOD AUGUST 26 TO SEPTEMBER 30, 2016
(Amounts in Philippine Pesos)
(Unaudited)

	Note	Capital Stock	Additional paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings	Total
Balance at January 1, 2017	22	P 500,000,000	-	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	11, 22	1,321,977,615	10,003,811,195	-	-	-	11,325,788,810
Total comprehensive income for the period		-	-	32,895,501	-	405,720,718	438,616,219
Transfer of revaluation reserves through depreciation, net of tax	22	-	-	(49,710,526)	-	49,710,526	-
Balance at September 30, 2017		**P 1,821,977,615**	**P 10,003,811,195**	**P 1,354,183,242**	**(P 1,058,033,280)**	**P 1,203,135,244**	**P 13,325,074,016**
Balance at August 26, 2016		P -	P -	P -	P -	P -	P -
Subscription of shares during the period	22	500,000,000	-	-	-	-	500,000,000
Total comprehensive income for the period		-	-	-	-	(6,524,376)	(6,524,376)
Balance at September 30, 2016		P 500,000,000	P -	P -	P -	(P 6,524,376)	P 493,475,624

See Notes to Interim 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 NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2017
AND THE PERIOD AUGUST 26 TO SEPTEMBER 30, 2016
(Amounts in Philippine Pesos)
(Unaudited)

	Notes	2017 (Nine months)	2017 (Three months)	2016 (One month)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (Loss) before tax		P 454,631,407	22,554,380	(6,520,243)
Adjustments for:				
Depreciation and amortization	10, 12	402,173,066	159,686,068	-
Share in net income of an associate	11	(168,083,284)	16,479,600	-
Interest expense	19	402,566,577	230,404,554	-
Unrealized foreign currency gain - net	19	(104,415,111)	(153,878,619)	-
Interest income	19	(1,716,620)	(941,409)	(20,667)
Operating profit (loss) before working capital changes		985,156,035	274,304,574	(6,540,910)
Decrease (increase) in trade and other receivables		(143,853,102)	99,654,245	-
Decrease (increase) in inventories		(73,974,191)	15,223,046	-
Increase in advances to related parties		(6,095,621,836)	(1,575,343,511)	(142,000,000)
Increase in other current assets		(995,086,826)	(237,775,187)	-
Decrease in post-employment benefit asset		2,919,518	-	-
Increase in other non-current assets		(2,195,544)	(3,675,718)	-
Increase in trade and other payables		136,197,966	489,743,794	-
Decrease in advances from customers		-	(4,849)	-
Decrease in other non-current liabilities		(10,629,299)	(1,888)	-
Cash used in operations		(6,197,087,279)	(937,875,494)	(148,540,910)
Interest received		1,716,620	941,409	20,667
Cash paid for income taxes		(76,088,104)	(130,591)	(4,133)
Net Cash Used in Operating Activities		(6,271,458,763)	(937,064,676)	(148,524,376)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	10	(636,906,692)	(235,243,159)	-
Additions to drydocking costs	12	(142,942,183)	(49,820,371)	-
Additions to interest in a joint venture	11	(5,000,000)	-	-
Proceeds from disposal of property and equipment	10	1,001,114	(126,451)	-
Net Cash Used in Investing Activities		(783,847,761)	(294,399,981)	-
Balance carried forward		(P 7,055,306,524)	(P 1,231,464,657)	(P 148,524,376)

	Notes	2017 (Nine months)	2017 (Three months)	2016 (One month)
Balance brought forward		(P 7,055,306,524)	(P 1,222,254,657)	(P 148,524,376)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from interest-bearing loans	13	7,924,139,192	220,376,881	-
Proceeds from issuance of shares of stock		5,277,788,810	5,277,788,810	150,000,000
Proceeds from advances from related parties	21	565,508,050	(321,422,119)	-
Repayments of interest-bearing loans	13	(2,153,383,988)	27,442,577	-
Repayments of advances from related parties	21	(533,000,000)	363,011,047	-
Interest paid	19	(320,911,526)	(153,349,503)	-
Collection of subscription receivable	22	350,000,000	-	-
Net Cash From Financing Activities		11,110,140,538	5,413,847,693	150,000,000
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		8,098,991	4,850,891	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,062,933,005	4,187,233,927	1,475,624
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		508,940,431	360,061,760	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD		P 4,571,873,436	P 4,547,295,687	P 1,475,624

Supplemental Information for Non-cash Investing Activity--

The Group recognized revaluation increment, gross of tax, amounting to P49.0 million in 2017 (see Notes 10 and 21).

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
NOTES TO INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(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 September 30, 2017, the Company holds 100% ownership interests in Chelsea Shipping Corp. (CSC), Trans-Asia Lines, Inc. (Trans-Asia) and Udenna Investments B.V. (UIBV). The Company acquired CSC and Trans-Asia through the purchase of said companies' outstanding shares of stock from their registered owners. The respective acquisitions of CSC and Trans-Asia were completed by the Company in the last quarter of 2016. In 2017, the Company acquired UIBV through a share-for-share swap, where the Company issued new common shares in favor of Udenna, in exchange for shares of UIBV (see Note 22.1).

CSC was incorporated on July 17, 2006 primarily to engage 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. As of September 30, 2017, CSC holds 100% ownership interests in the following subsidiaries:

(a) *Bunkers Manila, Inc.* – 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.

(b) *Michael, Inc. (MI)* – 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.

(c) *PNX-Chelsea Shipping Corp. (PNX)* – 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.

(d) *Chelsea Ship Management & Marine Services Corp. (CSMMSC)* – 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.

(e) *Fortis Tugs Corporation (FTC)* – engaged 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.

On December 15, 2016, FTC acquired all of the outstanding capital stock of Davao Gulf Marine Services Inc. (DGMSI), a Davao-based tug service provider, for a total cost of P83.2 million.

(f) *Chelsea Marine Manpower Resources, Inc. (CMMRI)* – 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.

On the other hand, Trans-Asia was incorporated on March 25, 1974 to engage in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas. In December 2016, the Company acquired all of the outstanding shares of Trans-Asia for a total cost of P216.3 million. Trans-Asia holds 100% ownership interest in the following subsidiaries as of September 30, 2017:

(a) *Quality Metals & Shipworks, Inc. (QMSI)* – engaged in machining and mechanical works on ship machineries and industrial plants.

(b) *Oceanstar Shipping, Inc. (Oceanstar)* – engaged in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas.

(c) *Dynamic Cuisine, Inc. (DCI)* – engaged in operating restaurants, coffee shops, refreshment parlors, cocktail lounges, bars, and in cooking and catering foods, drinks, refreshments and other foods or commodities.

(d) *Starsy Shoppe, Inc. (SSI)* – 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.

UIBV, formerly known as KGL Investment B.V, a private company with limited liability, was incorporated and organized under the laws of the Netherlands, having its corporate seat in Amsterdam. It 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 owns 219,609 of KGLI-NM Holdings, Inc. (KGLI-NM)'s voting Preferred C Shares and 39.97% of its voting rights. KGLI-NM owns 60% of Negros Navigation Co., Inc. (NENACO)'s voting stocks. NENACO, in turn, owns 98% of the publicly-listed company 2Go Group, Inc (2Go).

CLC together with CSC, Trans-Asia, UIBV 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 nine months ended September 30, 2017 (including the comparative consolidated financial statements as of December 31, 2016 and for the period ended September 30, 2016) were authorized for issue by the Company's BOD on November 15, 2017.

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 years 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 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 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 nine months ended September 30, 2017 and consolidated balances as of December 31, 2016.

(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 its functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017 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:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above. A reconciliation between the opening and closing balances of these items is provided in Note 13. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 13, the application of these amendments has had no impact on the Company's financial statements.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of these amendments has no impact on the Company's financial statements as the Company already assessed the sufficiency of the future taxable profits in a way that is consistent with these amendments.

(b) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2017, 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 consolidated financial statements:

(i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). 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.

Management is currently assessing the impact of PFRS 9 (2014) on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(ii) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). 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.

Management is currently assessing the impact of this standard on the Group's consolidated financial statements.

(iii) 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 consolidated financial statements.

(iv) PFRS 10 (Amendments), *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.

2.3 Basis of Consolidation

The Group's interim consolidated financial statements as of and for the nine months ended September 30, 2017 and as of December 31, 2016 for the period ended September 30, 2016 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 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.

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) Investments in 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 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 years 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 by external professional appraiser every after drydocking, which is performed once every two years. 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 changes in equity. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Annually, an amount from the Revaluation Reserves is transferred to Retained Earnings for the related depreciation relating to the revaluation increment. Upon disposal of the revalued assets, 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

Leasehold improvements are amortized over the estimated useful lives of the assets of five years 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 years or until the next drydocking occurs, whichever comes earlier. When significant drydocking expenditures occur prior to their expiry of this period, any remaining unamortized balance of the original drydocking costs is expensed in the month of subsequent drydocking.

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

The carrying amount of drydocking costs, presented as part of the Other Non-current 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 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] and advances from related parties 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.

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 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 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 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) *Rendering of services* – Revenue is recognized when contractually-agreed tasks have been substantially performed.

(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 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 Company'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, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets 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 consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) 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 September 30, 2017 and December 31, 2016, 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 24.

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 2017 and 2016 (see Notes 8, 12, 21.4, and 24.3).

(b) 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 10 and 12, respectively. Based on management's assessment as at September 30, 2017 and December 31, 2016, 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.

(c) 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 29.4.

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 10.

(d) 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 September 30, 2017 and December 31, 2016 will be fully utilized in the coming years. The carrying value of deferred tax assets as of September 30, 2017 and December 31, 2016 is disclosed in Note 20.1.

(e) 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 2017 and 2016.

(f) 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 18.2.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Cash on hand and in banks	**P 4,549,610,441**	P 468,448,292
Short-term placements	**22,262,995**	40,492,139
	P 4,571,873,436	P 508,940,431

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 2017 and 2016.

The balances of cash on hand and in banks as of September 30, 2017 and December 31, 2016 did not include an amount of P29.4 million and P39.4 million, respectively, which is shown as Restricted cash under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 12). 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:

	Notes	**September 30, 2017 (Unaudited)**	December 31, 2016 (Audited)
Trade receivables	21.1, 21.3	**P 1,044,375,524**	P 740,293,250
Due from agencies		**35,452,519**	190,407,635
Claims receivables		**13,659,706**	12,794,398
Advances to officers and employees		**4,925,845**	10,374,828
Others		**4,522,071**	5,212,452
		1,102,935,665	959,082,563
Allowance for doubtful accounts		**(14,566,313)**	(14,566,313)
		P 1,088,369,352	P 944,516,250

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 September 30, 2017 and December 31, 2016 is shown below.

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period	**P 14,566,313**	P 17,580,172
Impairment losses during the period	**-**	12,303,319
Write-off of receivables	**-**	(15,317,178)
Balance at end of period	**P 14,566,313**	P 14,566,313

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 27.2).

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 P25.1 million and P20.5 million as of September 30, 2017 and December 31, 2016, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans and borrowings (see Note 13.1).

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 29.2). 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. Moreover, the Group invested in corporate securities from China Banking Corporation with par value of $20,000. 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 nine months ended September 30, 2017 and December 31, 2016.

7. INVENTORIES

This account includes the following:

	Note	**September 30, 2017 (Unaudited)**	December 31, 2016 (Audited)
Spare parts		**P 111,382,134**	P 36,185,728
Fuel and lubricants	21.2	**40,763,996**	38,901,683
Food, beverage and other supplies		**583,371**	1,421,117
Shipping supplies		**119,316**	1,090,920
Electrical parts		**-**	1,275,178
		P 152,848,817	P 78,874,626

As of September 30, 2017 and December 31, 2016, 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 September 30, 2017 and December 31, 2016 follows:

	Notes	**September 30, 2017 (Unaudited)**	December 31, 2016 (Audited)
Advances to suppliers	10	**P 980,751,859**	P 268,962,167
Deferred input VAT		**182,146,605**	82,322,433
Prepayments		**148,184,474**	30,759,478
Creditable withholding taxes		**88,228,957**	65,785,594
Input VAT		**56,501,805**	55,181,622
Restricted cash	4	**29,406,231**	34,388,529
Security deposits	21.3, 24.3	**5,390,689**	4,600,998
Others		**224,459**	684,867
		P 1,490,835,079	P 542,685,688

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.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group obtained a life insurance policy from Insular Life (policy provider) with an investment component linked to it. The net amount of premium paid, after deducting fund administration and management fees and insurance charges, was invested in the equity fund to be managed and administered by the policy provider. The investment is to be held indefinitely and may be sold in response to the liquidity requirements or changes in market condition.

As of September 30, 2017 and December 31, 2016, the fair value of the equity fund amounted to P3,065,089, consisting of 436,633 unit shares.

10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment loss of property and equipment at the beginning and end of September 30, 2017 and December 31, 2016, are shown below.

	Land	Vessels and Vessel equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	CIP	Total
September 30, 2017 (Unaudited)							
Cost or revalued amounts	P 211,584,857	P 9,697,501,979	P 89,543,752	P 48,327,374	P 72,603,833	P 594,694,285	P 10,714,256,080
Accumulated depreciation	-	(2,376,744,716)	(32,546,588)	(27,549,548)	(51,734,112)	-	(2,488,574,964)
Accumulated impairment loss	-	(2,214,620)	-	-	-	-	(2,214,620)
Net carrying amount	**P 211,584,857**	**P 7,318,542,643**	**P 56,997,164**	**P 20,777,826**	**P 20,869,721**	**P 594,694,285**	**P 8,223,466,496**
December 31, 2016 (Audited)							
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	-	(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)
Net carrying amount	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
January 1, 2016 (Audited)							
Cost or revalued amounts	P 106,032,337	P 7,093,694,746	P 26,080,384	P 29,139,193	P 63,849,028	P 136,384,805	P 7,455,180,493
Accumulated depreciation	-	(1,572,458,063)	(18,413,204)	(25,881,003)	(50,853,934)	-	(1,667,606,204)
Net carrying amount	P 106,032,337	P 5,521,236,683	P 7,667,180	P 3,258,190	P 12,995,094	P 136,384,805	P 5,787,574,289

A reconciliation of the carrying amounts of property and equipment at the beginning and end of September 30, 2017 and December 31, 2016 is shown below.

	Land	Vessels and Vessel equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	CIP	Total
Balance at January 1, 2017, net of accumulated depreciation	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
Additions	107,334,844	135,195,115	31,762,558	3,682,827	14,512,871	344,418,477	636,906,692
Revaluation increment	-	49,040,962	-	-	-	-	49,040,962
Reclassification	-	83,019,108	-	-	232,580	(85,381,443)	(2,129,755)
Disposal	-	-	(872,500)	-	(128,614)	-	(1,001,114)
Depreciation and amortization	-	(259,844,035)	(9,767,420)	(993,714)	(7,313,562)	-	(277,918,731)
Balance at September 30, 2017, net of accumulated depreciation	**P 211,584,857**	**P 7,318,542,643**	**P 56,997,164**	**P 20,777,826**	**P 20,869,721**	**P 594,694,285**	**P 8,223,466,496**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 106,032,337	P 5,521,236,683	P 7,667,180	P 3,258,190	P 12,995,094	P 136,384,805	P 5,787,574,289
Additions	-	1,270,926,225	34,563,773	15,955,985	5,077,732	333,527,496	1,660,051,211
Revaluation increment	-	865,452,258	-	-	-	-	865,452,258
Reclassification	-	79,645,606	-	-	-	(133,704,659)	(54,059,053)
Disposal	(1,782,324)	(14,967,997)	(1,082,142)	(450,631)	(32,162)	(550,391)	(18,865,647)
Depreciation and amortization charges for the year	-	(408,946,661)	(5,274,285)	(674,831)	(4,474,218)	-	(419,369,995)
Impairment losses	-	(2,214,621)	-	-	-	-	(2,214,621)
Balance at December 31, 2016, net of accumulated depreciation and amortization	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

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
MT Jasaan	July 7, 2017	P 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 Chelsea Donatela	May 31, 2016	1,450,000,000
MV Trans-Asia 5	May 17, 2016	114,000,000

Name of Vessel	**Date of Report**	**Net Appraised Values**
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
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
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 Chelsea Denise	November 4, 2015	180,000,000
MT Chelsea Thelma	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 MT Chelsea Dominance, MTug Fortis III (formerly MTug Joy 98), MTug Fortis V, MTug Fortis VII and MV Trans-Asia 12 as the Group has newly-acquired the tanker towards the end of 2016 and early 2017; hence, management believes that the acquisition costs approximate their fair values.

Trans-Asia made advance payments for the purchase of certain parcels of land, which are bought for use in operations, and is presented as part of Advances to suppliers under the Other Current Assets account in the interim consolidated statements of financial position (see Note 8).

If the Group's vessels and vessel equipment were measured under the cost model, the cost, accumulated depreciation and net carrying amount as of September 30, 2017 and December 31, 2016 are as follows:

	September 30, 2017	December 31, 2016
Cost	**P 6,778,176,707**	P 6,378,900,455
Accumulated depreciation	**(1,518,775,551)**	(1,196,043,233)
Net carrying amount	**P 5,259,401,156**	P 5,182,857,222

Depreciation and amortization is classified in the 2017 consolidated statement of profit and loss as follows (nil for the period ended September 30, 2016):

	Notes	(Unaudited)
Cost of sales and services	16	P 264,055,745
Other operating expenses		13,862,986
	17	P 277,918,731

The Group's vessels with a net carrying amount of P6,601.2 million and P7,022.4 million as of September 30, 2017 and December 31, 2016, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 13).

11. 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:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Associate – KGLI-NM		
Cost	**P 2,104,212,296**	P -
Equity share in net income of an associate	**168,083,284**	-
	2,272,295,580	-
Jointly controlled entity – Meridian Maritime Training Center Center (Meridian)	**50,560,925**	45,560,925
	P 2,322,856,505	P 45,560,925

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. As of September 30, 2017 and December 31, 2016, the Group's investment in the joint venture amounted to P50.6 million and P45.6 million, respectively.

As of September 30, 2017 and December 31, 2016, management believes that the investments in an associate and a joint venture are not impaired.

12. OTHER NON-CURRENT ASSETS

This account is composed of the following as of:

	Notes	September 30, 2017 (Unaudited)	December 31, 2016 (Audited
Drydocking costs – net		**P 189,943,433**	P 169,125,830
Security deposits	24.3	**8,569,014**	1,114,347
Restricted cash	4	**-**	5,000,000
Others		**-**	259,123
		P 198,512,447	P 175,499,300

A reconciliation of the net carrying amount of drydocking costs at the beginning and end of September 30, 2017 and December 31, 2016 is shown below.

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period		**P 169,125,830**	P -
Beginning balance of CSC		**-**	160,258,939
Additions		**142,942,183**	34,463,540
Reclassification from CIP	10	**2,129,755**	54,059,053
Balance from acquired subsidiaries		**-**	74,134,597
Amortization charges for the period		**(124,254,335)**	(153,790,299)
		P 189,943,433	P 169,125,830

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 16).

13. INTEREST-BEARING LOANS

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

	Notes	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Current:			
Bank loans	13.2	**P 7,708,903,107**	P 4,576,345,754
Term loans	13.1	**771,476,345**	445,149,306
Mortgage loans	13.3	**19,627,702**	7,984,582
		P 8,500,007,154	P 5,029,479,642
Non-current:			
Term loans	13.1	**P 4,535,321,381**	P 2,151,830,061
Mortgage loans	13.3	**142,618,854**	191,472,475
Bank loans	13.2	**10,434,324**	-
		P 4,688,374,559	P 2,343,302,536
Total		**P13,188,381,713**	P 7,372,782,178

A reconciliation of the carrying amounts of interest-bearing loans at the beginning and end of September 30, 2017 is shown below.

	Term loans (see Note 13.1)	Bank loans (see Note 13.2)	Mortgage loans (see Note 13.3)	Total
Balance at beginning of period	P 2,596,979,367	P 4,576,345,754	P 199,457,057	P 7,372,782,178
Additions	1,292,367,367	6,593,501,264	38,270,561	7,924,139,192
Repayments	(1,127,393,339)	(950,509,587)	(75,481,062)	(2,153,383,988)
Reclassification	2,500,000,000	(2,500,000,000)	-	-
Conversion from USD to PHP	20,298,400	-	-	20,298,400
Restatement of foreign-denominated loans	24,545,931	-	-	24,545,931
Balance at end of period	**P 5,306,797,726**	**P 7,719,337,431**	**P 162,246,556**	**P 13,188,381,713**

13.1 Term Loans

The details of the Group's term loans as of September 30, 2017 and December 31, 2016 are as follows:

	Security	Terms	Interest Rates	Outstanding Balance September 30, 2017 (Unaudited)	Outstanding Balance December 31, 2016 (Audited)
China Banking Corporation (CBC)	Continuing Suretyship	6 years	4.50%	**P 1,800,000,000**	P -
CBC	MT Chelsea Charlize	7 years	3.25%	**391,559,667**	397,760,000
Philippine Business Bank (PBB)	MT Chelsea Dominance	7 years	6.06%	**389,226,600**	375,883,200
BDO Unibank, Inc. (BDO)	MT Great Princess	5 years	5.54%	**370,872,746**	441,680,061
PBB	MT Chelsea Endurance	7 years	6.06%	**330,135,000**	323,180,000
BDO	Trans - Asia 1, Trans - Asia 10	10 years	4.25%	**301,568,575**	308,180,768
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	**300,000,000**	-
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	**300,000,000**	-
CTBC Bank (Phils) Inc.	Continuing Suretyship	5 years	4.09%	**300,000,000**	-
BDO	MT Chelsea Denise II	5 years	6.46%	**207,680,000**	242,300,000
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	**200,000,000**	-
BDO	MT Great Diamond	7 years	One year LIBOR plus 3.50%	**164,568,556**	239,376,297
BDO	Chattel Mortgage	8 years	4.50%	**88,118,410**	-
Asia United Bank (AUB)	Mtug Fortis III and Mtug Fortis V	7 years	5.56%	**69,696,200**	-
BDO	Trans - Asia 1	10 years	5.00%	**36,000,000**	-
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal Mtug Sigaboy	5 years	6.00% to 6.50%	**30,759,817**	45,948,735
AUB	Mtug Fortis I and Mtug Fortis II	5 years	7.00%	**27,777,778**	44,444,444
BDO	Trans - Asia 8 and 9	3.50 years	4.25%	**1,897,817**	18,978,175
BDO	Trans - Asia 10	9.38 years	4.25%	**41,146**	45,833
Development Bank of the Philippines (DBP)	MT Chelsea Cherylyn	2 yearss	5.00%	-	28,000,000
CBC	Trans - Asia 12	8 years	4.25%	-	71,100,000
CBC	Trans - Asia 5	10 years	5.00%	-	61,759,197
				5,309,902,312	2,598,636,710
Discount on loans payable				**(3,104,586)**	(1,657,343)
				P 5,306,797,726	P 2,596,979,367

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

In 2013, PNX 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 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 years 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 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 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 years commencing at the end of the fourth quarter of 2015.

Interest incurred on these loans amounted to P29.1 million for the nine months ended September 30, 2017, and are presented as part of Finance costs under the Other Income (Charges) account in the consolidated statement of profit or loss (see Note 19.1).

Debt issuance costs amounted to P0.8 million (first tranche) and P2.2 million (second tranche), of which P0.4 million and P0.7 million, were amortized in 2017, using the effective interest rate 5.54% for each tranche. Amortized debt issuance costs were recognized as part of the Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 19.1). Unamortized debt issuance costs are included as part of the current and non-current portion of interest-bearing loans.

The loans are secured by a chattel mortgage of MT Great Princess and MT Chelsea Denise II, respectively (see Note 10). The carrying amounts of these vessels, presented as part of the Property and Equipment account, amounted to P1,805.4 million and P2,002.4 million as of September 30, 2017 and December 31, 2016, respectively.

The OLSA requires PNX 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 September 30, 2017 and December 31, 2016, PNX has breached these covenants; management, however, believes that the non-current classification of term loans is appropriate considering the Company's relationship with BDO and its history of prompt payment. Furthermore, PNX's management is currently negotiating with BDO's management in relation with the amendment in the financial covenant ratios.

(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 P0.5 million was amortized in 2017 using the effective interest rate of 4.65%. Amortized debt issuance costs were recognized as part of Finance costs under the Other Income (Charges) – net section 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 P923.4 million and P989.6 million as of September 30, 2017 and December 31, 2016, respectively (see Note 10). 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 21.8).

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 September 30, 2017 and December 31, 2016, CSC has breached these covenants. CSC's management, however, believes that the non-current classification of term loans is appropriate considering the the Company's relationship with BDO and its history of prompt payment. Furthermore, CSC's management is currently negotiating with BDO's management in relation with the amendment in the financial covenant ratios.

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

On May 23, 2016, PNX 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 10.0 million is included as part of Finance costs under the Other Income (Charges) – net section of the 2017 consolidated statement of profit or loss (see Note 19.1).

The loan is secured by a chattel mortgage on MT Chelsea Charlize with net carrying amount of P449.0 million and P460.8 million as of September 30, 2017 and December 31, 2016, respectively (see Note 10).

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

On July 25, 2016 and August 18, 2016, PNX entered into 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% for both MT Chelsea Endurance and MT Chelsea Dominance and is payable in 24 equal quarterly installments with one-year grace period from date of each release.

Interest incurred on these loans totaling P25.7 million is included as part of Finance costs under the Other Income (Charges) – net section of the 2017 consolidated statement of profit or loss (see Note 19.1). The related unpaid interest as of September 30, 2017 and December 31, 2016 amounted to P6.7 million and P4.6 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 14).

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totaling P738.5 million and P763.8 million, respectively, as of September 30, 2017 and December 31, 2016 (see Note 10).

(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 years from the initial drawdown date, and shall be repriced at the end of the third year from the initial drawdown date (the "Repricing Date"). The repriced rate shall be based on the relevant 2Y PDST-F as of the Repricing Date, plus a spread of 2.0% subject to a floor of 7.0%. The loan is payable in 18 quarterly installments over a period of five years. The first payment will commence on the third interest payment date from the initial drawdown date. The last quarterly installment of the loan is due on November 6, 2018.

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 P3.2 million for the nine months ended September 30, 2017, and is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated statement of profit or loss (see Note 19.1).

Certain trade receivables amounting to P24.4 million and P20.4 million as of September 30, 2017 and December 31, 2016, 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 P235.0 million and P155.6 million as of September 30, 2017 and December 31, 2016, respectively, were used as collateral to secure the payment of these loans (see Note 10).

(f) TLA with DBP

On October 30, 2014, CSC entered into loan agreement with DBP amounting to P140.0 million to finance the drydocking and repairs and maintenance expenses of MT Chelsea Resolute, MT Chelsea Cherylyn and MT Chelsea Denise. The loan is subject to annual interest rate of 5.00% and is payable in eight equal quarterly installments commencing on the first quarter from the initial drawdown.

In addition, CSC obtained P160.0 million loan for CSC's working capital requirements. The loan bears a fixed interest rate of 5.00% per annum and is payable in ten equal quarterly installments commencing on February 28, 2015. These loans have been fully settled as of September 30, 2017.

(g) 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.

Interest expense incurred on this loan amounted to P13.9 million and is and is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit or loss (see Note 19.1)

(h) 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 years inclusive of two years 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 years 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 September 30, 2017.

(i) TLA with UCPB and PBComm – DGMSI

In 2014, DGMSI obtained loans from UCPB and PBComm 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.

Interest expense incurred on these loans amounted to P2.0 million is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit or loss (see Note 19.1).

(j) TLA with CBC – CLC

In 2016, the Company obtained a P1.8 billion loan from China Bank 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 21.8).

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.

Related interest expense amounting to P61.4 million in 2017 is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit or loss (see Note 19.1).

(k) 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 21.8).

Interest expense incurred on these loans amounted to P27.7 million and is presented as part of Finance costs under the Other Income (Charges) account in the 2017 consolidated statement of profit or loss (see Note 19.1).

13.2 Bank Loans

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

				Outstanding Balance	
	Security	Terms	Interest Rates	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Bank of China	NENACO shares	360 days	4.50%	**P 5,469,836,895**	P -
UCPB	MT Chelsea Intrepid				
	MT BMI Patricia	90 days	5.00% to 5.75%	**895,700,000**	40,700,000
DBP	MT Chelsea Cherylyn	180 days	4.00 to 4.25%	**200,000,000**	200,000,000
PBCom	MT Ernesto Uno	180 to 270 days	4.75%	**142,834,375**	158,000,000
Unicapital	Unsecured	90 days	5.50%	**140,000,000**	-
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	**60,200,000**	-
Security Bank Corporation (SBC)	Chattel Mortgage	5 years	6.50%	**16,694,919**	35,476,703
BDO	Real Estate Mortgage	180 days	4.00%	**14,959,248**	19,500,000
	MT Chelsea Denise	180 days	5.50%	-	54,100,000
SBC	Real Estate Mortgage	120 days	4.00%	-	49,000,000
CBC	Mortgage	181 days	4.50%	-	1,800,000,000
CTBC Bank (Phils) Inc.	Continuing Suretyship	180 days	4.00%	-	700,000,000
Maybank Philippines, Inc.	Unsecured	90 days	5.50%	-	592,000,000
Multinational Investment					
Bancorporation	Unsecured	22 to 39 days	5.00%	-	174,921,426
Robinsons Bank Corporation	MT Chelsea Resolute,				
UCPB	Restricted Time Deposit	1 year	6.00%	-	5,000,000
Metropolitan Bank and					
Trust Corporation	Unsecured	120 days	4.00%	-	37,000,000
Others - MIB arranged	Unsecured	30 t0 96 days	4.25% to 5.00%	**842,783,000**	710,647,625
				7,783,008,437	4,576,345,754
Discounts on loans payable				**(63,671,006)**	-
				P 7,719,337,431	P 4,576,345,754

The bank loans were obtained to finance the acquisition of interest in an associate, acquisition and 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 P1,642.2 million and P513.3 million as of September 30, 2017 and December 31, 2016, respectively, Nenaco shares held by KGLI-NM, corporate guarantee by Udenna and by certain stockholders through a continuing surety agreement with the respective banks (see Notes 10 and 21.8).

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 19.1).

13.3 Mortgage Payables

	Security	Terms	Interest Rates	Outstanding Balance September 30, 2017 (Unaudited)	Outstanding Balance December 31, 2016 (Audited)
BDO	Real Estate Mortgage	10 years	4.25%	**P 122,500,000**	P 130,000,000
AUB	Chattel Mortgage on Transportation Equipment	3 to 5 years	7.00% to 8.50%	**29,285,646**	-
RCBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	**4,701,988**	-
CBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	**4,282,927**	-
BDO	Chattel Mortgage on Transportation Equipment	3 years	6.90% to 7.53%	**1,475,995**	20,082,057
CBC	Real Estate Mortgage	10 years	6.00%	**-**	49,375,000
				P 162,246,556	P 199,457,057

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 2017 and 2016. 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 19.1).

These loans are secured by certain properties and transportation equipment with total carrying amount of P152.9 million and P700.6 million as of September 30, 2017 and December 31, 2016, respectively (see Note 10).

14. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Trade payables	21.2, 21.6	**P 1,036,473,791**	P 1,029,988,283
Accrued expenses	13	**160,627,778**	173,269,627
Deferred output VAT		**117,309,272**	86,646,995
Output VAT		**77,962,239**	21,269,557
Provisions	24.4	**1,086**	8,865,400
Others		**43,072,869**	38,714,607
		P 1,435,447,035	P 1,358,754,469

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 deposits payable, withholding taxes payable and other government-related liabilities.

15. DEPOSITS FOR FUTURE STOCK SUBSCRIPTION

The account represents cash infusion from stockholders to cushion the accumulated deficiency last December 31, 2011. An analysis of the movements in the balance of deposits on future stock subscription is presented below.

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period	**P 50,000,000**	P -
Balance acquired from subsidiaries	**-**	50,000,000
Balance at end of period	**P 50,000,000**	P 50,000,000

The balances as at September 30, 2017 and December 31, 2016 are presented as current liability in the consolidated statements of financial position as the Group has not complied with the requirements under SEC Financial Reporting Bulletin No. 006 (as revised in 2013) for classification as equity.

16. COST OF SALES AND SERVICES

The details of this account for the nine months ended September 30, 2017 is shown below (nil for the one month ended September 30, 2016).

	Notes	
Depreciation and amortization	10, 12	P 388,310,080
Bunkering	21.2	381,143,995
Salaries and employee benefits	18.1	203,237,359
Repairs and maintenance		129,121,123
Port expenses		97,580,508
Charter hire fees		80,340,500
Outside services		58,435,401
Insurance		57,583,387
Supplies		23,415,355
Taxes and licenses		18,321,534
Cost of inventories sold		17,351,947
Transportation and travel		10,997,424
Professional fees		2,550,506
Utilities and communication		2,037,614
Commission		1,243,020
Representation and entertainment		346,850
Miscellaneous		8,764,185
		P 1,480,780,788

17. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the nine months ended September 30, 2017 and one month ended September 30, 2016 (both unaudited) are presented below.

	Notes	2017	2016
Depreciation and amortization	10, 12	P **402,173,066**	P -
Bunkering	21.2	**382,604,592**	-
Salaries and employee benefits	18.1	**286,273,267**	-
Repairs and maintenance		**134,788,891**	-
Port expenses		**97,580,508**	-
Taxes and licenses		**90,614,204**	6,540,510
Charter hire fees		**80,340,500**	-
Outside services		**74,496,178**	-
Insurance		**60,844,912**	-
Supplies		**32,413,772**	-
Transportation and travel		**23,937,548**	-
Professional fees		**21,962,952**	-
Rentals	21.3, 24.3	**18,963,047**	-
Cost of inventories sold		**17,351,947**	-
Utilities and communication		**9,218,337**	-
Representation and entertainment		**7,727,810**	-
Commission		**5,102,812**	-
Miscellaneous	21.8(b)	**32,500,147**	-
		P 1,778,894,490	P 6,540,510

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

	Note	**2017 (Nine months)**	2016 (One month)
Cost of sales and services	16	**P 1,480,780,788**	P -
Other operating expense		**298,113,702**	6,540,510
		P 1,778,894,490	P 6,540,510

18. SALARIES AND EMPLOYEE BENEFITS

18.1 Salaries and Employee Benefits

The details of salaries and employee benefits for the nine months ended September 30, 2017 (nil for the one month ended September 30, 2016) are presented below.

	Notes	
Short-term employee benefits		P 283,260,500
Post-employment benefits	18.2(b)	2,680,742
Other employee benefits		332,025
	17	P 286,273,267

These expenses are classified in the 2017 consolidated statement of profit or loss as follows:

	Notes	
Cost of sales and services	16	P 203,237,359
Other operating expenses		83,035,907
	17	P 286,273,267

18.2 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 years 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 years to five years – 7.5 days per year of service
- five years and nine months to ten years – 15 days per year of service
- ten years and nine months to 15 years – 22.5 days per year of service
- 15 years and nine months and above – 30 days per year of service

(ii) For regular employees who were hired starting December 1, 2006
- five years and nine months to nine years – 7.5 days per year of service
- nine years and nine months to 15 years – 15 days per year of service
- 15 years and five months to 20 years – 22.5 days per year of service
- 20 years 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 years of service to Trans-Asia and by employees who has been hired starting December 31, 2006 and has rendered at least five years and nine months of service to Trans-Asia. The total number of years of service of employees who availed of advance payment of a portion of his/her retirement shall be deducted with the number of years 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 and in the succeeding pages are based on the actuarial valuation reports obtained from an independent actuary.

(i) Post-employment benefit asset and obligation

The amounts of post-employment defined benefit asset of Trans-Asia as of September 30, 2017 and December 31, 2016, which is recognized in the consolidated statements of financial position are determined as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Fair value of plan assets	**P 39,432,057**	P 39,693,662
Present value of the obligation	**(38,911,228)**	(34,820,143)
	P 520,829	P 4,873,519

The movements in the present value of post-employment defined benefit obligation recognized in the 2017 and 2016 books are as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period	**P 34,820,143**	P -
Balance from acquired subsidiaries	**-**	34,820,143
Current service cost	**2,680,742**	-
Interest cost	**1,848,950**	-
Benefits paid	**(438,607)**	-
Balance at end of period	**P 38,911,228**	P 34,820,143

The movements in the fair value of plan assets in 2017 and 2016 are presented below.

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period	**P 39,693,662**	P -
Balance from acquired subsidiaries	**-**	39,693,662
Interest income	**2,107,733**	-
Return on plan assets (excluding amounts included in net interest)	**(1,930,731)**	-
Benefits paid	**(438,607)**	-
Balance at end of period	**P 39,432,057**	P 39,693,662

The composition of the fair value of plan assets as at September 30, 2017 and December 31, 2016 by category and risk characteristics is shown below.

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Cash and cash equivalents	**P 21,046,063**	P 24,287,260
Debt securities:		
Philippine government bonds	**15,173,209**	15,057,197
Corporate bonds	**3,212,785**	349,205
	P 39,432,057	P 39,693,662

(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:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Present value of the obligation	**P 11,078,452**	P 11,078,452
Fair value of plan assets	**(7,031,908)**	(7,031,908)
	P 4,046,544	P 4,046,544

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period	**P 11,078,452**	P 9,930,479
Current service cost	**-**	1,744,827
Interest cost	**-**	502,961
Benefits paid	**-**	(1,099,815)
Balance at end of period	**P 11,078,452**	P 11,078,452

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period	**P 7,031,908**	P -
Beginning balance of CSC	**-**	3,775,541
Interest income	**-**	193,664
Return on plan assets (excluding amounts included in net interest)	**-**	(47,994)
Benefits paid	**-**	(1,099,815)
Contributions to the plan	**-**	4,210,512
Balance at end of period	**P 7,031,908**	P 7,031,908

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

Cash and cash equivalents	P 2,310,013
Equity securities	1,675,037
Debt securities:	
Philippine government bonds	1,575,737
Unit investment trust funds (UITF)	978,370
Short-term commercial papers (STCP)	481,170
Others	11,581
	P 7,031,908

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 P0.17 million in 2017 (nil 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 (nil in 2016):

Recognized in profit or loss:	
Current service cost	P 2,680,742
Net interest expense	(268,783)
	P 2,421,959
Recognized in other comprehensive loss –	
Return on plan assets (excluding amounts included in net interest expense)	P 1,930,731

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

	Notes		
Cost of sales and services	16	P	1,875,881
Other operating expenses			805,861
	18.1	P	2,680,742

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 statement of profit or loss (see Note 19.1).

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:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Discount rates	**5.03%**	5.34%
Expected rate of salary increase	**5.00%**	5.00%

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, STCP 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 September 30, 2017 and December 31, 2016.

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
September 30, 2017			
Discount rate	**+/- 1.0%**	**(P 2,112,185)**	**P 2,385,045**
Salary growth rate	**+/- 1.0%**	**2,092,368**	**(1,898,201)**
December 31, 2016			
Discount rate	+/- 1.0%	(P 2,684,155)	P 3,000,038
Salary growth rate	+/- 1.0%	2,660,712	(2,408,560)

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 September 30, 2017 and December 31, 2016 consists of cash and cash equivalents and equity and debt securities, although the Group also invests in STCP and 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 September 30, 2017, the plan is overfunded by P0.8 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 years' time when a significant number of employees is expected to retire.

CSC 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 years follows:

Within one year	P	3,936,306
More than one year but notmore than five years		9,836,624
More than five years but notmore than ten years		11,709,576
	P	**25,482,506**

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 September 30, 2017.

19. OTHER INCOME (CHARGES)

19.1 Finance Costs

The details of this account follow (unaudited):

	Note	**2017 (Nine months)**		2016 (One month)	
Interest expense on interest-bearing loans	13	**P**	**402,566,577**	P	-
Bank charges			**2,181,389**		400
		P	**404,747,966**	P	6,540,510

19.2 Finance Income

The breakdown of this account is shown below (unaudited).

	Note	**2017 (Nine months)**	2016 (One month)
Foreign currency exchange gains	13	**P 104,415,111**	P -
Interest income		**1,716,620**	20,667
		P 106,131,731	P 20,667

19.3 Other Income

Presented below are the details of other operating income for the nine months ended September 30, 2017 (nil for the one month ended September 30, 2016).

	Notes	
Handling and tracking	16	P 35,119,315
Rebates		14,828,417
Rental income		5,306,552
Miscellaneous		12,693,699
	18.1	P 67,947,983

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.

Rental income pertains to the leased portion of the Group's office building.

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

20. TAXES

20.1 Registration with the 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.

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

20.2 Current and Deferred Taxes

The components of tax expense (income) as reported in the consolidated statement of profit and loss are shown below (unaudited).

	2017 (Nine months)	2016 (One month)
Recognized in profit or loss:		
Regular corporate income tax	**P 94,375,449**	P -
Minimum corporate income tax (MCIT)	**433,433**	-
Final tax at 20% and 7.5%	**165,075**	4,133
	94,973,958	4,133
Deferred tax income relating to origination and reversal of temporary differences	**(46,063,268)**	-
	P 48,910,689	P 4,133
Recognized in other comprehensive income:		
Deferred tax expense relating to origination and reversal of temporary differences	**(P 14,133,070)**	P -

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated statement of profit or loss for the nine months ended September 30 is as follows:

	2017 (Nine months)	2016 (One month)
Tax on pretax profit (loss) at 30%	**P 136,389,422**	(P 1,956,073)
Adjustments for income subjected to lower tax rates	**(135,125)**	(2,067)
Tax effects of:		
Net profit on BOI-registered activities	**(34,924,550)**	-
Nontaxable income	**(51,109,228)**	-
Excess of optional standard deduction	**(5,813,102)**	-
Nondeductible expenses	**1,592,698**	-
Unrecognized Net Operating Loss Carry Over (NOLCO)	**2,910,574**	1,962,273
	P 48,910,689	P 4,133

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
NOLCO	**P 36,086,215**	P 6,273,377
Impairment losses on trade and other receivables	**969,728**	969,728
Impairment losses on property and equipment	**633,276**	664,386
MCIT	**367,672**	-
Revaluation reserves on property and equipment	**(583,339)**	(607,313)
	P 37,473,553	P 7,300,178

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Revaluation reserves on property and equipment	**(P 243,244,058)**	(P 244,406,814)
NOLCO	**10,019,386**	9,745,600
MCIT	**8,105,941**	8,040,180
Capitalized borrowing costs	**(7,261,261)**	(7,261,261)
Revaluation surplus on disposed vessel	**(3,036,983)**	(3,036,983)
Impairment losses on trade and other receivables	**678,898**	678,898
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	**331,127**	(248,092)
Unrealized foreign currency loss – net	**6,002,254**	6,233,047
Others	**(631,771)**	(537,866)
	(P 221,597,748)	(P 223,354,572)

The net deferred tax expense (income) reported in the 2017 consolidated statement of profit or loss and 2017 consolidated statement of comprehensive income is shown below (nil in 2016).

	Consolidated Profit or Loss	Consolidated Other Comprehensive Income
Deferred tax expense (income):		
NOLCO	(P 30,086,624)	P -
Revaluation reserves of vessels	(15,899,019)	14,712,289
MCIT	(433,433)	-
Unrealized foreign currency loss – net	230,793	-
Impairment loss on property and equipment	31,110	-
Post-employment benefit obligation	-	(579,219)
Others	93,905	-
Deferred tax income – net	(P 46,063,268)	P 14,133,070

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 Group reported MCIT in 2017.

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	Valid Until
NOLCO:							
2017	P 141,106,385	P -	P -	P -	P 141,106,385	2020	2020
2016	10,638,820	-	-	-	10,638,820	2019	2019
2015	11,642,046	-	-	-	11,642,046	2018	2018
2014	102,860,292	71,744,568	31,115,724	-	-	2017	2017
2013	15,346,632	15,346,632	-	-	-		
	P 281,594,175	P 87,091,200	P 31,115,724	P -	P 163,387,251		
MCIT:							
2017	P 433,433	P -	P -	P -	P 433,433	2020	2020
2016	4,099,164	-	-	-	4,099,164	2019	2019
2015	3,357,615	-	-	-	3,357,615	2018	2018
2014	583,401	-	-	-	583,401	2017	2017
2013	1,723,430	-	-	1,723,430	-		
	P 10,197,043	P -	P -	P 1,723,430	P 8,473,613		

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.

21. RELATED PARTY TRANSACTIONS

The Group's related parties include its parent company, subsidiaries, 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 nine months ended September 30, 2017, for the period August 26 to September 30, 2016, and the related outstanding balances as of September 30, 2017 and December 31, 2016 is presented below.

Related Party Category	Notes	Amounts of Transactions September 30, 2017	Amounts of Transactions September 30, 2016	Outstanding Balances September 30, 2017	Outstanding Balances December 31, 2016
Udenna --					
Cash advances granted	21.4	**P 6,290,067,914**	P -	**P 6,290,067,914**	P -
P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI)					
Chartering of services rendered	21.1	**411,740,679**	-	**457,418,025**	460,059,177
Fuel purchases	21.2	**98,036,541**	-	**(57,963,603)**	(66,940,095)
Cash advances obtained	21.4	**84,830,229**	-	**(929,026)**	(85,759,255)
Acquisition of CSC's shares	21.6	**-**	-	**(500,000,000)**	(500,000,000)
Related party under common ownership					
Rental income	21.3	**3,777,726**	-	**1,697,127**	1,600,540
Rental expense	21.3	**1,806,667**	-	**(378,199)**	-
Donation	21.7	**270,000**	-	**(270,000)**	-
Cash advances granted		**(194,446,078)**	(142,000,000)	**-**	194,446,078
Cash advances obtained	21.4	**(117,338,279)**	-	**(117,338,279)**	-

21.1 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 2017 consolidated statement of profit or loss (nil for the one month ended September 30, 2016). The related outstanding receivable as of September 30, 2017 and December 31, 2016, 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 2017 and 2016 based on management's assessment.

21.2 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 statement of profit and loss (see Note 16) while the remaining fuel and lubricants inventory amounting to P40.8 million and P38.9 million as of September 30, 2017 and December 31, 2016, 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 September 30, 2017 and December 31, 2016 is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 14).

21.3 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 in 2017 is presented as part of Rentals under Other Operating Expenses in the consolidated statement of profit or loss (see Note 17). 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 12).

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 statement of profit or loss (see Note 19.1). The related receivable as of September 30, 2017 and December 31, 2016, 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 this transaction as management has determined that such financial assets are fully collectible.

21.4 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 September 30, 2017 and December 31, 2016, 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 2017 and 2016 follows:

	September 30, 2017	December 31, 2016
Balance at beginning of period	**P 194,446,078**	P 27,250,735
Advances granted during the period	**6,290,067,914**	364,371,957
Collection	**(194,446,078)**	(197,176,614)
Balance at end of period	**P 6,290,067,914**	P 194,446,078

Based on management's assessment, no impairment loss is recognized in 2017 and 2016 related to the advances granted to related parties.

The movement in the Advances from Related Parties account in 2017 and 2016 follows:

	September 30, 2017	December 31, 2016
Balance at beginning of period	**P 85,759,255**	P -
Beginning balance of CSC	**-**	376,441,118
Advances obtained during the period	**565,508,050**	-
Repayments	**(533,000,000)**	(290,681,863)
Balance at end of period	**P 118,267,305**	P 85,759,255

21.5 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, STCP and UITF with fair value totaling P46.5 million and P46.7 million as of September 30, 2017 and December 31, 2016, respectively.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 18.2.

21.6 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 September 30, 2017 and December 31, 2016, 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 14).

21.7 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 2017 consolidated statement of profit or loss (see Note 17).

21.8 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 Notes 13.1 and 13.2). The vessels owned by the Group and certain receivables of the subsidiaries were also used as security on such loans (see Notes 5, 8 and 10).

(b) The Group granted donations amounting to P0.3 million in 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 17).

22. EQUITY

22.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)	**September 30, 2017 (Unaudited)**	December 31, 2016 (Audited)
Authorized - P100 par value:				
Balance at beginning and end of year	**2,000,000,000**	2,000,000,000	**P2,000,000,000**	P 2,000,000,000
Issued and outstanding –				
Balance at beginning of year	**500,000,000**	-	**P 500,000,000**	P -
Issuance and subscription during the year	**1,321,877,615**	500,000,000	**1,321,977,615**	500,000,000
Balance at end of year	**1,821,977,615**	500,000,000	**P1,821,977,615**	P 500,000,000

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 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. As at September 30, 2017, the Company's listed shares closed at P10.20 per share.

22.2 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 10)	**AFS Financial Assets** (see Note 9)	**Post-employment Benefit Obligation** (see Note 18.2)	**Cumulative translation adjustments**	**Total**
Balance as of January 1, 2017	P 1,335,232,117	P 34,725	P 35,731,425	P -	P 1,370,998,267
Remeasurements of post-employment benefit obligation	-	-	(1,930,731)	-	(1,930,731)
Gain on revaluation of tankers	49,040,962				49,040,962
Currency exchange differences on translating financial statements of foreign operations	-	-	-	(81,660)	(81,660)
Depreciation transferred to retained earnings - revalued tankers	(49,710,526)	-	-	-	- (49,710,526)
Other comprehensive income before tax	(669,564)	-	(1,930,731)	(81,660)	(2,681,955)
Tax income (expense)	(14,712,289)	-	579,219	-	(14,133,070)
Other comprehensive income after tax	(15,381,853)	-	(1,351,512)	(81,660)	(16,815,025)
Balance at September 30, 2017	**P 1,319,850,264**	**P 34,725**	**P 34,379,913**	**(P 81,660)**	**P 1,354,183,242**
Balance as of January 1, 2016	P 750,787,751	(P 136,199)	P 15,902,734	P -	P 766,554,286
Remeasurements of post-employment benefit obligation	-	-	28,326,702	-	28,326,702
Fair value gains on AFS financial assets	-	244,177	-	-	244,177
Gain on revaluation of tankers	865,452,258	-	-	-	865,452,258
Effect of business combination	(184,142,520)	-	-	-	(184,142,520)
Depreciation transferred to retained earnings - revalued tankers	(73,463,526)	-	-	-	(73,463,526)
Other comprehensive income before tax	607,846,212	244,177	28,326,702	-	636,417,091
Tax income (expense)	(23,401,846)	(73,253)	(8,498,011)	-	(31,973,110)
Other comprehensive income after tax	584,444,366	170,924	19,828,691	-	604,443,981
Balance as of December 31, 2016	P 1,335,232,117	P 34,725	P 35,731,425	P -	P 1,370,998,267

22.3 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 21.6).

23. EARNINGS PER SHARE

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

Net profit	P	454,631,407
Divided by weighted average shares outstanding		1,137,239,385
Earnings per share – basic and diluted	P	0.36

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of September 30, 2017; hence, diluted earnings per share is equal to the basic earnings per share.

24. COMMITMENTS AND CONTINGENCIES

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.

	September 30, 2017	December 31, 2016
Within one year	**P 838,415**	P 817,966
More than one year but not more than five years	**884,406**	1,109,347
	P 1,722,821	P 1,927,313

Rent income amounted to P5.3 million 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 19.3).

24.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee under an operating lease covering its office space. 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 lease period was subsequently renewed on September 30, 2014 for a term of three years. The future minimum lease payables under this operating lease are as follows as of:

	September 30, 2017	December 31, 2016
Within one year	**P 10,131,188**	P 8,023,352
More than one year but not more than five years	**1,102,056**	1,680,000
More than five years	**1,197,000**	1,260,000
	P 12,430,944	P 10,963,352

Total rentals from these operating leases amounted to P19.8 million and is included as part of Rentals under the Other Operating Expenses account in the consolidated statement of profit or loss (see Note 17).

The related security deposit on this operating lease amounted to P10.0 million and P5.7 million as of September 30, 2017 and December 31, 2016, 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 12).

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 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 14).

Various legal and labor claims were brought against the Trans-Asia during the period. 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 September 30, 2017 and December 31, 2016, the Group has unused lines of credit amounting to P6,345.8 million and P64.8 million, respectively.

24.6 Memorandum of Understanding (MOU) – Starlite Ferries, Inc. (Starlite)

On August 18, 2017, the Company has signed a MOU with the owners of Starlite regarding CLC's offer to purchase 100% of the shares of stocks of Starlite and its subsidiaries. As of September 30, 2017, the proposed transaction is subject to regulatory approval by the Philippine Competition Commission (see Note 31).

24.7 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 for a total cost of P6,048.0 million. The fair values (determined to be equal to the book values at the date of acquisition) of the identifiable assets acquired and liabilities assumed from UIBV as at the date of acquisition were as follows:

Cash and cash equivalents	P 25,508,842
Trade and other receivables	765,659
Investment in an associate	2,104,212,296
Total identifiable liabilities	-
Acquisition-date fair value of net assets acquired	P 2,130,486,797

The excess of acquisition costs over the net assets of UIBV amounting to P3,917.4 million 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.

Based on management’s assessment, no impairment of goodwill is required to be recognized in 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) 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,

(e) 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 below present revenue and profit information regarding business segments for the nine months ended September 30, 2017 and certain asset and liability information regarding segments as at September 30, 2017 and December 31, 2016.

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Ship Management and Crewing	Elimination	Consolidated
2017							
SEGMENT RESULTS							
Sales to external customers	P -	P 1,096,038,949	P 192,695,282	P 1,007,376,634	P -	P -	P 2,296,110,865
Intersegment sales	52,590,275	-	8,093,814	-	148,572,898	(209,256,987)	-
Total revenues	52,590,275	1,096,038,949	200,789,097	1,007,376,634	148,572,898	(209,256,987)	2,296,110,865
Cost of sales and services	-	686,767,000	105,726,894	709,218,772	135,734,835	(156,666,712)	1,480,780,788
Other operating expenses	59,930,033	121,704,071	32,388,131	118,486,393	20,605,096	(55,000,021)	298,113,702
Operating profit (loss)	(7,339,758)	287,567,878	54,580,258	179,671,469	(7,767,032)	2,409,746	517,216,375
Finance costs	(306,206,745)	(67,226,203)	(7,557,188)	(23,354,255)	(403,576)	-	(404,747,966)
Finance income	104,869,008	131,087	419,770	702,337	9,529	-	106,131,731
Share in net income of an associate	168,083,284	-	-	-	-	-	168,083,284
Other income	-	9,628,984	-	60,379,509	349,236	(2,409,746)	67,947,983
Profit (loss) before tax	(40,594,211)	230,101,747	47,442,840	217,399,060	(7,811,843)	-	454,631,407
Tax expense (income)	(72,993,667)	46,437,728	16,696,941	60,074,976	(1,305,288)	-	48,910,689
Net profit (loss)	**P 32,399,456**	**P 183,664,019**	**P 30,745,899**	**P 157,324,084**	**(P 6,506,554)**	**P -**	**P 405,720,718**
SEGMENT ASSETS AND LIABILITIES							
Total assets	**P 22,529,803,451**	**P 9,245,085,078**	**P 824,458,252**	**P 3,141,577,794**	**P 52,965,294**	**(P 7,410,994,358)**	**P 28,382,895,510**
Total liabilities	**P 8,653,996,008**	**P 5,176,333,814**	**P 591,309,142**	**P 2,450,821,424**	**P 40,181,737**	**(P 1,854,820,631)**	**P 15,057,821,494**
2016							
SEGMENT ASSETS AND LIABILITIES							
Total assets	P 2,879,967,125	P 9,028,483,112	P 666,997,557	P 2,039,746,696	P 50,415,773	(P 3,905,705,287)	P 10,759,904,976
Total liabilities	P 2,392,786,539	P 5,277,801,184	P 472,688,162	P 1,504,934,459	P 49,875,662	(P 498,850,017)	P 9,199,235,989

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 September 30, 2017 and December 31, 2016 closing rates follow:

	September 30, 2017	December 31, 2016
Financial assets	**P 4,102,076,418**	P 158,797,465
Financial liabilities	**(6,629,044,512)**	(1,780,781,091)
Net exposure	**(P 2,526,968,094)**	(P 1,621,983,626)

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P113.7 million. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax in 2017 by the same amount. This sensitivity of the net result for the period assumes a +/- 4.50% change of the Philippine peso/U.S. dollar exchange rate for the nine months ended September 30, 2017. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous nine months for 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 September 30, 2017 and December 31, 2016, 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 13). 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 +/- 0.39%. Banks loans, which vary with certain foreign interest rates, are tested on a reasonably possible change of +/- 0.23%. 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 +/- P18.6 million for the nine months ended September 30, 2017.

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.

	Notes	**September 30, 2017**	December 31, 2016
Cash and cash equivalents	4	**P 4,571,873,436**	P 508,940,431
Trade and other receivables – net (excluding advances to officers and employees)	5	**1,083,443,507**	934,141,422
Subscription receivable		**-**	350,000,000
Restricted cash	8, 12	**29,406,231**	39,388,529
Security deposits	8, 12	**5,390,689**	5,715,345
Advances to related parties	21.4	**6,290,067,914**	194,446,078
		P11,980,181,777	P 2,032,631,805

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, 51.26% and 49.42% of the Group's outstanding receivables as of September 30, 2017 and December 31, 2016, 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.

	September 30, 2017	December 31, 2016
Not more than three months	**P 166,339,400**	P 388,227,653
More than three months but not more than one year	**64,984,540**	238,062,334
More than one year	**293,348,511**	118,924,564
	P 524,672,451	P 745,214,551

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 September 30, 2017, the Group's financial liabilities have contractual maturities which are presented below.

		Current		**Non-current**	
	Notes	**Within Six Months**	**Six to Twelve Months**	**One to Five Years**	**More than Five Years**
Interest-bearing loans	13	P 2,657,015,632	P 6,175,090,694	P 4,962,268,026	P 470,268,589
Trade and other payables (except for government-related obligations)	14	1,221,137,921	-	-	-
Advances from related parties	21.4	59,133,653	59,133,652	-	-
		P 3,937,287,206	**P 6,234,224,346**	**P 4,962,268,026**	**P 470,268,589**

As at December 31, 2016, the Group's financial liabilities have contractual maturities which are presented below.

		Current		Non-current	
	Notes	Within Six Months	Six to Twelve Months	One to Five Years	More than Five Years
Interest-bearing loans	13	P 4,914,912,928	P 346,581,267	P 2,149,517,592	P 471,995,901
Trade and other payables (except for government-related obligations)	14	1,250,837,917	-	-	-
Advances from related parties	21.4	42,879,628	42,879,628	-	-
		P 6,208,630,473	P 42,879,628	P 2,149,517,592	P 471,995,901

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	September 30, 2017				December 31, 2016			
			Carrying Amounts		**Fair Values**		Carrying Amounts		Fair Values
Financial Assets:									
Loans and Receivables									
Cash and cash equivalents	4	P	**4,571,873,436**	P	**4,571,873,436**	P	508,940,431	P	508,940,431
Trade and other receivables - net	5		**1,083,443,507**		**1,083,443,507**		934,141,422		934,141,422
Restricted cash	8, 12		**29,406,231**		**29,406,231**		39,388,529		39,388,529
Security deposits	8, 12		**5,390,689**		**5,390,689**		5,715,345		5,715,345
Subscriptions receivables	22.1		-		-		350,000,000		350,000,000
Advances to related parties	21.4		**6,290,067,914**		**6,290,067,914**		194,446,078		194,446,078
		P	**11,980,181,777**	P	**11,980,181,777**	P	2,032,631,805	P	2,032,631,805
Financial Liabilities:									
At amortized cost:									
Trade and other payables	14	P	**1,221,137,921**	P	**1,221,137,921**	P	1,250,837,917	P	1,250,837,917
Interest-bearing loans	13		**13,188,381,713**		**13,188,381,713**		7,372,782,178		7,372,782,178
Advances from related parties	21		**118,267,305**		**118,267,305**		85,759,255		85,759,255
		P	**14,527,786,940**	P	**14,527,786,940**	P	8,709,379,350	P	8,709,379,350

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 27.

28.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2017 and 2016 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 table below shows the classes of financial assets measured at fair value in the consolidated statements of financial position on a recurring basis.

	Notes	**September 30, 2017**	December 31, 2016
Financial assets at FVTPL	6	**P 11,279,636**	P 11,279,636
AFS financial assets	9	**3,065,089**	3,065,089
		P 14,344,725	P 14,344,725

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 September 30, 2017 and December 31, 2016.

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

The tables below and in the succeeding page summarize the fair value hierarchy of the Group's financial assets and financial liabilities as of September 30, 2017 and December 31, 2016, which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

		2017		
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:				
Loans and Receivables				
Cash and cash equivalents	P 4,571,873,436	P -	P -	P 4,571,873,436
Trade and other receivables - net	-	-	1,083,443,507	1,083,443,507
Restricted cash	29,406,231	-	-	29,406,231
Security deposits	-	-	5,390,689	5,390,689
Advances to related parties	-	-	6,290,067,914	6,290,067,914
	P 4,601,279,667	**P -**	**P 7,378,902,110**	**P 11,980,181,777**
Financial Liabilities:				
At amortized cost:				
Trade and other payables	P -	P -	P 1,221,137,921	P 1,221,137,921
Interest-bearing loans	-	-	13,188,381,713	13,188,381,713
Advances from related parties	-	-	118,267,305	118,267,305
	P -	**P -**	**P 14,527,786,940**	**P 14,527,786,940**

	2016			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Loans and Receivables				
Cash and cash equivalents	P 508,940,431	P -	P -	P 508,940,431
Trade and other receivables - net	-	-	934,141,422	934,141,422
Restricted cash	39,388,529	-	-	39,388,529
Security deposits	-	-	5,715,345	5,715,345
Subscription receivable	-	-	350,000,000	350,000,000
Advances to related parties	-	-	194,446,078	194,446,078
	P 548,328,960	P -	P 1,484,302,845	P 2,032,631,805
Financial Liabilities:				
At amortized cost:				
Trade and other payables	P -	P -	P 1,250,837,917	P 1,250,837,917
Interest-bearing loans	-	-	7,372,782,178	7,372,782,178
Advances from related parties	-	-	85,759,255	85,759,255
	P -	P -	P 8,709,379,350	P 8,709,379,350

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 2017 and 2016.

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:

	September 30, 2017	December 31, 2016
Total liabilities	**P 15,057,821,494**	P 9,199,235,989
Total equity	**13,325,074,016**	1,560,668,987
Debt-to-equity ratio	**1.13 : 1.00**	5.89 : 1.00

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.

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

On October 26, 2017, the Philippine Competition Commission approved the proposed acquisition of Starlite by the Company. Subsequently on November 9, 2017, the Company acquired all of the outstanding shares of stock of Starlite (see Note 24.6).

On November 8, 2017, the Company acquired all of the outstanding shares of stock of Worklink Services, Inc., a company engaged in total logistics management that provides ground courier, sea freight and air freight services across the country. WSI also offers trucking, warehousing and special projects management such as events management, manpower, trade merchandising, and drop box management.

32. SEASONALITY OF OPERATIONS

The RoPax segment transports passengers and cargoes within Philippine territorial waters and/or in 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.

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 Nine Months Ended September 30, 2017 vs. September 30, 2016.

A comparison of the Group's consolidated financial performance for the nine months ended September 30, 2017 as compared to the pro-forma combined financial performance of Chelsea Shipping Corp. and subsidiaries and Trans-Asia Shipping Lines, Inc. and subsidiaries for the same period in 2016 is shown below.

	2017 - Consolidated	2016 - ProForma Combined	Year over Year Change	
Revenues	2,296,110,865	2,110,548,220	185,562,645	9%
Costs of sales and services	1,480,780,788	1,553,011,427	(72,230,639)	-5%
Gross profit	815,330,077	557,536,793	257,793,284	46%
Other operating expenses	298,113,702	251,474,515	46,639,187	19%
Operating income	517,216,375	306,062,278	211,154,097	69%
Other income (charges) - net	(62,584,968)	(153,746,808)	91,161,840	-59%
Profit before tax	454,631,407	152,315,471	302,315,936	198%
Tax expense	48,910,689	50,291,962	(1,381,273)	-3%
Net profit	405,720,718	102,023,509	303,697,209	298%

Revenues

Presented below is the comparison of the Group's consolidated revenues for the nine months ended September 30, 2017 as compared to the pro-forma combined financial performance of Chelsea Shipping Corp. and subsidiaries and Trans-Asia Shipping Lines, Inc. and subsidiaries for the same period in 2016.

	2017 - Consolidated		2016 - ProForma Combined		Year over Year Change	
Charter fees	1,087,683,761	47%	1,130,988,546	49%	(43,304,785)	-4%
Freight	646,434,580	28%	452,048,252	20%	194,386,328	43%
Passage	339,528,146	15%	309,086,307	13%	30,441,839	10%
Tugboat fees	192,695,282	8%	166,958,740	7%	25,736,542	15%
Others	29,769,096	1%	51,466,376	2%	(21,697,280)	-42%
	2,296,110,865	100%	2,110,548,220	92%	185,562,645	9%

The Group generated total revenues of ₱2,296.1 million for the nine months ended September 30, 2017 which was slightly higher than the combined revenues of ₱2,110.5 million for the same period in 2016, primarily due to the 43% increase in freight revenues and despite the 4% decline in charter fee revenues.

The decrease in charter fees by ₱43.3 million or approximately 4% during 2017 was primarily due to the change in charter agreements involving M/T Great Diamond (formerly Chelsea Thelma) and M/T Great Princess (formerly Chelsea Donatela), which are the two largest vessels registered in the Philippines. The two vessels were the subject of bareboat agreement entered into by the Company with a Vietnam-based petroleum company effective November 2016 and March 2017, respectively. Of the four-types of charter agreements, bareboat charter yields the least revenue since all costs related to the operation of the vessel are being shouldered by the charterer instead of the ship owner on a cost-plus basis. In 2016, both M/T Great Diamond and M/T Great Princess were under the voyage charter type of agreement wherein all costs are shouldered by the ship owners; hence, revenue is largest as the costs are also high. The bareboat agreement entered into by the Company is for a period of five years, renewable for another five years.

The increase in freight revenues by 43% was primarily due to the commercial operations of MV Trans-Asia 12 which plies the Manila – Cebu route. MV Trans-Asia 12 started commercial operations in this route only in August 2016. In addition, MV Trans-Asia 5 also underwent drydocking in January 2016.

The slight increase in passage revenues by 10% from the previous year was primarily due to increased number of passengers.

Tugboat fees improved by 15% for the period ended September 30, 2017. The improvement in tugboat fees was primarily due to increased port calls in Calaca Seaport (formerly Phoenix Petroterminals & Industrial Park), which increased by approximately 51% from 272 to 410. In addition, the full period's operations of Fortis Tugs Corporation in Keppel Batangas also contributed to the increase in tugboat fees. Fortis Tugs Corporation became the exclusive tugboat provider in Keppel Batangas in March 2016.

Costs and Expenses

The Group recognized costs of sales and services of ₱1,480.8 million for the nine months ended September 30, 2017 as compared to ₱1,553.0 million for the same period in 2016. The minor decline in direct costs can be attributed to the commissioning of M/T Great Diamond and M/T Great Princess on a bareboat charter wherein all direct costs are being shouldered by the charterer. This arrangement gives better and more stable gross margins.

Other operating expenses, on the other hand, significantly increased by ₱46.6 million or approximately 19%. The increase was brought about by increases in salaries and employee benefits, taxes and licenses, depreciation and amortization, outside services, travel and transportation and office supplies which are directly related to the continued expansion of the Group.

Net Profit

The Group's net profit for the nine months ended September 30, 2017 amounted to ₱405.7 million as compared to ₱102.0 million for the same period in 2016. The Group was able to grow the profit primarily from its share in net income of Negros Navigation Co., Inc. and 2Go Group, Inc. through its investments in Udenna Investments B.V. The amount of equity shares in net income recognized by the Group amounts to ₱168.1 million.

Operating income increased by 18% from ₱306.1 million to ₱517.2 million.

Finance costs increased significantly due to increased interests from loans related to the acquisition of MT Chelsea Charlize, MT Chelsea Endurance, MT Chelsea Dominance and MV Trans-Asia 12 as well as from the CBC loan and CTBC loan obtained to fund the acquisition of CSC and Trans-Asia Shipping. In addition, foreign exchange losses arising from the translation of U.S. dollar-denominated loans also contributed to the increase in finance costs.

Financial Condition
(September 30, 2017 vs. December 31, 2016)

Total resources of the Group grew to ₱28,382.9 million as of September 30, 2017 from ₱10,759.9 million as of December 31, 2016. The increase was brought about by the Company's indirect ownership in 2Go Group, Inc. through Udenna Investments B.V., which was finalized in March 2017 and the Company's initial public offering in August 2017.

Cash and cash equivalents surged by 798% from ₱508.9 million as of December 31, 2016 to ₱4,571.8 million as of September 30, 2017 as a result of the Company's initial public offering in August 2017.

Trade and other receivables increased by 15% from ₱944.5 million as of December 31, 2016 to ₱1,088.4 million as of September 30, 2017 as a result of collections related to the Group's tankers and freight segments.

The decline in subscriptions receivables was due to collections from the parent company.

Increase in inventories of approximately ₱74.0 million was due to acquisition of spare parts inventories in preparation for drydocking of certain vessels. Spare parts inventories rose from ₱36.2 million as of December 31, 2016 to ₱111.4 million as of September 30, 2017.

Advances to related parties increased significantly from ₱194.4 million as of December 31, 2016 to ₱6,290.7 million as of September 30, 2017 as a result of the proceeds from the Bank of China (BOC) loan being used to pay the $120 million and ₱565.7 million initial bridge finance from BDO Unibank, Inc.

The increase in Other Current Assets from ₱542.6 million as of December 31, 2016 to ₱1,490.8 million as of September 30, 2017 was primarily the result of earnest money paid by the Company in relation to the planned acquisition of a shipping company.

The increase in Investments in an associate and a joint venture from ₱45.6 million as of December 31, 2016 to ₱2,322.9 million as of September 30, 2017 was due to the acquisition of the all outstanding shares of Udenna Investments B.V. (UIBV), which holds 79.99% economic interest in KGLI-NM, which in turn owns 39.85% economic interest in Negros Navigation Co., Inc. (Nenaco), the parent company of 2Go. The acquisition was made through issuance of the Company's shares.

Increase in goodwill was the result of the acquisition of UIBV. In 2017, the Company acquired 100% ownership interest in UIBV for a total cost of ₱6,048 million. The fair value of the identifiable assets less liabilities assumed was determined to be ₱2,130 million. The excess of the acquisition cost over the fair value of the net assets of UIBV represents goodwill, which represents the value of the expected synergies arising from the acquisition.

The increase of ₱30.2 million in deferred tax assets can be attributed to the tax effect of net operating losses incurred by the Company and certain subsidiaries within the Group.

The increase in Other non-current assets from ₱175.5 million as of December 31, 2016 to ₱198.5 million as of September 30, 2017 was primarily due to costs related to the drydocking of MT Chelsea Excellence and MT BMI Patricia. The additions to drydocking were partially offset by amortization of drydocking during the nine months ended September 30, 2017.

Trade and other payables slightly increased by ₱55.7 million from ₱1,358.8 million as of December 31, 2016 to ₱1,414.4 million as of September 30, 2017. The increase in trade and other payables was primarily due to timing of payment of trade payables and mitigated by the increased deferred output VAT as a result of increased trade receivables as of September 30, 2017.

Interest-bearing loans significantly increased by 79% from ₱7,372.8 million as of December 31, 2016 to ₱13,188.4 million as of September 30, 2017 primarily as a result of the $220 million bridge loan facility obtained by the Company from BOC, of which $130 million has been drawn. The Company is negotiating with the lender bank to convert the facility into a five to seven-year permanent working capital facility. The proceeds from the BOC loan were used to pay the $120 million and ₱565.7 million initial bridge finance from BDO Unibank, Inc.

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

The decline in income tax payable was primarily due to payments made in April 2017, which was the due date of filing and payment of income taxes for the year ended December 31, 2016.

The significant decline in other non-current liabilities by 75% was mainly due to the reclassification of such amount to the current portion.

The increase in capital stock and additional paid-in capital was brought about by the issuance of the Company's shares of stock to Udenna Corporation in exchange for the latter's ownership in UIBV. CLC's share was valued at ₱7.80 per share. In addition, the Company also issued 546,593,000 new shares on its initial public offering on August 8, 2017 with an issue price of ₱10.68 per share.

Retained earnings significantly increased by ₱455.4 million primarily due to the results of the Company's financial performance for the nine months ended September 30, 2017.

Key Performance Indicators and Relevant Ratios

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

	September 30, 2017	December 31, 2016
Current ratio	1.34	0.40
Debt-to-equity ratio	1.13	5.89
Book value per share	7.31	3.12
EBITDA margin	55%	
Return on equity	3.04%	
Earnings per share	0.36	

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 are 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 2017 to amount to ₱3,700 million for various 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 in 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. On 06 July 2017, Trans-Asia Shipping Lines, Inc. obtained a ₱1,100,000,000 five-year term loan facility from CTBC Bank (Philippines), Inc., First Commercial Bank, Ltd. – Manila Branch, Mega International Commercial Bank Co. Ltd. – Manila Branch and Robinsons Bank Corporation. The proceeds will be used to re-finance the ₱700 million loan of Chelsea Shipping Corp. and acquisition of cargo vessels and terminal equipment. The loan is secured by the Trans-Asia shares, a corporate guaranty by Udenna Corp. and individual surety of Dennis A. Uy.

2. On 02 August 2017, the Board of Directors approved the acquisition by Trans-Asia Shipping Lines, Inc. of MV Orient Spirit with a gross registered tonnage of 6,384 for a total amount of $1,525,000. MV Orient Spirit arrived in Cebu on 21 October 2017.

   Also on 02 August 2017, the Board of Directors approved the acquisition by Fortis Tugs Corporation of MTug Sung-An, a Korean-built tugboat with gross registered tonnage of 120, for a total amount of $800,000. MTug Sung-An arrived in Calaca, Batangas in October 2017.

3. On 08 August 2017, the Company listed its 1,821,977,615 common shares at the Philippine Stock Exchange at an offer price of ₱10.68 per share. The net proceeds from its initial public offering will be used for the acquisition of new vessels and vessel equipment, port facilities, containers and terminal equipment, the acquisition of other shipping and logistics companies and general corporate purposes.

4. On 29 August 2017, Chelsea Shipping Corp. obtained a P200 million credit facility from Unicapital, Inc. and Unicapital Finance & Investments, Inc. As of September 30, 2017, P140,000,000 is outstanding from this credit facility.

5. On 26 October 2017, the Company received Notice of Approval from the Philippine Competition Commission on the proposed acquisition of Starlite Ferries, Inc. (Starlite) by the Company. Subsequently on November 9, 2017, the Company acquired all of the outstanding shares of stock of Starlite.

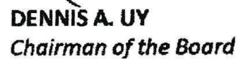
6. On November 8, 2017, the Company acquired all of the outstanding shares of stock of Worklink Services, Inc., a company engaged in total logistics management that provides ground courier, sea freight and air freight services across the country. WSI also offers trucking, warehousing and special projects management such as events management, manpower, trade merchandising, and drop box management.

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.

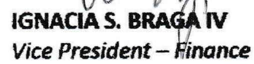
CHELSEA LOGISTICS HOLDINGS CORP.

By:



DENNIS A. UY
Chairman of the Board

CHRYSS ALFONSUS V. DAMUY
President and CEO



IGNACIA S. BRAGA IV
Vice President – Finance

Signed this __th day of November 2017

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES

Aging of Trade Receivables

As of September 30, 2017

(Amounts in Thousands of Philippine Pesos)

	0-30 Days	31-60 Days	61-90 Days	91-360 Days	Over 360 Days	Total
Trade receivables	505,138	114,480	55,538	74,531	294,689	1,044,376