COVER SHEET

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SEC Registration Number

CHELSEA LOGISTICS HOLDINGS CORP.
AND SUBSIDIARIES

(Company's Full Name)

STELLA HIZON REYES ROAD
BO. PAMPANGA
DAVAO CITY 8000

(Business Address: No. Street City/Town/Province)

MA. HENEDINA V. SAN JUAN	+63 82 224 5373
(Contact Person)	(Company Telephone Number)

1 2	3 1	2 0 - I S	0 3	1 5
Month	*Day*	Definitive	*Month*	*Day*
(Fiscal Year)		(Form Type)	(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

18		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Please take notice that the Annual Meeting of Stockholders of **CHELSEA LOGISTICS HOLDINGS CORP.** will be held at the Park Inn by Radisson Davao, Asian Highway 26, Davao City, on **Friday, March 15, 2019** at **8:30 in the morning**, with the following:

AGENDA

1. Call to Order
2. Certification of Notice and Determination of Quorum
3. Report of the President and CEO for the Year 2018
4. Approval of the Minutes of the Annual Stockholders' Meeting held on March 19, 2018
5. Ratification and confirmation of all acts and resolutions of the Board and Management executed in the normal course of business covering the period February 23, 2018 until February 13, 2019
6. Amendment of Articles of Incorporation of the Corporation, Article I – Change of Corporate Name
7. Election of Members of the Board of Directors
8. Appointment of External Auditor
9. Other Matters
10. Adjournment

Only stockholders of record as of **February 4, 2019** are entitled to notice of, and to vote at, this meeting.

Taguig City, January 23, 2018.

MA. HENEDINA V. SAN JUAN
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement
of
CHELSEA LOGISTICS HOLDINGS CORP.
Pursuant to Section 20 of the Securities Regulation Code (the "Code" or "SRC")

1. **Check the appropriate box:**

   ___√___ Preliminary Information Statement
   _______ Definitive Information Statement

2. **Name of registrant as specified in its charter:** CHELSEA LOGISTICS HOLDINGS CORP. (the "Company" or "CLC")

3. **Country of Incorporation:** REPUBLIC OF THE PHILIPPINES

4. **SEC Identification Number:** CS201619734

5. **BIR Tax Identification Code:** 009-393-167-000

6. **Address of principal office:** Stella Hizon Reyes Road, Bo. Pampanga Davao City 8000

7. **Registrant's telephone number:** (082) 224-5373

8. **Date, time and place of the meeting of security holders:**

Date	-	March 15, 2019
Time	-	8:30 A.M.
Place	-	Park Inn by Radisson Davao Asian Highway, Davao City, 8000

9. **Approximate date on which the Information Statement is first to be sent or given to stockholders:**

   February 15, 2019

10. **Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the SRC:**

Title of Each Class	Par Value	Number of Shares
Common Shares	PhP 1.00	1,821,977,615

11. **Are any or all of Company's securities listed on a Stock Exchange?**

   __√__ Yes ______ No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
Philippine Stock Exchange – Common Shares

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of stockholders

a. Date - March 15, 2019
   Time - 8:30 A.M.
   Place - Park Inn by Radisson Davao
   Asian Highway, Davao City, 8000

b. Approximate date when the Information Statement is first to be sent to stockholders: February 15, 2019

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Item 2. Dissenter's right of appraisal

Pursuant to Section 81 of the Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in case of any amendment to the Articles of Incorporation that has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence, in case of lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code, and in case of merger or consolidation. Such appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action by making a written demand on the Company within thirty (30) days after the date on which the vote was taken for payment of the fair value of his shares. Failure to make the demand within such period shall be deemed a waiver of the appraisal right.

Within ten (10) days after demanding payment for his shares, a dissenting stockholder shall submit the certificate(s) of stock representing his shares to the Company for notation thereon that such shares are dissenting shares. His failure to do so shall, at the option of the Company, terminate his appraisal rights. No demand for payment as aforesaid may be withdrawn by the dissenting stockholder unless the Company consents thereto.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Company cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Company and third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment: Provided, further, that upon payment by the Company of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Company.

THERE ARE NO MATTERS THAT WILL BE PRESENTED FOR SHAREHOLDERS' APPROVAL DURING THE ANNUAL STOCKHOLDERS' MEETING THAT MAY OCCASION THE EXERCISE OF THE RIGHT OF APPRAISAL.

Item 3. Interest of certain persons in or opposition to be acted upon

a. No Director or Officer of the Company since the beginning of the last fiscal year, nominee for election as Director of the Company, nor any of their associates, have any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon during the Annual Stockholders' Meeting, other than election to office.

b. No Director of the Company has informed the Company in writing that he intends to oppose any action to be taken by the Company during the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

a. Voting Securities

As of December 31, 2018, the total number of shares outstanding and entitled to vote on all corporate matters to be acted upon during the Annual Stockholders' Meeting is 1,821,977,615 common shares.

b. Record Date

The record date for purposes of determining the stockholders entitled to notice of and to vote at the Annual Stockholders' Meeting is **February 4, 2019**.

c. Voting Rights and Trust

In the matters to be voted upon in the Annual Stockholders' Meeting, stockholders of record as of February 4, 2019 shall be entitled to one vote per share in person or by proxy. If he will vote thru a proxy, the By-Laws of the Company requires the submission of the accomplished proxy form to the Corporate Secretary for validation and authentication at least ten (10) days before the date of the Annual Stockholders' Meeting.

The validation of proxies chaired by the Corporate Secretary or Assistant Corporate Secretary and attended by the Stock and Transfer Agent shall be convened at least five (5) days before the Annual Stockholders' Meeting. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be raised during said forum and resolved by the Corporate Secretary. The Corporate Secretary's decision shall be final and binding upon the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the Annual Stockholders' Meeting.

With respect to the election of the members of the Board of Directors, cumulative voting is allowed. A stockholder may vote such number of shares for as many persons as there are Directors to be elected; or he may cumulate his shares and give one candidate as many votes as the number of Directors to be elected multiplied by the number of his shares; or he may distribute these shares on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the total number of Directors to be elected.

d. **Security ownership of certain record and beneficial owners and management**

i. **Security Ownership of Certain Records and Beneficial Owners as of December 31, 2018**

Title of Class	Name & Address of Record Owner & Relationship to Issuer	Name of Beneficial Owner & Relationship to Record Owner	Citizenship	No. of Shares	Percentage of Outstanding Shares
Common	Udenna Corporation Stella Hizon Reyes Road, Bo. Pampanga, Davao City *Stockholder*	Udenna Corporation	Filipino	1,275,384,606	70.000%
Common	PCD Nominee Corporation 37/F Tower I, The Enterprise Center 6766 Ayala Ave. cor. Paseo de Roxas, Makati City *Stockholder*	PCD participants acting for themselves or for their customers	Filipino	527,802,472	28.969%

**PCD Nominee Corporation is not a related Company*

Udenna Corporation is the holding company of the Uy family. It is directly owned by spouses Dennis A. Uy and Cherylyn C. Uy.

The 527,802,472 common shares under the name of PCD Nominees Corporation are owned by PCD participants acting for themselves or for their customers.

Other than the stockholders identified above, as of December 31, 2018, there are no other stockholders other than participants under PCD account who own more than five percent (5%) of the voting securities.

As of December 31, 2018, 0.96% or 17,511,620 common shares are owned by foreign stockholders.

ii. **Security ownership of Directors and Management as of December 31, 2018**

Title of Class	Name of Beneficial Owner	Citizenship	Nature of Beneficial Ownership	No. of Shares	Percentage of Outstanding Shares
Directors					

Title of Class	Name of Beneficial Owner	Citizenship	Nature of Beneficial Ownership	No. of Shares	Percentage of Outstanding Shares
Common	Dennis A. Uy	Filipino	Direct Indirect	100,001 892,769,224	NIL 49.000%
Common	Cherylyn C. Uy	Filipino	Direct Indirect	1 382,615,385	NIL 21.000%
Common	Chryss Alfonsus V. Damuy	Filipino	Direct	522,000	0.029%
Common	Eduardo A. Bangayan	Filipino	Direct	70,001	NIL
Common	Miguel Rene A. Dominguez	Filipino	Direct	200,001	0.011%
Common	Jesus S. Guevara II	Filipino	Direct Indirect	1 100,000	NIL NIL
Common	Gener T. Mendoza	Filipino	Direct	20,001	NIL
Common	Arthur Kenneth L. Sy	Filipino	Direct	1	NIL
Common	Efren E. Uy	Filipino	Direct	270,001	0.015%
Executive Officers					
Common	Ignacia S. Braga IV	Filipino	Direct	452,000	0.025%
Common	Ricky P. Victoria	Filipino	Direct	152,000	0.008%
Common	Irwin M. Montano	Filipino	Direct	82,000	0.005%
Common	Ma. Henedina V. San Juan	Filipino	Direct	219,000	0.012%
Common	Rodel V. Marqueses	Filipino	Direct	169,000	0.009%
Common	Leandro E. Abarquez	Filipino	Direct	36,300	0.002%
Common	Rishamae S. Diaz	Filipino	Direct	0	0%
All Directors and Officers as a group				**1,277,776,917**	**70.130%**

As of December 31, 2018, Directors and Executive Officers of the Company owned an aggregate of **1,277,776,917** shares of the Company, equivalent to 70.13% of the Company's total issued and outstanding shares.

iii. Voting trust holders of 5% or more

Other than those mentioned above, there are no persons holding more than five percent (5%) of a class under a voting trust or any similar agreements as of the date of this Report.

iv. Changes in control

The Company is not aware of any arrangements that may result in a change of control in the Company since the beginning of its fiscal year.

Item 5. Directors and Executive Officers

a. The incumbent members of the Board of Directors and Executive Officers of the Company are as follows:

Office/Position	Name	Age	Citizenship
Directors			
Chairman	Dennis A. Uy	45	Filipino
Director/President and CEO	Chryss Alfonsus V. Damuy	45	Filipino
Director/Treasurer	Cherylyn C. Uy	39	Filipino
Director	Arthur Kenneth L. Sy	51	Filipino
Director	Efren E. Uy	57	Filipino
Director	Eduardo A. Bangayan	67	Filipino
Independent Director	Miguel Rene A. Dominguez	42	Filipino
Independent Director	Jesus S. Guevara II	64	Filipino
Independent Director	Gener T. Mendoza	61	Filipino
Executive Officers			
President and CEO	Chryss Alfonsus V. Damuy	45	Filipino
Treasurer	Cherylyn C. Uy	39	Filipino
VP – Finance	Ignacia S. Braga IV	53	Filipino
AVP – Business Development & Corporate Affairs / Corporate Secretary	Ma. Henedina V. San Juan	57	Filipino
Finance Controller	Rodel V. Marqueses	33	Filipino
Compliance Officer	Leandro E. Abarquez	35	Filipino
Investor Relations Officer	Rishamae S. Diaz	30	Filipino

Information required of Directors and Executive Officers

i. Directors and Executive Officers

<u>Board of Directors</u>

The following are the final nominees who were duly screened by the Nomination Committee for election to the Board of Directors for the following fiscal year 2019 at the forthcoming Annual Stockholders' Meeting:

1. Dennis A. Uy
2. Chryss Alfonsus V. Damuy
3. Cherylyn C. Uy
4. Arthur Kenneth L. Sy
5. Efren E. Uy
6. Eduardo A. Bangayan
7. Miguel Rene A. Dominguez
8. Jesus S. Guevara II
9. Gener T. Mendoza

Miguel Rene A. Dominguez was nominated as Independent Director by Dennis A. Uy, while Jesus S. Guevara II was nominated as Independent Director by Chryss Alfonsus V. Damuy and Gener T. Mendoza was nominated as Independent Director by Ignacia S. Braga IV.

The nominees are not related by consanguinity or affinity and have no professional or business dealings with the person who nominated them. The nominees are neither officers nor substantial stockholders of the Company. They possess the qualifications and none of the disqualifications of Independent Directors. Prior to being elected as

Director of the Company, they have not, at any time, rendered any service to the Company.

For the scheduled Annual Stockholders' Meeting, the Nomination Committee has screened and evaluated the candidates for Independent Directors based on the Rule 38 of the Securities Regulation Code ("SRC") and the Company's Amended By-laws and Manual of Corporate Governance.

Below is a summary of the nominees' qualifications:

Dennis A. Uy
Chairman
Dennis A. Uy, Filipino, 45 years old, is the founder and the Chairman of Chelsea Logistics Holdings Corp. since its incorporation. He served as President and CEO of CLC from incorporation until March 27, 2017. He is the Chairman and President of Phoenix Petroleum Holdings, Inc., the holding company of Phoenix Petroleum Philippines, Inc. (PPPI), and Udenna Corporation, the ultimate parent company of PPPI and CLC. He is also the President and CEO of Udenna Management & Resources Corp. (UMRC) and its subsidiaries. Among the subsidiaries of UMRC are Global Synergy Trade & Distribution Corporation, PNX-UDENNA Insurance Brokers, Inc. ValueLeases, Inc., Udenna Capital, Inc., Udenna Environmental Solutions, Inc. and Udenna Energy Corporation. Mr. Uy is also Chairman of F2 Logistics, Phoenix Philippines Foundation, and Udenna Foundation. He is a member of the Young Presidents Organization – Philippine chapter and the Philippine Business for Social Progress. Mr. Uy has been the Honorary Consul of Kazakhstan to the Philippines since November 2011. He has a degree in Business Management from De La Salle University.

Chryss Alfonsus V. Damuy
Director, President & CEO
Chyrss Alfonsus V. Damuy, Filipino, 45 years old, is a Director of CLC since its incorporation and appointed President and CEO of the Company on March 27, 2017. He is the Chief Operating Officer of Chelsea Shipping Corp. and its subsidiaries, PNX-Chelsea Shipping Corp., Fortis Tugs Corporation, Michael, Inc., Bunkers Manila, Incorporated, Chelsea Ship Management & Marine Services Corp., and Chelsea Marine Manpower Resources, Inc. Mr. Damuy is currently the Vice Chairman of Trans-Asia Shipping Lines, Incorporated and its subsidiaries Oceanstar Shipping Corporation, Starsy Shoppe, Inc., Dynamic Cuisine, Inc. and Quality Metals & Shipworks, Inc. Prior to joining CLC, he was the Vice President for Finance of Phoenix Petroleum Philippines, Inc. and General Manager of Calaca Industrial Seaport Corp. Before that, he was the Controller of Lapanday Foods Corporation and held various positions in its subsidiaries including the Fresh Asia Produce as Accounting Manager and the Mindanao Fresh Produce Services Corporation as Assistant Accounting Manager. He also worked as Chief Accountant of the Regional Educators Multi-Purpose Cooperative and as its Branch Officer. Mr. Damuy started his professional career as College Instructor of the Holy Cross of Davao College. He is a Certified Public Accountant and has a degree in Bachelor of Science in Accountancy.

Cherylyn C. Uy
Director, Treasurer
Cherylyn C. Uy, Filipino, 39 years old, is a Director and Treasurer of CLC since February 10, 2017. She also serves as the Treasurer of Chelsea Shipping Corp. and its

subsidiaries. She is likewise a Director of Phoenix Petroleum Philippines, Inc. and the Corporate Treasurer of the Udenna Group of Companies and F2 Logistics, Inc. Ms. Uy is a graduate of Ateneo de Davao University with a degree in Business Finance.

Arthur Kenneth L. Sy
Director
Arthur Kenneth L. Sy, Filipino, 51 years old, is a Director of CLC since March 27, 2017. He serves as President and CEO of Trans-Asia Shipping Lines, Incorporated, and currently the President and CEO of JGSY Marine and Allied Ventures Corp., Dynamic Cuisine, Inc., Starsy Shoppe, Inc., Sybu Real Estate Corporation, Oceanstar Shipping Corporation, Allmix Trading, Inc., Quality Metal and Shipworks Inc. and Funflatables Corporation. He holds degrees in the fields of business and engineering namely, Bachelor of Science in Business Administration from the University of San Carlos; Bachelor of Science in Marine Engineering, and Bachelor of Science in Mechanical Engineering from the University of Cebu.

Efren E. Uy
Director
Efren E. Uy, Filipino, 57 years old, is a Director of CLC since March 27, 2017. Mr. Uy currently serves as the President and Chief Executive Officer of F2 Logistics Philippines, Inc., F2 Global Logistics, Inc., Agri Farmers, Inc., F8 Prime Transport Services, Inc., Ultimate Yellow Transport Services, Inc., Fmoves Transport Corp. and Miren Holdings, Inc. He has a degree in Bachelor of Science in Mechanical Engineering from University of San Carlos.

Eduardo A. Bangayan
Director
Eduardo A. Bangayan, Filipino, 67 years old, is a Director of CLC since March 27, 2017. He is currently the President of Summit World Group of Companies, a Director for Fuji Oil Philippines and an Independent Director for Manila Mining Corporation. He is also the Vice President of the New Leyte Edible Oil Manufacturing Corporation. From 2004 until 2008, he served as Trustee of the Local Water Utilities Association. Mr. Bangayan served as a Director of the Davao City Water District since 2002 prior to his appointment as Chairman in January 2017 with a term until 2023. Further, he serves as an Independent Director of Rural Bank of Tagum from 2015 until present. He has a degree in Bachelor of Science in Business Administration from Silliman University.

Miguel Rene A. Dominguez
Independent Director
Miguel Rene A. Dominguez, Filipino, 42 years old, is an Independent Director of CLC since March 27, 2017. He is currently the Vice President of Alsons Agribusiness Unit, Director of Sarangani Agricultural Company, Inc. and Director of Philippine Business for Social Progress. He served as Chairman of the Regional Peace and Order Council for Region 12 (2011-2013), Chairman of SOCSARGEN Area Development Board (2008-2011) and Chairman of Regional Development Council of Region 12 (2007-2010). Mr. Dominguez was named an awardee for Governance and Public Service in the Ten Outstanding Young Men 2013 by the Junior Chamber International Philippines and the TOYM Foundation. He was the first awardee of the Jesse Robredo Leadership Award given the same year. He was governor of Sarangani province for three (3) consecutive 3-year terms that began in 2004. Prior to his election as governor, he was the National Sales and Marketing Manager of the Alsons Aquaculture Corporation in 2003, earning

for the brand “Sarangani Bay” a strong hold in the international markets, particularly in the US, Japan and Europe. He has a degree in AB Economics from Boston College in the US.

Jesus S. Guevara II
Independent Director
Jesus S. Guevara II, Filipino, 64 years old, is an Independent Director of CLC since March 27, 2017. Mr. Guevara is currently the President of Alternative Power Resource Holdings, Inc. From 2009 to the present, he sits as Director of Lipa Bank, Inc. He served as Executive Vice President of the Development Bank of the Philippines, where he worked for eighteen (18) years. He was appointed Chairman of the Board of Phividec Industrial Authority. In the last (5) five years, he has served as Director for DBP Service Corporation, DBP Management Corporation, LGU Guarantee Corporation and DBP Insurance Brokerage, Inc. He has a degree in Bachelor of Arts in Economics from University of the Philippines and Master’s Degree in Industrial Relations.

Gener T. Mendoza
Independent Director
Gener T. Mendoza, Filipino, 61 years old, is an Independent Director of CLC since March 27, 2017. Mr. Mendoza is currently the President of GNCA Holdings, Inc. Apart from his assignment in GNCA, he serves as court-appointed rehabilitation receiver or liquidator for the following companies: Ensogo, Inc., Universal Rightfield Property Holdings, Inc., Pacific Activated Carbon Company, Inc., and Premium Agro-Vet Products, Inc. He also assists the liquidator of National Steel Corporation and Advent Capital Corporation. Previously, he was a Principal Partner of SyCip Gorres Velayo & Co., Vice President for Corporate Finance at Kuok Philippine Properties, Inc., and Executive Vice President of Crown Equities Inc. He serves as a Director of IPM Holdings Inc., Organizational Change Consultants International, Inc., ACM Landholdings, Inc., Dualtech Training Center Foundation, Inc., and Rose Pharmacy, Inc. He has a degree in Bachelor of Science in Management Engineering from Ateneo de Manila University and Master’s Degree in Business Administration from Harvard Business School.

Period of Directorship in the Company

Name of Director	Period of Service	Term of Office
Dennis A. Uy	since incorporation to present	2 years
Chryss Alfonsus V. Damuy	since incorporation to present	2 years
Cherylyn C. Uy	since February 10, 2017 to present	2 years
Arthur Kenneth L. Sy	since March 27, 2017 to present	2 years
Efren E. Uy	since March 27, 2017 to present	2 years
Eduardo A. Bangayan	since March 27, 2017 to present	2 years
Miguel Rene A. Dominguez	since March 27, 2017 to present	2 years
Jesus S. Guevara II	since March 27, 2017 to present	2 years
Gener T. Mendoza	since March 27, 2017 to present	2 years

Directorships in Other Reporting Companies

The following are directorships held by the Directors in other reporting companies during the last five (5) years:

Name of Director	Name of Reporting Company	Position Held
Dennis A. Uy	Phoenix Petroleum Philippines, Inc.	Director, President and CEO
	2Go Group, Inc.	Chairman of the Board
	PH Resorts Group Holdings, Inc.	Chairman of the Board
	ISM Communications, Inc.	Director
Cherylyn C. Uy	Phoenix Petroleum Philippines, Inc.	Director
	PH Resorts Group Holdings, Inc.	Director
	ISM Communications, Inc.	Director
Eduardo A. Bangayan	Manila Mining Corporation	Independent Director
Gener T. Mendoza	IPM Holdings, Inc.	Director

Executive Officers

The following Officers are expected to be nominated for re-election or election at the Organizational Meeting of the Board of Directors following the Annual Stockholders' Meeting on March 15, 2019:

Ignacia S. Braga
Vice President for Finance
Filipino, 53 years old, is the Vice President for Finance of CLC. She is also the Vice President for Finance of Chelsea Shipping Corp. and its subsidiaries. Ms. Braga is a Certified Public Accountant with more than twenty (20) years of corporate finance and accounting experience. Prior to joining the Company, she was formerly the Assistant Vice President – Group Controller of Lapanday Foods Corporation and former Controller of Macondary Agro-Industrial Corporation. She was the Finance Manager of RFM Tuna Corporation and the Asia Industries (Mindanao) Inc. She began her career as an auditor of Sycip Gorres Velayo & Co. in 1986. She is a Cum Laude graduate of Bachelor of Science Commerce Major in Accounting from Ateneo de Davao University.

Ma. Henedina V. San Juan
Corporate Secretary and Assistant Vice President for Business Development and Corporate Affairs
Filipino, 57 years old, is the Corporate Secretary and concurrently the Assistant Vice President for Business Development and Corporate Affairs of CLC. She also serves as the Corporate Secretary of Chelsea Shipping Corp. and its subsidiaries, and other Companies in the Udenna Group. Prior to joining the Company, she worked for Petron Corporation, Petronas Energy & Petroleum, Inc. and Herma Corporation. She has a degree in Bachelor of Arts in Political Science and Bachelor of Laws both from University of the Philippines.

Rodel V. Marqueses
Finance Controller
Filipino, 33 years old, is the Finance Controller of the Company. Prior to joining CLC, he was formerly an Audit Senior Manager of Punongbayan and Araullo. He is a Certified Public Account and has a degree in Bachelor of Science in Accountancy from San Beda College.

Leandro E. Abarquez

Compliance Officer
Filipino, 35 years old, is the Compliance Officer of the Company. Prior to joining CLC, he was a Senior Associate at Romulo, Mabanta, Buenaventura, Sayoc & de los Angeles. He has a Bachelor's degree in Biology from the Ateneo de Manila University and obtained his Juris Doctor degree from the same university in 2009.

Rishamae S. Diaz
Investor Relations Officer
Filipino, 30 years old, is the Investor Relations Officer of the Company. She was formerly with ABS-CBN Corporation as Investment and Business Analysis Manager. Prior to that, she was a Corporate Finance Analyst at Alsons Consolidated Resources, Inc. and Unicapital, Inc. She holds a Bachelor's Degree in Mathematics from the University of the Philippines.

Period of Service in the Company

Name of Executive Officer	Period of Service
Ignacia S. Braga IV	Since incorporation to present
Ma. Henedina V. San Juan	Since incorporation to present
Rodel V. Marqueses	September 16, 2016 to present
Leandro E. Abarquez	April 3, 2017 to present
Rishamae S. Diaz	January 3, 2018 to present

ii. Significant employees

No single person is expected to make a significant contribution to the Company's business since the Company considers the collective efforts of all its employees as instrumental to the overall success of the Company's performance.

iii. Family relationships

There are no other family relationships between any Directors and any members of the Company's senior management as of the date of this Information Statement, except for the following:

1. Spouses Dennis A. Uy (Chairman of the Board) and Cherylyn C. Uy (Treasurer)

2. Spouses Arthur Kenneth L. Sy (Director and Trans-Asia Shipping President) and Shiela Fay U. Sy (Trans-Asia Shipping VP for Marketing and Operations)

3. Siblings Arthur Kenneth L. Sy (Director and Trans-Asia Shipping President) and Judith Ann S. Sandoval (Trans-Asia Shipping AVP for Treasury and Administration Services)

iv. Involvement of Directors and Officers in certain legal proceedings

As of the date of this Information Statement, there are no other material legal proceedings involving CLC's Directors and Executive Officers except the following:

1. *People of the Philippines vs. Dennis Ang Uy, John Does and/or Jane Does, Criminal Case Nos. 75,834-13 to 75,845-13 and 76,067-13 to 76,076-13, Regional Trial Court, 11th Judicial Region, Davao City, Branch 14*

   On August 27, 2013, the DOJ filed twelve (12) Information before the Regional Trial Court of Davao (docketed as Criminal Case Nos.75,834-13 to 75,845-13) against Mr. Uy and several John Does and/or Jane Does in connection with the Resolutions dated April 24, 2013 and August 13, 2013 issued by the SOJ, finding probable cause against Mr.Uy for alleged violation of Section 3602 in relation to Sections 3601, 2530 (I)(1), (3), (4), and (5), Sections 1801,1802, 3604; and 2530 of the TCCP, as amended, and AO No.243, CAO No.3-2010 and CAO No.18-2010.

   On September 5, 2013, an Entry of Appearance with Omnibus Motion (for Judicial Determination of Probable Cause and to Suspend Issuance and/or Service of Warrant of Arrest) dated September 3, 2013 was filed by Mr. Uy's counsel, which prayed for the dismissal of the criminal cases for lack of probable cause.

   Thereafter, on September 11, 2013, the DOJ filed ten (10) additional Information against Mr. Uy and several John Does and/or Jane Does for alleged violations of the TCCP. These were docketed as Criminal Case Nos. 76,067-13 to 76,076-13.

   On September 19, 2013, a Supplemental Motion for Judicial Determination of Probable Cause dated September 18, 2013 was filed by Mr. Uy's counsel, seeking the dismissal of the ten (10) additional criminal cases for lack of probable cause.

   On October 4, 2013, the RTC issued an Order dismissing all the cases against Mr. Uy.

   On November 15, 2013, a copy of the plaintiff People of the Philippines' Motion for Reconsideration with Urgent Motion for Inhibition of Judge George E. Omelio dated November 12, 2013 was received, to which Motion, Mr. Uy filed his Opposition.

   On August 18, 2014, the RTC issued an Order denying the Motion for Reconsideration of the plaintiff. The plaintiff People of the Philippines filed its Petition for Certiorari with the Court of Appeals for the reversal of the Orders dated October 4, 2013 and August 18, 2014 issued by the trial court. Please see Item 3 below for status on the Petition for Certiorari.

2. *People of the Philippines vs. Hon. George E. Omelio, in his capacity as Presiding Judge of the Davao City Regional Trial Court, Branch 14, Hon. Loida S. Posadas-Kahugan, in her capacity as Acting Presiding Judge of the Davao City RTC, Branch 14, Dennis Ang Uy, John Does and/or Jane Does, CA-G.R.SP No.06500-MIN, Court of Appeals, Cagayan de Oro City, 23rd Division*

   On October 27, 2014, petitioner People of the Philippines filed a Petition for Certiorari seeking the reversal of the Orders dated October 4, 2013 and August 18, 2014 issued by the trial court dismissing the cases filed against Dennis Ang Uy. The respondents filed their Comment to said Petition for Certiorari, and the parties subsequently filed their respective Memoranda. In its Decision dated October 12, 2016, the Court of Appeals denied the Petition for Certiorari filed by the People of the Philippines. On November 7, 2016, the People of the Philippines filed its Motion for Reconsideration of the Decision dated October 12, 2016. To date, the Court of Appeals has not acted on the Motion for Reconsideration dated November 7, 2016.

3. *Dennis A. Uy vs. Hon. Secretary of the Department of Justice Leila M. De Lima and the Bureau of Customs, CA-G.R.SP No. 131702, Court of Appeals, Manila, Special Former Special Tenth Division*

   There being no appeal or any other plain, speedy and adequate remedy in the ordinary course of law available to question and seek the reversal of the Resolutions dated April 24, 2013 and August 13, 2013 issued by the SOJ finding probable cause against Mr. Uy for alleged violation of the TCCP and other related rules and regulations, Dennis A. Uy filed a Petition for Certiorari with the Court of Appeals on September 4, 2013.

   On September 10, 2013, petitioner filed a Motion for Consolidation seeking the consolidation of this case with the Petition for Certiorari (with Application for Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction) filed by Jorlan Cabanes, docketed as CA-G.R.SP No.129740. The Motion for Consolidation was granted in the Resolution dated November 6, 2013. Thereafter, all the parties filed their respective Memoranda. On July 25, 2014, the Court of Appeals issued its Decision granting the Petition for Certiorari and declaring the Resolutions dated April 24, 2013 and August 13, 2013 nullified and set aside and directing that the Information filed against Dennis Uy and Jorlan C. Cabanes before the Regional Trial Courts of Batangas City and Davao City be withdrawn and/or dismissed for lack of probable cause. A Motion for Reconsideration of the Decision dated July 25, 2014 was filed by respondents SOJ and Bureau of Customs. On July 23, 2015, the Court of Appeals issued its Resolution denying respondents' Motion for Reconsideration. On September 10, 2015, petitioner received a copy of the Motion for Extension to File Petition for Review on Certiorari filed by the respondents with the Supreme Court. To date, the Supreme Court has not acted on respondents' Motion.

4. *Secretary of the Department of Justice Leila M. De Lima and Bureau of Customs vs. Jorlan Cabanes, and Secretary of the Department of Justice Leila M. De Lima and Bureau of Customs vs. Dennis A. Uy, G.R. No. 219295-219296, Supreme Court, 2nd Division*

   On October 8, 2015, respondents Jorlan C. Cabanes and Dennis A. Uy received a copy of the Petition for Review on Certiorari dated September 8, 2015 filed by petitioners SOJ and Bureau of Customs seeking to set aside the Court of Appeals' Decision dated July 25, 2014 and the Court of Appeals' Resolution dated July 2, 2015. The Supreme Court required the parties to file their respective Memoranda, which the parties complied with. On December 12, 2016, the Supreme Court issued its Notice of Resolution dated November 16, 2016 noting the parties' Memoranda.

5. *People of the Philippines v. Prospero Pichay, Eduardo Bangayan, et.al., SB Criminal Case Nos. SB16CRM0425-30*

   These cases charge Mr. Eduardo Bangayan for (a) violation of Section 3(e) of R.A. 3019; (b) violation of Section X126.2(C)(1)(2) of the Manual of Regulation for Banks in relation to Sections 36 and 37 of R.A. No. 7653; and, (c) committing Malversation of Public Funds under the Revised Penal Code, for allegedly conspiring with the other accused in the (a) Local Water Utilities Association's (LWUA) purchase of 445,377 shares in Express Savings Bank, Inc. (ESBI) and release from the LWUA Fund of at least PhP800,003,070.51 in connection with the said purchase of shares; and, (b) LWUA's deposit and/or capital infusion of the PhP400,000,000.00 and deposit of PhP300,000,000.00 with ESBI, as well as the release of the foregoing amounts from the LWUA Fund.

Mr. Bangayan sought for the dismissal of the criminal cases against him based on his defense that he had acted in good faith, upon the honest belief and based on information made available to him, that LWUA's acquisition of ESBI had the approval of the BSP and complied with all applicable laws and regulations, and that there was no prima facie evidence on his alleged conspiracy, hence, there is no probable cause to indict him for any of the alleged offenses.

The Sandiganbayan dismissed the case insofar as Mr. Bangayan is concerned through its Resolution dated October 18, 2016. The prosecution moved for reconsideration thereof. The same is still pending resolution by the Sandiganbayan.

6. *Field Investigation Office (Office of the Ombudsman) v. Prospero Pichay, Eduardo Bangayan, et.al., OMB Case No. C-C15-0007*

   Mr. Bangayan is being charged, together with four members of the LWUA Board, and other officials of the LWUA Management with alleged violations of (a) Malversation of Public Funds under Article 217 of the Revised Penal Code and, (b) Section 3(e) and (g) of R.A. 3019.

   These charges are in connection with the use of LWUA corporate funds in extending loans to water districts nationwide under the Non-LWUA Initiated Funds (NLIF) Project from 2009 to 2011, which stemmed from the approval of the LWUA Board of Board Resolution No. 19, Series of 2009, upon the recommendation made and data provided to the Board by the LWUA Management.

   For his defense, Mr. Bangayan argued that (a) his appointment as Trustee of the LWUA from September 2008 to March 2009 did not have legal effect; (b) he acted in good faith in voting for the use of the NLIF under said Board Resolution because he made it on the basis of the recommendation made as well as data given by the LWUA Management to the LWUA Board; and, (c) the Office of the Government Corporate Counsel did not specifically find any fault on the part of the LWUA Board. Based on the foregoing, Mr. Bangayan argued that there is no probable cause to indict him for the charges. The investigation is currently ongoing.

7. *Ombusdman v. Bundoc, et. Al., G.R. No. 225521-28, Supreme Court, First Division*

   On November 2012, the Office of the Ombudsman issued a review decision finding certain individuals, including Jesus S. Guevara II, guilty of Grave Misconduct and Conduct Prejudicial to the Best Interest of the Service. On November 2015, the Court of Appeals set aside the decision, which prompted the Office of the Ombudsman to file a motion for reconsideration. The Court of Appeals denied such motion for reconsideration on June 2016. A petition for review on certiorari was filed by the Office of the Ombudsman before the Supreme Court on August 2016. The Supreme Court in its Order dated December 1, 2016 and received on March 30, 2017, ordered the respondents including Jesus Guevara II to comment on the Petition filed by the Ombudsman. The respondents including Jesus Guevara II seasonably filed their Comment before the Supreme Court.

Other court cases typical and customary in the course of the business operations of the Company such as those, among others, involving collection, qualified theft, breach of contract and reckless imprudence have been filed by and against the Company, by and against its employees and/or third parties. The results of which will not significantly affect the financial standing of the Company.

Except for the above, to the best of the Company's knowledge there has been no occurrence during the past five (5) years up to the date of this Information Statement of any of the following events which are material to an evaluation of the ability or integrity of any Director, person nominated to become a Director, executive officer, or control person of the Company:

- Any insolvency or bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the insolvency or within two years prior to that time;

- Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

- Any final and executory order, judgment, or decree or any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and

- Any final and executory judgment by a domestic or foreign court or competent jurisdiction (in a civil action), the Commission, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

There are no other pending legal cases as far as records of the Company is concerned.

b. Certain relationships and related transactions

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

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

		Amounts of Transactions		Outstanding Balances	
Related Party Category	Notes	**September 30, 2018 (Unaudited)**	September 30, 2017 (Unaudited)	**September 30, 2018 (Unaudited)**	December 31, 2017 (Audited)
Udenna					
Cash advances granted	20.4	**(P 231,689,356)**	P 6,290,067,914	**P 2,196,544,653**	P 2,428,234,009
P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI)					
Chartering of services rendered	20.1	**469,021,447**	411,740,679	**235,346,568**	271,054,727
Fuel purchases	20.2	**184,880,024**	98,036,541	**(102,730,175)**	(77,121,463)
Cash advances obtained	20.4	**34,188**	84,830,229	**(894,839)**	(929,026)
Acquisition of CSC's shares	20.6	-	-	**(500,000,000)**	(500,000,000)
Related party under common ownership					
Rental income	20.3	**3,801,723**	3,777,726	**571,219**	1,131,385
Rental expense	20.3	**1,243,133**	1,806,667	**(408,341)**	(378,191)
Donation	20.8(b)	**270,000**	270,000	**(180,000)**	(90,000)
Cash advances granted	20.4	**276,011,308**	(194,446,078)	**336,212,092**	60,200,784
Cash advances obtained	20.4	**920,963,439**	(117,338,279)	**(118,879,687)**	(1,039,843,126)

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

In addition, the following table presents the outstanding balance of advances to officers and employees of the Company as of:

	2018	2017
Advances to officers and employees	PhP 68,513,024	PhP 19,001,031

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

c. Ownership structure and parent company

As of December 31, 2018, Udenna Corporation owns 70.00% of the outstanding shares of the Company.

d. Resignation of Directors

Since the organizational meeting of the Company on March 27, 2017, no Director or Officer has resigned because of a disagreement with the Company on any matter relating the Company's issuance, operations, policies or practices.

Item 6. Compensation of Directors and Executive Officers

The Company's executive officers are regular employees entitled to a 12-month compensation package and other mandatory pay and benefits. They also receive performance bonuses similar to those of the managerial, supervisory and technical employees.

The members of the Board of Directors who are not employees of the Company are elected for a period of one (1) year. The Company pays its non-executive directors a per diem of PhP30,000.00 for each meeting. There are no other arrangements for which the members of the Board of Directors are compensated.

The members of the Board of Directors are elected for a period of one (1) year.

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the executive officers of the Company are as follows:

Compensation of Executive Officer and Directors (in PhP millions)				
Name and Principal Position	Salary	Bonus	Other	Total
	Estimated Compensation For the Year Ended December 31, 2019			
Chryss Alfonsus V. Damuy President and CEO Cherylyn C. Uy Treasurer				

Compensation of Executive Officer and Directors (in PhP millions)				
Name and Principal Position	**Salary**	**Bonus**	**Other**	**Total**
	Estimated Compensation For the Year Ended December 31, 2019			
Ignacia S. Braga IV VP – Finance Arthur Kenneth Sy President – Trans-Asia Ma. Henedina V. San Juan Corporate Secretary and AVP for Business Development and Corporate Affairs				
CEO & Most Highly Compensated Executive Officers	TBD	-	-	TBD
All other officers as a group unnamed	TBD	-	-	TBD

Compensation of Executive Officer and Directors (in PhP millions)				
Name and Principal Position	**Salary**	**Bonus**	**Other**	**Total**
	Actual Compensation For the Year Ended December 31, 2018			
Chryss Alfonsus V. Damuy President and CEO Cherylyn C. Uy Treasurer Ignacia S. Braga IV VP – Finance Arthur Kenneth Sy President – Trans-Asia Ricky P. Victoria VP – Ship Management Tankers & Tugs				
CEO & Most Highly Compensated Executive Officers	21.8	-	-	21.8
All other officers as a group unnamed	6.4	-	-	6.4

Compensation of Executive Officer and Directors (in PhP millions)				
Name and Principal Position	**Salary**	**Bonus**	**Other**	**Total**
	Actual Compensation For the Year Ended December 31, 2017			
Chryss Alfonsus V. Damuy				

Compensation of Executive Officer and Directors (in PhP millions)				
Name and Principal Position	**Salary**	**Bonus**	**Other**	**Total**
	Actual Compensation For the Year Ended December 31, 2017			
President and CEO Cherylyn C. Uy Treasurer Ignacia S. Braga IV VP – Finance Arthur Kenneth Sy President – Trans-Asia Ricky P. Victoria VP – Ship Management Tankers & Tugs				
CEO & Most Highly Compensated Executive Officers	20.3	-	-	20.3
All other officers as a group unnamed	6.8	-	-	6.8

Generally, a typical employment contract executed between the Company and its named executive officers has the following terms:

a. Specification of job title, commencement date of employment, work assignment and possible need for reassignment of work or location as the need may arise.

b. Probation of six months from commencement of employment. If the job performance is found to be satisfactory, employment shall be converted to regular status.

c. Salary & Benefits: specifies that the executive officer shall receive his or her monthly salary and a guaranteed 13th month pay less the necessary government deductions required by law, such as but not limited to SSS premium, PHILHEALTH, and PAG-IBIG contributions. The same section likewise provides that the executive's salary shall be subject to annual review which shall take into consideration his or her performance and the achievement of a mutually-agreed goals.

d. Exclusivity: The employment contract states that the executive shall render exclusive service to the Company and to work with other companies, regardless of whether such work is done outside of office hours, without the consent of the Company, is prohibited.

e. Confidentiality: The executive is duty bound to keep confidential information, materials and records which he or she may access in the course of his or her employment with the Company and he or she may not disclose or reproduce the same without the consent of the Company.

f. Professional Conduct: The executive concerned is expected to comply with all the policies and procedures which the Company may issue from time to time. It is specifically prohibited to accept any or all kinds of gifts from suppliers and customers without the consent of the Company.

Employees' Stock Option Plan (ESOP)

The Company has no existing stock option plan.

Item 7. Independent Public Accountants

Punongbayan & Araullo (P&A), a member firm of Grant Thornton International Ltd., independent auditors, audited the Company's financial statements as at and for the years ended December 31, 2017 and 2018 in accordance with the Philippine Standards on Auditing.

P&A has acted as CLC's external auditor since incorporation. Ramilito L. Nanola is the assigned audit partner and has served as such since 2016. The Company has not had any material disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period. P&A has neither shareholding in CLC nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

Punongbayan & Araullo will be recommended for re-appointment at the scheduled Annual Stockholders' Meeting. Representatives of the firm are expected to be present at the Annual Stockholders' Meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

The following table sets out the aggregate fees billed to the Company and its subsidiaries for each of the last two fiscal years for professional services rendered by its external auditor. P&A does not provide other services that are not reasonably related to the performance of the audit or review of our financial statements.

	2016	**2017**	**2018**
Audit Fees	PhP 2,860,050	PhP 3,691,500	PhP 4,577,000

Audit and audit related fees refer to the professional services rendered by P&A for audit of the Company's annual financial statements and services that are normally provided in connection with statutory and regulatory filings for the said calendar years. The fees presented above include out-of-pocket expenses incidental to the Independent Auditors' services.

Audit Committee and Policies

CLC's Audit Committee shall be composed of at least three (3) qualified non-executive Directors, the majority of whom, including the Chairman, should be independent. All of the members of the Committee must have relevant background, knowledge, skills and/or experience in the areas of accounting, auditing and finance. The Chairman of the Audit Committee should not be the chairman of the Board or of any other committees.

The Audit Committee has the following functions:

a. Provide oversight of Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities;

b. Perform oversight functions over the Company's internal and external auditors. It should ensure that the internal and external auditors act independent from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

c. Review the annual internal audit plan to ensure its conformity with the Company's objectives. The plan shall include the audit scope, resources and budget necessary to implement it;

d. Prior to the commencement of an audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

e. Organize an internal audit department, and consider, when necessary and desirable the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;

f. Monitor and evaluate the adequacy and effectiveness of CLC's internal control system including financial reporting control and information technology security;

g. Review the reports submitted by the internal and external auditors;

h. Review the quarterly, half-year and annual financial statements before their submission to the Board of Directors, with particular focus on the following matters: any change(s) in accounting policies and practices; major judgment areas; significant adjustments resulting from the audit; going concern assumptions; compliance with accounting standards; and compliance with tax, legal and regulatory requirements;

i. Coordinate, monitor and facilitate compliance with laws, rules and regulations;

j. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fee paid to the external auditor in relation to its significance to the total annual income of the external auditor and to our overall consultancy expenses. The Audit Committee shall disallow any non-audit work that will conflict with its duties as an external auditor or may pose a threat to its independence. The non-audit work, if allowed, should be disclosed in our annual report; and

k. Establish and identify the reporting line of CLC's internal auditor to enable him to properly fulfill his duties and responsibilities. It shall functionally report directly to the Audit Committee.

CLC's Audit Committee shall ensure that its internal auditor in the performance of its work shall be free from interference by outside parties. In addition, the Audit Committee shall be tasked to prepare the Audit Committee Charter (the Charter), which shall contain, among others, its purpose, membership, structure, operations, reporting process, resources and other relevant information. The Charter shall specify how the Audit Committee shall perform its oversight functions as prescribed by the Revised Code of Corporate Governance (the Code).

In the preparation of the Charter, the Audit Committee shall strictly observe the requirements of the Code and other applicable laws and regulations in the Philippines and shall align the Charter with the best practices and standards as provided for in any or combination of the reference guides indicated in SEC Memorandum Circular No. 4, Series of 2012.

Upon approval by the Audit Committee of the Audit Committee Charter, the same shall be submitted for the approval of CLC's Board of Directors. Within one year from listing date, the Audit Committee shall assess its performance, as prescribed by and pursuant to SEC Memorandum Circular No. 4, Series of 2012.

Gener T. Mendoza is CLC's Audit Committee Chairman, with Dennis A. Uy and Jesus S. Guevara II as members.

Changes in and Disagreements with Accountants

The Company has not had any disagreement with its current external auditor/independent public accountant on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Item 8. Compensation Plans

No action is to be taken by the Company with respect to any compensation plans.

C. ISSUANCE AND EXCHANGE SECURITIES

Item 9. Authorization or Issuance of Securities Other than For Exchange

No action is to be taken by the Company with respect to authorization or issuance of securities other than for exchange.

Item 10. Modification or Exchange of Securities

No action is to be taken by the Company with respect to the modification of any class of securities of the Company or the issuance or authorization for issuance of one class of securities of the Company in exchange for outstanding securities of another class.

Item 11. Financial and Other Information

No action is to be taken with respect to financial and other information.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

No action is to be taken with respect to mergers, consolidations, acquisitions and similar matters.

Item 13. Acquisition or Disposition of Property

No action is to be taken with respect to acquisition or disposition of property.

Item 14. Reclassification of Accounts

No actions are to be taken with respect to the restatement of any asset, capital, or surplus account of the Company.

D. OTHER MATTERS

Item 15. Action with Respect to Reports and Other Proposed Action

Approval of the Minutes of the Annual Stockholders' Meeting held on March 19, 2018

Item 16. Matters Not Required to be Submitted

There are no actions to be taken with respect to any matter, which are not required to be submitted to a vote by security holders.

Item 17. Amendment of Articles of Incorporation, By-Laws or Other Documents

The Article 1 of the Articles of Incorporation will be amended for the change in Corporate Name.

Item 18. Other Proposed Action

a. Ratification and confirmation of all acts and resolutions of the Board and Management executed in the normal course of business covering the period February 23, 2018 until February 13, 2019 as set forth in ***Annex A***.

b. Election of the members of the Board of Directors

c. Appointment of the External Auditor – Punongbayan & Araullo

Item 19. Voting Procedures

Under the Corporation Code, the affirmative vote of stockholders representing at least two thirds (2/3) of the outstanding capital stock of the Company shall be necessary for the approval of the proposed amendment to the Articles of Incorporation and the investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

Except in cases provided above, or where the law provides otherwise, all matters subject to vote shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

Stockholders of record are entitled to one (1) vote per share. There is no manner of voting prescribed in the By-Laws of the Company. Hence, voting may be done by viva voce, raising of hands or by balloting.

The external auditor of the Company, Punongbayan & Araullo, will validate the votes when voting is done by secret ballot. Likewise, Punongbayan & Araullo will count the number of hands raised when voting by show of hands is done.

Upon the written request of the stockholders, the Company hereby undertakes to provide said stockholder with a copy of SEC Form 17-A free of charge. Any written request shall be addressed to:

MA. HENEDINA V. SAN JUAN
Corporate Secretary
26th Floor Fort Legend Tower
3rd Avenue corner 31st Street
Bonifacio Global City, Taguig City 1634

After reasonable inquiry to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Taguig on the 15th day of February 2019.

CHELSEA LOGISTICS HOLDINGS CORP.
BY:

MA. HENEDINA V. SAN JUAN
Corporate Secretary

ANNEX A

**ACTS AND RESOLUTIONS OF THE BOARD OF DIRECTORS
FOR THE PERIOD COVERING
FEBRUARY 23, 2018 TO FEBRUARY 13, 2019**

26 February	• Authority for the Corporation to purchase a motor vehicle and obtain credit facilities with Asia United Bank – Matina Branch, Davao City for the financing of one (1) unit of 2018 Mitsubishi Montero Premium GLS 4x4 A/T, in the amount of Pesos: One Million Three Hundred Ninety Five Thousand Two Hundred (P1,395,200.00); Designatioßn of the Corporation's Vice President for Finance Ignacia S. Braga IV as authorized signatory for this transaction.
5 March	• Authority for the Corporation to transact with BDO Unibank, INC. and any of its branches, subsidiaries or affiliates to obtain loan facilities and other credit accommodations; Designation of authorized signatories for these transactions: Dennis A. Uy and Cherylyn C. Uy as Class A signatories for any amount; Chryss Alfonsus V. Damuy and Ma. Henedina V. San Juan as Class "B" signatories; Ignacia S. Braga IV and Rodel V. Marqueses as Class "C" signatories, with any Class "B" signatory signing jointly with any one (1) C for amounts P5,000,000.00 and below.
19 March	• Authority for the Corporation to act as surety for Trans-Asia Shipping Lines, Inc. for its Loan Line with China Banking Corporation in the amount of Five Hundred Million pesos (P500,000,000.00); Designation of any one (1) of the Corporation's Chairman Dennis A. Uy or President & CEO Chryss Alfonsus V. Damuy as authorized signatory for the said transaction. • Authority for the Corporation to enter in negotiations with Southwest Premiere Ferries, Inc, for the possible purchase of the business / assets of the latter; Designation of any (1) of the Corporation's Chairman Dennis A. Uy or President & CEO Chryss Alfonsus V. Damuy as authorized representatives for this business transaction. • Authority for the Corporation to act as continuing surety for all obligations of Trans-Asia Shipping Lines, Inc. to BDO Unibank, Inc.; Designation of any one (1) of the Corporation's Chairman Dennis A. Uy or President & CEO Chryss Alfonsus V. Damuy as authorized signatory for the abovementioned business objective. • Authority of the Corporation to amend its Primary Purpose as reflected in its Articles of Incorporation to allow the Corporation to engage in the business of development, management and operation of infrastructure facilities and systems, and for the creation of Preferred Shares; and to file with the Securities and Exchange

	Commission its application for amendment of its Articles of Incorporation for these purposes.
10 April	• Authority for the Corporation to open a Corporate Credit Card Account (Corporate Card) with Rizal Commercial Banking Corporation; Designation of of the Corporation's President & CEO Chryss Alfonsus V. Damuy or VP – Finance Ignacia S. Braga IV as authorized signatory for this transaction. • Authority for the Corporation to enter into transactions and contracts with, and/or avail of products, facilities, services of PLDT Inc. and any of its subsidiaries and affiliates including but not limited to Smart Communications, Inc., Digitel Mobile Philippines, Inc. and ePLDT, Inc. (hereinafter referred to as "PLDT Group"; Designation of the Corporation's Chryss Alfonsus V. Damuy as authorized signatory for all transactions with PLDT Group.
19 April	• Authority for the Corporation to subscribe to eight million (8,000,000) Common Shares of Trans-Asia Shipping Lines, Incorporated for the total price of Four Hundred Million Pesos (P 400,000,000.00) and to fully pay said subscription; Designation of the Corporation's President & CEO Chryss Alfonsus V. Damuy as authorized signatory for the Subscription Agreement to be executed for this purpose.
23 April	• Designation of authorized signatories for all of the Corporation's existing Bank accounts: Dennis A. Uy and Cherylyn C. Uy as Class A signatories for any amount; Chryss Alfonsus V. Damuy and Ma. Henedina V. San Juan as Class "B" signatories and Ignacia S. Braga IV and Rodel V. Marqueses as Class "C" signatories, with any Class "B" signatory signing jointly with any one (1) Class "C" signatory for amounts P5,000,000.00 and below.
2 May	• Authority for the Corporation to secure a Revolving Promissory Note Line from Penta Capital & Investment Corp. for the purpose of bridge financing of vessel acquisitions in the amount of Four Hundred Million Pesos (P400,000,000.00); Designation of any one (1) of the Corporation's Chairman Dennis A. Uy or President & CEO Chryss Alfonsus V. Damuy as authorized signatory for this transaction.
15 May	• Authority for the Corporation to enter into a Sub-Lease Agreement with Planet Sports Inc. for a 206.06 sq.m. unit located at 9th Avenue corner 30th St., Bonifacio Global City, Taguig City; Designation of the President & CEO of the Corporation Chryss Alfonsus V. Damuy as authorized signatory for the Sub-Lease Agreement. • Authority for the Corporation to negotiate and transact with BDO

	Private Bank, Metropolitan Trust Banking Corp., China Banking Corporation, Chinabank Savings, Board of Trustees – PERAA, Sterling Bank of Asia, Multinational Investment Bancorporation, Bank of Commerce, BSP Provident Fund, Philippine Bank of Communications and Security Bank Corporation, for the availment of loan facilities and all banking products and services for the benefit of the Corporation; Designation of the any one (1) of the following : Dennis A. Uy and Cherylyn C. Uy as authorized signatory for all transactions with these financial institutions. • Authority for the Corporation to apply for, obtain and renew loans from China Banking Corporation – Trust and Asset Management Group as Trustee/ Agent for its various Trust Accounts / IMA Accounts; Designation of the Corporation's Chairman Dennis A. Uy and President & CEO Chryss Alfonsus V. Damuy as authorized representatives of the Corporation for all transactions with China Banking Corporation. • Authority for the Corporation to open demand deposits, savings account and other types of accounts with CTBC Bank (Philippines), Inc.; Authority for the Corporation to borrow from the Bank the amount of P 300,000,000.00; Designation of the Corporation's Chairman Dennis A. Uy and President & CEO Chryss Alfonsus V. Damuy as authorized representatives of the Corporation for all transactions with the Bank. • Authority for the Corporation to purchase the parcel of land located at Ligid Tipas, Taguig City covered by Transfer Certificate of Title No.164-2018000029 for the amount of P 46,000 per square meter; Designation of the Corporation's Vice President for Finance Ignacia S. Braga IV as authorized signatory for the Deed of Absolute Sale and Promissory Note, and all other documents necessary for this acquisition.
18 June	• Authority for the Corporation's Vice President for Finance Ignacia S. Braga IV to sign, execute, verify and file any and all pleadings, affidavits, motions, verifications, agreements and other documents for and in behalf of the Corporation in connection with PCC Case No.M-2018-002 entitled "In the Matter of the Proposed Acquisition by Chelsea Logistics Holdings Corp. of Shares of Stock in KGLI-NM Holdings, Inc.; Designation of Martirez Vergara Gonzales & Serrano Law Office as the Corporation's counsel in said case. • Authority for the Corporation's Vice President for Finance Ignacia S. Braga IV to sign, execute, verify and file any and all pleadings, affidavits, motions, verifications, agreements and other documents for and in behalf of the Corporation in connection with PCC Case No.M-2018-002 entitled "In the Matter of Udenna Corporation, Chelsea Logistics Holdings Corp. and Trans-Asia Shipping Lines, Inc.'s

	Alleged Violation of the Compulsory Notification Requirements Under Section 17 of the Philippine Competition Act and Rule 4, Section 3 of the Rules and Regulations to Implement Republic Act No.10667”. • Authority for the Corporation to participate in the bidding to be conducted by the Development Bank of the Philippines for its two (2) aircrafts; Designation of Jose Antonio A. Lopez as the Corporation’s authorized representative for this bidding.
25 June	• Authority for the Corporation to act as surety / co-maker for Trans-Asia Shipping Lines, Incorporated for the latter’s loan obligation to China Banking Corporation in the amount of P 300,000,000.00; Designation of any one of the following officers: Chairman Dennis A. Uy or President & CEO Chryss Alfonsus V. Damuy as the authorized signatories for this transaction with the Bank. • Authority for the Corporation to enter into a Hospital Credit Service Agreement with St.Luke’s Medical Center, Inc. in connection with the hospital services which may be required by the Corporation’s employees; Designation of the Corporation’s President & CEO Chryss Alfonsus V. Damuy as authorized signatory for the Hospital Credit Service Agreement.
2 July	• Authority for the Corporation to file any and all pleadings, affidavits, motions, verifications, agreements and other documents in PCC Case No.M-2018-003 (MAO Case No.3/2017) entitled “In The Matter of Udenna Corporation, Chelsea Logistics Holdings Corp. and Trans-Asia Shipping Lines, Incorporated’s Alleged Violation of the Compulsory Notification Requirements Under Section 17 of the Philippine Competition Act and Rule 4, Section 3 of the Rules and Regulations to Implement Republic Act No. 10667”; Authority for Martinez Vergara Gonzales & Serrano Law Office to act as counsel and represent the Corporation in said case.
23 July	• Authority for the Corporation to enter into and execute an Omnibus Loan and Security Agreement by and among Udenna Corporation as Borrower, Corporate Surety and Assignor; Chelsea Logistics Holdings Corp. as Borrower, Share Mortgagor and Corporate Surety; Udenna Investments BV as Share Mortgagor; KGLI-NM Holdings, Inc. as Share Mortgagor and Corporate Surety, and Dennis A. Uy as Individual Surety and Share Mortgagor and Cherylyn C. Uy as Individual Surety, and BDO Unibank, Inc. as Lender; Designation of Chairman Dennis A. Uy as the authorized signatory of the loan documents.
17 August	• Authority for the Corporation to apply for a Certification from the Bureau of Internal Revenue that the Corporation does not belong to the Top 20,000 Private Corporations; Authority of any one of the following: Janel Lagahit, Jessie Dador, Raymart Jutba or Ianna Ren Pandian, to process and claim said Certificate from the Bureau.

3 September	• Authority for the Corporation to purchase a motor vehicle and obtain credit facilities with Asia United Bank – Matina Branch, Davao City for the financing of one (1) unit of 2019 Mitsubishi Xpander GLS Sport 1.5G 2WD A/T, in the amount of P 848,000.00); Designation of the Corporation's Vice President for Finance Ignacia S. Braga IV as authorized signatory for this transaction.
17 September	• Authority for the Corporation to purchase a motor vehicle and obtain credit facilities with Asia United Bank – Matina Branch, Davao City for the financing of one (1) unit Nissan NP300 Navarra 2.5L 4x2 EL AT Calibre, in the amount of P 846,400.00); Designation of the Corporation's Vice President for Finance Ignacia S. Braga IV as authorized signatory for this transaction. • Authority for the Corporation to file with the Philippine Competition Commission the required Notification Form and any and all exhibits, attachments and documents in connected with the intended purchase by the Corporation of 2,000,000 common shares of Trans-Asia Shipping Lines, Incorporated; Designation of the Corporation's Vice President for Finance Ignacia S. Braga IV as authorized signatory for the Notification Form. • Authority for the Corporation to act as surety for Trans-Asia Shipping Lines, Incorporated for the latter's loan obligations to China Banking Corporation; Designation of any one of the following officers: Chairman Dennis A. Uy or President and CEO Chryss Alfonsus V. Damuy as authorized signatories for this transaction with the Bank.
05 October	• Designation of the Chairman of the Board, Dennis A. Uy as the Corporation's authorized signatory for all documents in connection with the amendment of the Articles of Incorporation of Udenna Investments B.V., a limited company existing under Dutch laws of which the Corporation is the sole shareholder.
15 October	• Authority for the Corporation to file with the Philippine Competition Commission the required Notification Form in connection with the intended purchase by the Corporation of 2,000,000 Common Shares of Trans-Asia Shipping Lines, Incorporated; Designation of the President & CEO of the Corporation, Chryss Alfonsus V. Damuy or the Vice President for Finance Ignacia S. Braga IV as authorized signatory for all documents to be filed with the Philippine Competition Commission.
6 November	• Authority for the Corporation to participate in the selection process of the National Telecommunications Commission (NTC) for a New Major Player in the Philippine telecommunications market; Designation of President & CEO Chryss Alfonsus V. Damuy and Vice President for Finance Ignacia S. Braga IV as authorized signatories for

	the Bidding Agreement and all other documents to be submitted to the NTC; Designation of Romulo Mabanta Law Office as the official address for the Corporation for this Selection Process of NTC. • Authority for the Corporation to sell its 2017 Subaru Forester 2.01-P with Plate No. HW 8719; Designation of Vice President for Finance Ignacia S. Braga IV as authorized signatory for the Deed of Absolute Sale.
12 November	• Designation of Dennis A. Uy or Elmer B. Serrano as authorized signatories of the Corporation for Omnibus Loan and Security Agreement by and among BDO Unibank, Inc. a Lender, Udenna Corporation as Borrower, Corporate Surety and Assignor, and the Corporation as Borrower, Share Mortgagor and Corporate Surety, Udenna Investments B.V as Share Mortgagor, KGLI-NM Holdings, Inc. as Share Mortgagor and Corporate Surety, Dennis A. Uy as Share Mortgagor and Individual Surety, and Cherylyn C. Uy as Individual Surety, authorized to sign the Deed of Pledge of Shares in the capital of Udenna Investments BV in favor of BDO Unibank, Inc. and all other documents in connection with this transaction.
3 December	• Confirmation of the authority of the President & CEO Chryss Alfonsus V. Damuy to represent the Corporation and sign the Omnibus Sworn Statement which includes the Certificate of Acceptance of Criteria and the Waiver of Right to Enjoin Activity, and all other documents which may be required by the Philippine Ports Authority in connection with the Corporation's unsolicited proposal for the modernization of the Davao (Sasa) Port. • Authority for the Corporation to act as continuing surety for all obligations of PNX-Chelsea Shipping Corp. to Land Bank of the Philippines in connection with the Short-term Loan Line extended by the Bank to said Company; Designation of the Chairman of the Board Dennis A. Uy as authorized signatory for the Continuing Surety Agreement and all other documents which may be required by the Bank for this transaction.
10 December	• Authority for the Corporation to file an application for renewal of its 2019 Business Permit with the City Government of Davao; Designation of the Corporation's Chief Financial Officer, Ignacia S. Braga IV as authorized signatory for this application; Authority for Entia Accounting Office and any of its staff members to follow-up the issuance of the Corporation's 2019 Business Permit.
17 December	• Authority for the Corporation to negotiate and transact with BDO Private Bank, Metropolitan Trust Banking Corp., China Banking Corporation, Chinabank Savings, Board of Trustees – PERAA, Sterling Bank of Asia, Multinational Investment Bancorporation, Bank of Commerce, BSP Provident Fund, Philippine Bank of Communications and Security Bank Corporation, for the availment of loan facilities and all banking products and services for the benefit of the Corporation;

	Designation of the any one (1) of the following : Dennis A. Uy, Cherylyn C. Uy and Ignacia S. Braga IV as authorized signatory for all transactions with these financial institutions.
7 January	• Authority for the Corporation to apply for and obtain loans / credit accommodations; foreign exchange and derivatives transactions; and other products and services with Standard Chartered Bank; Designation of Dennis A. Uy and Cherylyn C. Uy as Class A signatories for any amount; Chryss Alfonsus V. Damuy and Ma. Henedina V. San Juan as Class "B" signatories and Ignacia S. Braga IV and Rodel V. Marqueses as Class "C" signatories, with any Class "B" signatory signing jointly with any one (1) Class "C" signatory for amounts P5,000,000.00 and below.
15 January	• Authority for the Corporation to enter into a paper hedge agreement with Global Risk Management Pte.Ltd. in connection with the bunker fuel requirements of its subsidiaries; Designation of the President & CEO Dennis A. Uy as the authorized signatory for the Master Agreement and the Margin and Collateral Agreement and all other documents for this transaction. • Designation of Dexter A. Silva as the Corporation's representative for the necessary permits to be secured for the Corporation's property located at Ligid Tipas, Taguig City, including the fencing permit, electrical permit, mechanical permit and sewerage permit, in connection with the construction of the proposed distribution warehouse thereon.

ANNEX B

MANAGEMENT REPORT

I. MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This discussion summarizes the significant factors affecting the consolidated operating results and financial condition of Chelsea Logistics Holdings Corp. and its Subsidiaries as of and for the year ended September 30, 2018. The following discussion should be read in conjunction with the attached consolidated financial statements of the Company as of September 30, 2018 and 2017, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the two periods ended September 30, 2018.

Comparable discussion on Material Changes in Results of Operations for the Nine Months Ended 30 September 2018 vs. 30 September 2017

Amounts in PhP Millions	Consolidated 9M 2018		Consolidated 9M 2017		% Change
Revenues	**P**	**3,695**	P	2,296	61%
Cost of Sales and Services		**2,427**		1,481	64%
Gross Profit		**1,268**		815	56%
Other Operating Expenses		**591**		298	98%
Operating Profit		**677**		517	31%
Other Charges - Net	**(**	**594)**	(	316)	88%
Profit Before Tax		**84**		201	-58%
Tax Expense		**41**		49	-16%
Net Profit	**P**	**43**	P	152	**-72%**
Add back:					
Tax Expense		**41**		49	-16%
Interest Expense		**456**		403	13%
Depreciation and Amortization		**624**		402	55%
EBITDA	**P**	**1,164**	P	1,006	**16%**

Chelsea Logistics Holdings Corp. and subsidiaries (CLC or the Group) posted a net profit of ₱43 million for the first nine months of 2018. This represents a 72% decline in the net profit of ₱152 million during the same period in 2017. The decrease in CLC's profitability was primarily a result of the Company's share in net losses of 2Go Group, Inc. amounting to ₱198 million. Excluding this amount, the Company would have had reported a net profit of ₱241 million representing a 59% increase, which resulted from the consolidation of the acquired subsidiaries, namely WorkLink Services, Inc. (WorkLink) and Starlite Ferries, Inc. (Starlite) in November 2017 following the Group's initial public offering on August 8, 2017.

EBITDA grew by 16% from ₱1,006 million during the first nine months of 2017 to ₱1,164 million over the same period in 2018.

Revenues

Presented below is the comparison of the Group's consolidated revenues for the nine (9) months ended 30 September 2018 as compared to the pro-forma combined revenues for the same period in 2017.

Amounts in PhP Millions		Consolidated 9M 2018		Pro-Forma Combined 9M 2017	% Change
Freight	**P**	**1,260**	P	1,028	23%
Tankering		**1,211**		1,091	11%
Passage		**727**		604	20%
Tugboats		**222**		193	15%
Logistics		**191**		176	9%
Others		**85**		28	204%
Total	**P**	**3,695**	P	3,119	18%

Based on the comparison of actual 2018 performance for the first nine months against pro-forma combined balance for the same period in 2017, the Group's revenues increased by ₱576 million or 18% to ₱3.69 billion from ₱3.12 billion. Each business segment of the Group showed robust growth and improved profitability. The tankering revenues increased from ₱1.09 billion to ₱1.21 billion as a result of higher freight rates charged for farther distance of port calls during the same period. Similarly, freight segment increased by 23% from ₱1.03billion for the first nine (9) months of 2017 to ₱1.26billion during the same period in 2018 as a result of the acquisition of three freighters in November 2017. On the other hand, passage revenues increased by 20%which was attributable to the operations of MV Starlite Eagle which started commercial operations in April 2017 plying the Roxas – Caticlan route.

Tugboat fees improved by 15% for the nine (9) months ended 30 September 2018 from ₱193 million to ₱222 million. The increase in tugboat fees was primarily due to additional customers acquired during the last quarter of 2017.

Finally, revenues from logistics services, which currently accounts for 5% of the Group's total revenues, increased from ₱174 million to ₱191 million as a result of additional customers acquired during the current period.

Costs and Expenses

A breakdown of the Group's consolidated Costs of Sales and Services for the nine (9) months ended 30 September 2018 as compared to the pro-forma combined costs of sales and services for the same period in 2017 is shown below.

Amounts in PhP Millions		Consolidated 9M 2018		Pro-Forma Combined 9M 2017	% Change
Bunkering	**P**	**735**	P	597	23%
Depreciation and amortization		**600**		482	24%
Salaries and employee benefits		**388**		270	44%
Charter hire costs		**121**		80	51%
Port expenses		**116**		117	-1%
Insurance		**95**		86	10%
Repairs and maintenance		**69**		147	-53%
Supplies		**64**		37	73%
Outside services		**54**		71	-24%
Delivery		**40**		31	29%
Rentals		**38**		13	192%
Taxes and licenses		**23**		23	0%
Travel and transportation		**14**		16	-13%
Utilities and communication		**13**		8	63%
Cost of inventories sold		**7**		17	-59%
Technology		**7**		3	133%
Commission		**2**		1	100%
Professional fees		**2**		3	-33%
Miscellaneous		**39**		16	144%
Total	**P**	**2,427**	P	2,018	20%

As shown on the table above, the increase in Costs of Sales and Services significantly came from larger bunkering costs, crew salaries and employee benefits, and depreciation and amortization. Bunkering costs grew 23% from ₱597 million to ₱735 million due to deployment of additional vessels and higher fuel price caused by increase in the benchmark rates in the international market and the implementation of excise taxes on petroleum products effective 01 January 2018. Similarly, depreciation and amortization and crew salaries and employee benefits increased as a result of the acquisition of four (4) additional vessels.

On the other hand, the details of other Operating Expenses for the nine (9) months ended 30 September 2018 as compared to the pro-forma combined other Operating Expenses for the same period in 2017 are as follows:

Amounts in PhP Millions		Consolidated 9M 2018		Pro-Forma Combined 9M 2017	% Change
Salaries and employee benefits	**P**	**226**	P	130	74%
Taxes and licenses		**119**		78	53%
Outside services		**32**		21	52%
Rentals		**30**		22	36%
Depreciation and amortization		**23**		17	35%
Travel and transportation		**20**		15	33%
Professional fees		**16**		25	-36%
Utilities and communication		**15**		10	50%
Repairs and maintenance		**13**		6	117%
Representation and entertainment		**12**		9	33%
Supplies		**10**		12	-17%
Commission		**9**		4	125%
Advertising and promotions		**5**		7	-29%
Insurance		**3**		3	0%
Dues and membership		**3**		2	50%
Miscellaneous		**55**		21	162%
Total	**P**	**591**	P	382	55%

Other Operating Expenses grew from ₱382 million to ₱591 million due to increases in salaries and employee benefits, outside services and rentals as a result of the Group's continued expansion. In addition, the Group paid additional taxes and licenses related to conversion of certain loans, and filing fees related to incorporation of new companies. Finally, Miscellaneous Expenses increased as a result of the ₱20 million fines and penalties paid to the Philippine Competition Commission with respect to the acquisition of a significant interest in the 2Go Group, Inc.

Net Profit

Overall, the Group's Net Profit for the nine (9) months ended 30 September 2018 amounted to ₱42 million as compared to ₱152 million for the same period in 2017. Excluding the effect of the Company's share in net losses of 2Go Group, Inc., the Group was able to grow its Net Profit primarily from its expansion programs and optimization of synergies between the operating entities within the Group.

Other charges primarily include interest expense on loans and borrowings totalling ₱456 million, share in net losses of 2Go Group, Inc. amounting to ₱198 million and foreign currency exchange losses of ₱67 million resulting from the Group's loans and borrowings denominated in foreign currency.

Financial Condition
(September 30, 2018 vs. December 31, 2017)

	Consolidated				
Amounts in PhP Millions		September 30, 2018		December 31, 2017	% Change
Current Assets	P	**7,519**	P	6,922	9%
Non-Current Assets		**23,349**		19,458	20%
Total Assets	P	**30,868**	P	26,380	17%
Current Liabilities	P	**8,898**	P	6,101	46%
Non-Current Liabilities		**8,717**		7,121	22%
Total Liabilities	P	**17,615**	P	13,222	33%
Total Equity	P	**13,253**	P	13,158	1%

Total resources of the Group grew to ₱30,868million as of 30 September 2018 from ₱26,380 million as of 31 December 2017. The increase was brought about by the Group's continued expansion programs through the acquisition of various capital asset expenditures.

Cash and cash equivalents declinedby 50% from ₱1,442 million as of 31 December 2017 to only ₱720million as of 30 September2018as a result ofthe Group's cash management efforts maintaining certain level of cash and some timing in disbursements and collections.

Trade and other receivables surgedby 21% from ₱876 million as of 31 December 2017 to ₱1,057million as of 30 September 2018primarily as a result of timing of collections from customers.

Increase in inventories of approximately ₱173 million was due to acquisition of spare parts inventories in preparation for drydocking of certain vessels, and additional fuel and lubricants inventory in anticipation of increased fuel prices as a result of the implementation of the Tax

Reform for Acceleration and Inclusion. Spare parts inventories rose from ₱88 million as of 31 December 2017 to ₱156 million as of 30 September2018 while fuel and lubricants rose from ₱49 million to ₱117 million as of the end of the reporting period.

The increase in Other Current Assets from ₱1,926 million as of 31 December 2017 to ₱2,147 million as of 30 September2018 was primarily the result of input VAT on payments made for the acquisition of vessels and various services related to the expansion of the Group's operations.

Property and equipment grew from ₱11,000 million as of 31 December 2017 to ₱15,008 million as a result of additional vessel acquisitions during the first half of 2018, including a medium range tanker delivery of which was accepted on 25 April 2018. These vessels are currently undergoing repairs and/or drydocking and are expected to be in operations starting the fourth quarter of the current year.

While drydocking is normally done once every two years, Maritime Regulatory Authority (MARINA) may extend the vessel's trading certificates upon request by the vessel owner. Below are the status of the drydocking activities of certain vessels with appraisals of more than two years: (a) MT Chelsea Denise II and MT Chelsea Cherylyn have not been operational since June 2017 and November 2016, respectively, due to breakdown in the vessels' main engine gearbox and the delay in the manufacturing and importation of the replacement gearbox. (b) MT Great Diamond is covered by a five-year Bareboat Agreement since November 2016. Under a bareboat agreement, the charterer obtains full control of the vessel with all costs including drydocking are to be shouldered by the charterer; hence, appraisal cannot be made. (c) The drydocking procedures for MTug Fortis I and MT Ernesto Uno were completed during the period ended September 30, 2018 and, accordingly, the appraisals of these vessels will be reflected in the 2018 annual financial statements.

As disclosed in the consolidated unaudited interim financial statements, Management estimates the useful lives of vessels from 5-35 years, which were based on each separately identifiable components of the vessel i.e., vessel equipment acquired are depreciated based on an EUL of 5 to 10 years. Acquired vessels are depreciated over an estimated useful life of 25 to 35 years from the dates of acquisition depending on whether such vessels were acquired brand new or from the second hand market.

The decline in Investments in an associate and a joint venture from ₱2,269 million as of 31 December 2017 to ₱2,071million as of 30 September 2018was due to the recognition of the Company's share in net loss of 2Go Group, Inc.

Trade and other payables increased from ₱1,381 million as of 31 December 2017 to ₱2,554 million as of 30 September 2018. The increase in Trade and other payables was primarily due to timing of payment of trade payables.

Interest-bearing loans significantly increased by 40% from ₱10,332 million as of 31 December 2017to ₱14,510 million as of 30 September 2018 primarily as a result of additional loan drawdown during the period as part of the Group's continued expansion programs.

The decline in Income Tax Payable was primarily due to the tax payments made in April 2018.

The significant decline in deferred tax liabilities by 19% was mainly due to the tax effect of depreciation on revaluation increment related to vessels.

The increase in equity, primarily retained earnings, was due to the results of the Company's financial performance for the nine (9) months ended 30 September 2018.

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, 2018	December 31, 2017
Current Ratio	0.80	1.13
Debt-to-Equity Ratio	1.33	1.00
Book Value per Share	7.27	7.22
EBITDA Margin	31%	44%
Return on Average Equity	0.32%	2.19%
Earnings per Share	0.02	0.12

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 Average 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 13of 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 as the Company's Management has communicated with the lender banks for the waiver of said covenants. Except for contingencies, the Company is not aware of other events that will materially trigger direct or contingent financial obligation.

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

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

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

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

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

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

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

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

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

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

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

II. NATURE AND SCOPE OF BUSINESS

Item 1. Historical Background

Chelsea Logistics Holdings Corp. (CLC) is a corporation organized and registered with the Philippine Securities and Exchange Commission (SEC) as 'Chelsea Shipping Group Corp.' on August 26, 2016 primarily to act as a holding company.

On November 24, 2016, the Company acquired all of the outstanding shares of Chelsea Shipping Corp. (CSC) from P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI), a related party under common ownership, for a total consideration of P2.0 billion.

On December 12, 2016, the Company acquired 100% ownership interest in Trans-Asia Shipping Lines, Incorporated for a total consideration of P216.3 million.

On December 21, 2016, the Securities and Exchange Commission approved the application of the Company to amend its corporate name from "Chelsea Shipping Group Corp." to "Chelsea Logistics Corp." and on June 27, 2017 the change from "Chelsea Logistics Corp." to "Chelsea Logistics Holdings Corp.".

On March 27, 2017, CLC acquired all of Udenna Investments BV's (UIBV's) outstanding capital stock through a share swap agreement with Udenna Corporation wherein Udenna Corporation transferred to CLC 18,200 UIBV shares. In exchange, CLC issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna. UIBV owns 80% economic interest in KGLI-NM, a domestic corporation which was incorporated on August 8, 2008, and which holds 39.85% economic interest in Negros Navigation Co., Inc. (NENACO). KGLI-NM acquired such interests in NENACO on May 13, 2008. NENACO, in turn owns 88.31% of 2Go Group, Inc. (2Go). NENACO acquired its interests in 2Go on December 28, 2010. Hence, CLC has a 28.15% indirect economic interest in 2Go. NENACO and 2Go are the largest supply chain enterprise and end-to-end solutions provider in the Philippines.

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

On November 8, 2017, the Company acquired WorkLink Services, Inc., a one-stop integrated logistics solutions provider. Subsequently, on November 9, 2017, the Company acquired Starlite Ferries, Inc., a roll-on, roll-off and passenger ship operator based in Batangas.

Item 2. Business of Issuer

Description of Registrant

<u>Principal Products and Services</u>

CLC's core businesses, through its wholly-owned subsidiaries, are divided into: (i) Tankering, (ii) Passage, (iii) Freight, (iv) Tugboat services, and (v) Logistics Services.

Chelsea Shipping Corp.

Chelsea Shipping Corp. (CSC), incorporated on July 17, 2006, is engaged in maritime trade in the conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, including but not limited to general cargo handling, loading, transporting, discharging and storing, over oceans, seas, lakes, rivers, canals, bays, harbors, and other waterways.

CSC's wholly-owned subsidiaries are engaged in the following businesses:

a. PNX-Chelsea Shipping Corp. (PNX-Chelsea), incorporated on February 2, 2011, is engaged in operating vessels for domestic trade for conveyance or carriage of petroleum products, goods, wares, and merchandise of every kind and description, to charter in and charter out any such vessels and to provide complete maritime services.

b. Fortis Tugs Corporation (FTC), incorporated on April 8, 2013, is engaged in the towage and salvage of marine vessels and other crafts including cargoes upon seas, lakes, rivers, bays, harbors, and other waterways between the various ports of the Philippines. DGMSI, a wholly-owned subsidiary of FTC, operates, conducts, and provides tug and other marine services to all vessels, foreign or coastwise that dock and undock in the District Port of Davao and all other ports in the Philippines.

c. Michael Inc. (MI), incorporated on December 26, 1957, is engaged in the charter, hire or otherwise acquire LCTs, ships, barges, or vessels, together with equipment and furniture thereof.

d. Bunkers Manila Incorporated (BMI), incorporated on March 7, 2000, is engaged in operating inter-island vessels for domestic trade, to charter in and charter out any such vessels and to provide complete marine services, as principal or agent to ship owners, ship operators and managers, and to any person, association, firm or corporation engaged in domestic marine and maritime business.

e. Chelsea Ship Management & Marine Services Corp. (CSMMSC), incorporated on March 30, 2012, is engaged in ship management and is authorized to act as agent, broker, ship chandler or representative of foreign/ domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals.

f. Chelsea Marine Manpower Resources, Inc. (CMMRI), incorporated on June 9, 2016, is engaged in providing full and partial crewing for domestic and foreign vessels, and is authorized to act as authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

g. Chelsea Dockyard Corp. (CDC), incorporated on January 8, 2018 and is engaged in the general business of building and repair of ships, boats and other kinds of vessels as well as in ship breaking activities.

h. CD Ship Management & Marine Services Corp. (CDSMMSC), incorporated on March 14, 2018 and is engaged to carry on the business of ship management and to act as agent, broker, ship chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals and for such purpose, to act as principal in and hire the services of a local manning agent for the overseas employment for seamen, and to equip any and all kinds of ships, barges and vessels of every class and description owned by any shipping corporation.

Trans-Asia Shipping Lines, Incorporated

Trans-Asia Shipping Lines, Incorporated (Trans-Asia), incorporated on March 25, 1974, is engaged in transporting passengers and cargo within Philippine territorial waters and/or in the high seas.

Trans-Asia's wholly-owned subsidiaries are engaged in the following businesses:

a. Ocean Star Shipping Corporation (OSSC), incorporated on July 6, 2006, is engaged in the hire, charter, purchase or otherwise acquires vessels, barges, tugboats, lighters or other vessels of any class or regular services of vessels, barges, tugboats, lighters, or other vessels to enter into contract for the carriage and shipment in bulk or otherwise, and to conduct the business of general lighterage, towing ship chandlering, shipbrokers, freight contractors, barge and lighter owners and operators, forwarding agents, and general cargo handling operations of any all kinds of cargo.

b. Stary Shoppe, Inc. (SSI), incorporated on March 31, 2005, is engaged in 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.

c. Dynamic Cuisine Inc. (DCI), incorporated on June 21, 2000, is engaged in maintaining restaurants, coffee shops, refreshment parlors, cocktail lounges, and cooks, arranges, serves and caters goods, drinks, refreshments and other food or commodities commonly served in such establishments.

d. Quality Metal & Shipworks, Inc. (QMSI), incorporated on November 28, 2007, is engaged in providing machining and mechanical works on ship machineries and industrial plants.

e. Star Maritima Port and Allied Services, Inc. (SMPASI), incorporated on October 11, 2018, is engaged primarily in providing arrastre services.

Worklink Services, Inc.

Worklink Services, Inc. (WSI), established in February 1999, provides domestic logistics solution for various local industries. WSI's services are the following:

a. Courier – Document (via Air/Land) and Non-document (via Air/Land/Sea)
b. Trucking – Rental and hauling
c. Warehousing – warehouse rental, inventory management, pick and pack, online shipping
d. Special Projects – Account Management such as event management, manpower, in-store or trade merchandising/design set-up; and Drop Box Management such audit and encoding

Starlite Ferries, Inc.

Starlite Ferries, Inc. (SFI), incorporated on 26 August 1994, is engaged in the general business of domestic shipping to own and operate any class, type or description for domestic trade, to charter in and out any such vessels. SFI is one of the dominant shipping companies in the Batangas – Calapan and Roxas – Caticlan trade routes.

SFI has a wholly owned subsidiary, Starbites Food Services Corp., incorporated on 27 June 2018 and is established to purchase 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 locally.

On August 10, 2018 and October 22, 2018, SFI acquired all of the outstanding shares of stock of Southwest Gallant Ferries, Inc. (SGFI) and Southwest Premiere Ferries, Inc. (SPFI), respectively. Both companies are primarily engaged in the general business of domestic shipping; to own and operate vessel of any class, type or description for domestic trade; to charter in and out any vessel.

Revenue Contribution

The following table represents the revenue distribution based on key business segments of the Company:

Services	Description of Services	Contribution to Sales
Freight	This pertains to revenues generated from transporting cargo from loading port to discharge port.	32%
Charter	This consists mainly of charter income arising from the charter hire of its tankers and is recognized based on the type of charter agreement entered into, either under a time charter (TC), a continuing voyage charter (CVC), or bareboat agreement (BB). Charter fees also include standby charges, which represent fees charged upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the customer. This is commonly referred to as demurrage.	35%
Passage	This pertains to revenues generated from ferrying passengers from the point of embarkation to the point of disembarkation.	20%
Tugboat	These are fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts.	6%
Logistics Services	This pertains to revenues generated from logistics, distribution and warehousing services.	7%

Competition

A. Tankers

The transport of petroleum products is one of the essential businesses that propel the growth of the Philippine economy. There are approximately 7,100 islands in the country, of which more than half are inhabited. The populace needs fuel for transportation, electrical power, farming and other activities. It is the oil tankers and trucks which make sure that fuel is transported to places in our country where and when it is needed.

As of September 2017, the Maritime Industry Authority (MARINA) registered approximately 293 oil tankers in the country. Majority of these vessels are 500 gross registered tonnage (GRT) or below, and the rest ranges from 501 GRT to 5052 GRT in size. The aggregate tonnage of these tankers is about 190,876 GRT.

Below are the five (5) major competitors of CLC in terms on the tanker business, these companies have a fleet of four (4) or more vessels.

1. Petrolift Group
2. Herma Shipping Group
3. Shogun Ships Co., Inc.
4. Via Marine
5. Magsaysay Group

These tanker owners have an approximately 65 tankers combine with an aggregate tonnage of about 105,764 GRT.

B. Tugboats

Tugboats are small, powerful boats that are used to maneuver vessels of larger size by pushing and towing them. These are especially useful in narrow & difficult waterways and crowded ports. Although tugboats are usually utilized for docking & undocking procedures, they also have a wide range of applications including vessel rescue and steering structures without an independent propulsion system. Without tugboats, entry and exit of vessels from ports would be markedly less efficient and vessels would experience faster wear and tear.

According to the latest records from the MARINA, there are 791 registered tugboats in the Philippines. More than half of these tugboats are less than 100 GRT. Majority of smaller GRT tugboats hold a Bay & River trading license from MARINA while bigger vessels hold a Coastwise license. The top two (2) industry players in the tugboat industry account for more than 24% of the total tugboats over 100 GRT.

CLC competitors in providing tugboat services include:

1. Harbor Star Shipping Services, Inc.
2. Malayan Towage and Salvage Corporation
3. Pilot-operated Tugs

C. Roll-on-Roll-off Passenger Ship/Ferry

Roll-On-Roll-Off-Passenger-ship/ferry (RoPax) refers to vessels that can accommodate passengers along with freight vehicle transport. Given the archipelagic nature of the country, RoPax vessels are vital in transporting people and goods across the different islands. Given their accessibility and capability of ferrying large amounts of goods and manpower, passenger and freight vessels are an integral part of the logistical backbone of the Philippines.

There are over 7,100 RoPax vessels registered with the MARINA. A large majority of this (98%) is less than 500 GRT in size and is personally owned. The largest industry players for commercial vessels account for more than a third of the aggregate tonnage of 355,773 GRT.

CLC's main competitors in RoPax segment include:

1. Asian Marine Transport Corporation
2. Cokaliong Shipping Lines, Inc.
3. Lite Shipping Corporation
4. Montenegro Shipping Inc.
5. Archipelago Philippine Ferries Corporation

Suppliers

The Company sources its vessel, fuel requirements and other supply domestically and internationally. The company sources approximately 90% of its fuel requirements from Phoenix Petroleum Philippines, Inc.

The payment forms vary for each supplier. It ranges from Letter of Credit, drawn against payment, down payment, and various credit terms offered by supplier.

Transactions With and/or Dependence on Related Parties

In the ordinary course of its business, CLC and its subsidiaries engages in transactions with related parties and affiliates. It is the Company's policy to ensure that these transactions are entered on terms comparable to those available from unrelated third parties. This may consist but not limited to the following:

i. Chartering services
ii. Fuel purchases
iii. Advances to/from related parties for working capital purposes

Currently, the Company sources approximately 90% of its fuel requirements from its affiliate – Phoenix Petroleum Philippines, Inc.

Employees

As of December 31, 2018, the Company has a total of 2,162 employees, 1,409 of which are crewmen and are stationed at various ports of operation, while the other 753 employees are office personnel or are members of support services. These exclude 2Go Group employees.

Crewmen consist of captains, engineers, mechanics, divers, and able-bodied personnel. On the other hand, office personnel are comprised of the sales and marketing group, accounting and finance professionals, administrative services employees and the operations department.

A bachelor's degree in a relevant field is required of each one of the Company's directly-hired employees. For deck and engine crew, a MARINA-issued Qualification Document Certification is also mandated by the Company prior to employment.

Benefits received by employees include government-mandated benefits (Social Security System, Pag-ibig, and PhilHealth), rice subsidies, vacation leave of 15 days per year, health plans, and retirement pay. The Company supports employee development thru the conduct of in-house seminars, drills and training. Employees are enrolled in various technical, professional, management and leadership training, here and abroad. One of CLC's subsidiaries, Trans-Asia Shipping, has two (2) existing labor unions, one for its supervisors and one for its rank and file employees. Both unions are due to have their collective bargaining agreement ("CBA") negotiations this year. The relationship with the unions has been generally harmonious and there has been no incidence of labor strikes in the past three (3) years, up to the present. There is also no impending or threatened labor strike.

Risks Relating to the Company

The following are the key risks factors which may affect the operations of the Company:

- *Maritime vessels are the Company's primary assets and, in the course of operation, are susceptible to maritime accidents.*

  Due to the nature of the shipping industry, the risk of collision is real. Collisions may result in extensive damage to a vessel's hull, increasing its susceptibility to taking on water, which may result in the integrity of the vessel being compromised or even result in a complete loss of the vessel, environmental pollution, loss of life and damage to properties. Furthermore, when vessels are docked, they are secured to the harbor by use of the anchor, and a rope tied between the ship's stern and the berth. In times of strong winds and constant rain, these harnesses may break, thereby risking the safety of the ship.

  To mitigate these risks, the Company ensures that its crew members have undergone the necessary orientation and training seminars on operations and safety. Furthermore, crewmen are required to complete quarterly safety training seminars, and yearly assessments to promote the progressive enhancements of their skills. The Company also conducts drills to ensure crew safety and minimize damage to property and the environment. For the drydock of its vessels, the Company utilizes shipyards with vast drydocking/repair experience and which observe internationally-accepted standards of safety.

- *The Company operates in a regulated industry and its business is affected by the development and application of regulations in the Philippines.*

  Continued compliance with, and any changes in, environmental laws and regulations may adversely affect its results of operations and financial condition. The Company may fail to fulfill the terms of licenses, permits and other authorizations, or fail to renew them on expiration.

  To address this risk, the Company ensures to diligently adhere with and closely monitor compliance with the terms of its licenses, permits and other authorizations. The Company likewise employs competent legal and operating personnel who regularly liaise with the various government agencies to ensure compliance by the Company with changes in environmental laws and regulations and monitor renewal of its licenses and permits.

- *The Company's vessels are mechanical and are susceptible to breakdowns.*

  The Company's operations use mechanical vessels that are subject to regular mechanical wear and tear. The occurrence of mechanical failure can result in downtime and opportunity losses for the Company. To ensure that the Company's high service quality is maintained, the Company has a preventive maintenance system and drydocking program for its vessels. In the event of non-availability of its vessels, due to breakdown or other factors, the Company charters third party vessels to serve customer requirements.

- *The shipping industry is highly competitive.*

  In order to maintain its market competitiveness, the Company must provide reliable and efficient service to its clients. The Company continues to improve its manpower complement by employing experienced and competent officers, and providing continuous training. The Company’s clients prefer younger and well-maintained vessels and this necessitates significant capital expenditures by the Company on a regular basis. The Company has also formulated a re-fleeting plan and improved preventive maintenance system.

- *Volatility of fuel prices impacts the operations of the Company.*

  Fuel is a key component of shipping operations. In cases of significant increases in fuel prices, the Company may not be able to automatically pass on to its clients the effects of these increases. Thus, the Company's gross margins may be adversely affected, reducing its profitability. To mitigate this risk, the Company maximizes its affiliation with P-H-O-E-N-I-X Petroleum Philippines, Inc. through access to information on movement of global petroleum prices. This allows the Company to hedge prices for its fuel requirements necessary to protect its profitability.

- *Changes in legal and regulatory environment.*

  The Company is engaged in the shipping transport business. As a result, the Company is required to hold a wide range of business permits and licenses. Compliance with these laws and regulations involve certain compliance costs, the failure of which can lead to the imposition of fines and sanctions, including the revocation of permits and licenses necessary for the conduct of the Company’s business and activities. As these laws and regulations change from time to time, tougher regulations may be imposed in the future which may affect the conduct of the Company’s business and operations.

  Moreover, there can be no assurance that current laws and regulations applicable to the Company will not increase the costs of operating its vessels and facilities above currently projected levels or require future capital expenditures. Although the Company endeavors to maintain compliance with applicable laws and regulations the introduction or inconsistent application of, or changes in, the laws and regulations applicable to the Company’s business could have a material adverse effect on its business, financial condition and results of operations. To address the foregoing risks, the Company, in conjunction with industry associations such as the Philippine Shipping Vessel Owners Association Inc. ("PHILSVOA") and Visayas Association of Ferry Boats and Coastwise Service Operators ("VAFCSO"), is actively engaged in policy advocacy causes for the promotion and development of the shipping transport industry in the country, tackling regulatory and policy issues and concerns faced by the industry and working to strengthen industry-government partnerships.

  Further, the Company employs competent legal and operating personnel, who regularly liaise with the various government agencies to ensure compliance by the Company with new regulations and exercise the requisite due diligence with respect to protecting the Company's business, financial condition, and results of operations from the aforementioned risks while still complying with the applicable laws and regulations. In addition, the Company on a case-to-case basis engages external counsel to provide specialized legal advice and service.

Effects of Existing or Probable Governmental Regulations on the Business

The Company believes that it complies with relevant laws, rules and regulations for all the business activities that it is currently engaged in. The Company cannot provide assurance that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail further expansion or development.

Additionally, new rules and regulations that may be enacted may increase the Company's operating costs and may adversely affect the Company's results of operations and financial condition.

Costs and Effect of Compliance with Environmental Laws

For the year ended December 31, 2018, the Company incurred ₱2,059,383 for costs relating to compliance with environmental laws as required by the MARINA. This pertains to daily waste management expenses. For the years 2015, 2016, and 2017, the Company incurred costs of ₱993,274, ₱181,349, and ₱3,017,977, respectively.

Item 3. Properties

The Group owns various tankers, barges, RoPax, cargo vessels and tugs which are utilized in its business. The following table sets forth information on these vessels that each company owns as of December 31, 2018.

Name of Vessel	Registered Owner	Year Built	Type
1. M/T Chelsea Providence	CSC	2013	Medium Range Tanker
2. M/T Chelsea Great Diamond	CSC	2012	Oil/Chemical Tanker
3. M/T Chelsea Cherylyn*	CSC	2009	White Oil, Carrier, Tanker
4. M/T Chelsea Denise	CSC	1985	Black / White Oil Carrier, Tanker
5. M/T Chelsea Resolute	CSC	1979	White Oil, Carrier, Tanker
6. M/T Chelsea Enterprise	CSC	1985	Black Oil Tanker
7. M/T Chelsea Excellence	CSC	1998	White Oil, Carrier, Tanker
8. M/T Chelsea Intrepid	CSC	1994	Black Oil Tanker
9. M/T Chelsea Denise II*	PNX – CSC	2012	Black / White Oil Carrier, Tanker
10. M/T Chelsea Dominance	PNX – CSC	2016	Product Oil Tanker
11. M/T Chelsea Great Princess	PNX – CSC	2013	Oil/Chemical Tanker
12. M/T Chelsea Endurance	PNX – CSC	2006	Product Oil Tanker
13. M/T Chelsea Charlize	PNX – CSC	2015	Product Oil Tanker
14. MV San Pedro Calungsod*	PNC – CSC	1996	Cargo Container
15. MV San Lorenzo Ruiz Uno*	PNX – CSC	1996	Cargo Container
16. MV St. Nicholas of Myra*	PNX – CSC	1998	General Cargo
17. M/T Ernesto Uno	MI	1979	White Oil, Carrier, Tanker
18. M/T Jasaan	MI	1990	Black Oil Carrier, Tanker
19. M/T BMI Patricia	BMI	1981	Black Oil Carrier, Tanker
20. Chelsea Exuberance	CSC	2015	Floating Dock
21. Chelsea Agility	CSC	2007	Floating Dock
22. MV Trans Asia 1	Trans Asia Shipping	1980	Passenger Ship

Name of Vessel	Registered Owner	Year Built	Type
23. MV Trans Asia 2	Trans Asia Shipping	1977	Passenger Ship
24. MV Trans Asia 3	Trans Asia Shipping	1989	Passenger Ship
25. MV Trans Asia 8	Oceanstar	1984	Passenger Ship
26. MV Trans Asia 9	Oceanstar	1979	Passenger Ship
27. MV Trans Asia 10	Trans Asia Shipping	1979	Passenger Ship
28. MV Asia Philippines	Trans Asia Shipping	1975	Passenger Ship
29. MV Trans-Asia 18	Trans-Asia Shipping	1998	Passenger Ship
30. MV Trans-Asia 19	Trans-Asia Shipping	2018	Passenger Ship
31. MV Trans Asia 5	Trans Asia Shipping	1989	Container Cargo Ship
32. MV Trans Asia 12	Trans Asia Shipping	1998	Container Cargo Ship
33. MV Trans Asia 15	Trans Asia Shipping	1995	Container Cargo Ship
34. MV Trans-Asia 16	Trans-Asia Shipping	1996	Container Cargo Ship
35. MV Trans-Asia 17	Trans-Asia Shipping	1999	Container Cargo Ship
36. MV Asia Pacific	Trans Asia Shipping	1981	General Cargo Ship
37. MV LCT Lapu-lapu Uno	Trans-Asia Shipping	2014	General Cargo Ship
38. M/Tugs Fortis I	FTC	1994	Tugboat
39. M/Tugs Fortis II	FTC	1990	Tugboat
40. M/Tug Fortis III	FTC	1972	Tugboat
41. M/Tug Fortis V	FTC	1984	Tugboat
42. M/Tug Fortis VI*	FTC	1989	Tugboat
43. M/Tug Fortis VII	FTC	1984	Tugboat
44. M/Tug Fortis VIII	FTC	1984	Tugboat
45. M/Tug Fortis IX	FTC	2009	Tugboat
46. M/Tug Fortis X	FTC	1988	Tugboat
47. M/Tug Fortis XI	FTC	1988	Tugboat
48. M/Tug Fortis XII	FTC	1988	Tugboat
49. M/Tug Samal	DGMS	1974	Tugboat
50. M/Tug Pindasan	DGMS	1981	Tugboat
51. M/Tug Sigaboy	DGMS	1971	Tugboat
52. M/Tug Orishima	FTC	1988	Oil Pollution Tugboat
53. MV Starlite Ferry	SFI	1971	Passenger and Cargo Ship
54. MV Starlite Pacific	SFI	1983	Passenger and Cargo Ship
55. MV Starlite Navigator	SFI	1971	Passenger and Cargo Ship
56. MV Starlite Polaris	SFI	1974	Passenger and Cargo Ship
57. MV Starlite Annapolis	SFI	1982	Passenger and Cargo Ship

Name of Vessel	Registered Owner	Year Built	Type
58. MV Starlite Jupiter	SFI	1989	Passenger and Cargo Ship
59. MV Starlite Seajet	SFI	1978	Passenger Ship
60. MV Starlite Blue Sea	SFI	1973	Passenger Ship
61. MV Starlite Pioneer	SFI	2015	Passenger and Cargo Ship
62. MV Starlite Tamaraw	SFI	1981	Cargo Ship
63. MV Starlite Eagle	SFI	2016	Passenger and Cargo Ship
64. MV Starlite Reliance	SFI	2015	Passenger and Cargo Ship
65. MV Starlite Saturn	SFI	2016	Passenger and Cargo Ship
66. MV Starlite Archer	SFI	2017	Passenger and Cargo Ship
67. SWM Salve Regina	SGFI	2018	Passenger and Cargo Ship
68. Stella del Mar	SPFI	2018	Passenger and Cargo Ship
69. West Ocean 1**	2Go	1977	Cargo Ship
70. West Ocean 5**	2Go	1979	Cargo Ship
71. San Agustin Uno	2Go	1985	Cargo Ship
72. San Rafael Uno	2Go	1989	Cargo Ship
73. San Rafael Dos	2Go	1985	Cargo Ship
74. St. Nuriel	2Go	2000	Passenger Ship
75. St. Uriel	2Go	1992	Passenger Ship
76. St. Sealthiel	2Go	2000	Passenger Ship
77. St. Jhudiel	2Go	1996	Passenger Ship
78. St. Braquel	2Go	1996	Passenger Ship
79. St. Emmanuel	2Go	1998	Passenger Ship
80. St. Camael	2Go	2017	Passenger Ship
81. St. Sariel	2Go	2017	Passenger Ship
82. Supercat 36	2Go	1990	Passenger Ship
83. Supercat 38	2Go	1990	Passenger Ship
84. St. Micah	2Go	1990	Passenger Ship
85. St. Michael the Archangel	2Go	1990	Passenger and RORO
86. St. Pope John Paul II	2Go	1984	Passenger and RORO
87. St. Leo the Great	2Go	1992	Passenger and RORO
88. St. Francis of Xavier	2Go	1991	Passenger and RORO
89. St. Therese of Child Jesus	2Go	1989	Passenger and RORO
90. St. Augustine of Hippo	2Go	1988	Passenger and RORO
91. St. Anthony de Padua	2Go	1986	Passenger and RORO
92. St. Ignatius of Loyola	2Go	1989	Passenger and RORO

**vessels at dry docking stage*

***operated by 2Go under a bare boat agreement*

As of the date of this Information Statement, all of the above-mentioned vessels are in good working condition.

Further, Trans-Asia owns a 1,509.28 sq.m. land located at M.J. Cuenco Ave. corner Osmeña Blvd., Brgy. San Nicholas, Cebu City and a building constructed thereon with a total floor area of 2,940 sq.m., which houses Trans-Asia Shipping's main office. Trans-Asia also owns three (3) container yards located at Quezon Blvd. within Piers 4 and 5, North Reclamation Area, Brgy. Cebu Port Center, Cebu City, and in Macabalan, Cagayan de Oro with an aggregate area of 14,904 sq.m.

In May 2018, the Company purchased a parcel of land at Ligid Tipas, Taguig City with an area of

25,335 sq.m. which will be the site of a warehouse facility being constructed by its subsidiary Worklink Services, Inc. Some of the vessels and real estate properties owned by CLC and its Subsidiaries are used to secure long-term loans. The details of these loans are as follows:

Secured Term Loans

	Security	Terms	Interest Rates	Outstanding Balance September 30, 2018 2018 (Unaudited)	Outstanding Balance December 31, 2017 (Audited)
China Banking Corporation (CBC)	CSC shares of stocks/ Continuing Suretyship	6 years	4.50%	P 1,800,000,000	P 1,800,000,000
Development Bank of the Philippines (DBP)	MT Chelsea Providence	15 years	6.50%	1,500,000,000	-
Philippine Business Bank (PBB)	MV Eagle, MV Navigator MV Archer, MV Saturn	10 years	7.50%	996,444,850	1,037,444,850
PBB	Unsecured	15 years	7.00%	800,000,000	800,000,000
DBP	Trans - Asia 16, 17 and 18	15 years	6.50%	618,000,000	-
DBP	MV Pioneer, MV Reliance	15 years	6.95%	600,000,000	606,000,000
DBP	MV San Pedro Calungsod MV San Lorenzo Ruis Uno MV St. Nicholas of Myra	15 years	6.50%	563,445,464	-
BDO	Trans - Asia 1, Trans - Asia 10	10 years	4.25%	555,691,950	567,439,501
CBC	MT Chelsea Charlize	7 years	3.25%	343,589,667	366,102,000
PBB	MT Chelsea Dominance	7 years	6.06%	324,355,500	373,008,825
PBB	MT Chelsea Endurance	7 years	6.06%	275,112,500	316,379,375
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	285,000,000	296,250,000
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	285,000,000	296,250,000
CTBC Bank (Phils) Inc. (CTBC)	Continuing Suretyship	5 years	4.09%	285,000,000	296,250,000
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	190,000,000	197,500,000
BDO	MT Chelsea Denise II	5 years	6.46%	161,520,000	196,140,000
Asia United Bank (AUB)	Mtug Fortis III and Mtug Fortis V	7 years	5.56%	59,370,834	67,114,859
AUB	Mtug Fortis I and Mtug Fortis II	5 years	7.00%	5,555,555	22,222,222
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal Mtug Sigaboy	5 years	6.00% to 6.50%	3,714,594	25,696,844
BDO Unibank, Inc. (BDO)	MT Great Princess	5 years	5.25%	-	335,482,560
BDO	MT Great Diamond	7 years	One year LIBOR plus 3.50%	-	134,052,501
BDO	Trans - Asia 10	9.38 years	4.25%	-	39,584
				9,651,800,914	7,733,373,121
Discount on loans payable				(20,271,699)	(19,006,708)
				P 9,631,529,215	P 7,714,366,413

Secured Bank Loans

	Security	Terms	Interest Rates	Outstanding Balance September 30, 2018 (Unaudited)	Outstanding Balance December 31, 2017 (Audited)
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 5.375%	P 2,060,057,625	P 923,290,258
UCPB	MT Chelsea Intrepid MT BMI Patricia	90 days	5.00% to 5.75%	887,300,000	890,502,192
CBC	Unsecured	60 days	6.00%	520,000,000	-
Pentacapital	Unsecured	360 days	6.00%	400,000,000	-
DBP	MT Chelsea Cherylyn	180 days	4.00 to 4.25%	298,500,000	300,000,000
Union Bank of the Philippines	Unsecured	360 days	4.50%	200,000,000	-
Unicapital	Unsecured	90 days	5.50%	198,500,000	140,000,000
PBCom	MT Ernesto Uno	180 to 270 days	4.75%	-	130,765,000
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	71,700,000	57,300,000
PVB	Unsecured	180 days	4.18%	21,165,887	-
Chinabank Savings	Unsecured	48 days	0.71%	8,535,276	1,086,678
BPI	Unsecured	48 days	9.47% to 10.28%	1,636,038	2,436,125
Security Bank Corporation (SBC)	Chattel Mortgage	5 years	6.50%	-	10,434,324
				P 4,667,394,826	P 2,455,814,577

Item 4. Legal Proceedings

In the course of the Group's business, it has been involved in legal proceedings both as plaintiff and defendant. The Company's management believes that an adverse resolution in such cases will not materially affect the financial position of the Company. The Company is not involved in any legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Company is aware) which it believes may have a material adverse effect on the financial position of the Company.

The following are the material legal proceedings which the Company is currently involved in:

a. *Michael, Incorporated vs. Pilipinas Kao Incorporated, Civil Case No. 37046, Regional Trial Court of Cebu City; (b) Pilipinas Kao, Inc. vs. Michael, Inc., Civil Case No. 37180, Regional Trial Court of Cebu City.*

   These consolidated cases which were filed in September 2010, refer to the Complaint of MI against Pilipinas Kao, Inc. ("PKI") for Collection of Sum of Money and Damages with Prayer for Preliminary Attachment, and PKI's Complaint against MI for Specific Performance, Reimbursement and Damages.

   The transactions subject of the complaints refers to the Charter Agreement between MI and PKI whereby MI agreed to transport on its vessel M/Tkr Ernesto Uno the crude coconut oil ("CCO") of PKI. The Charter Agreement was for a period of two (2) years from January 8, 2009 to January 7, 2011, and the agreed Charter Rate was PhP2,050,000 per month. From December 2009 to July 2010, MI transported PKI's CCO from Mindanao to various ports of destination, and accordingly billed PKI Charter Fees in the amount of PhP15,921,666.67. However, PKI refused to pay the Charter Fees on its allegation that the CCO transported by MI was contaminated with seawater. In its Answer to PKI's Complaint, MI alleged that it proposed several plans to PKI to resolve the alleged contamination but the same were refused by PKI.

   As these cases have been consolidated, they are being jointly heard.

   The testimony of Michael Inc's. witness Stella Marie Torreliza was completed on November 22, 2018, and the last witness will be Hector Lawas. In December 2018, counsel for PKI inquired about the possibility of amicably settling the case. This option is presently being discussed by the parties.

b. *Fortis Tugs Corporation vs. Marinemax Shipping Corporation and Vicente Sandoval, Jr., Civil Case No.027, Regional Trial Court of Taguig City.*

   This Complaint, which was filed on March 23, 2016, seeks to recover from defendants the sum of PhP11,613,082.78, which represents payment for the tugboat services rendered by the plaintiff to the defendants from the period November 2013 to October 2015. The plaintiff has a prayer for the issuance of a Writ of Preliminary Attachment against the properties of the defendants on the ground that the latter are guilty of fraud in issuing checks to the plaintiff in payment of their obligations and thereafter issuing a stop payment order on the said checks. Plaintiff also prayed for the grant of Exemplary Damages in the amount of PhP100,000 and Attorney's Fees in the same amount.

   Defendants filed a Motion to Dismiss the Complaint filed by Fortis Tugs, while the plaintiff filed its Motion to Declare Defendants in Default. Both Motions have been submitted for resolution. Plaintiff has also filed its Motion for Issuance of a Warrant of Arrest against defendant Vicente Sandoval and is awaiting resolution of the same.

c. *Ryan Subong et.al. vs. Trans-Asia Shipping Lines, Inc., Civil Case No, 26205, Regional Trial Court of Iloilo City*

The original Complaint was filed by 79 plaintiffs on April 11, 2000. Plaintiffs were the passenger-survivors and heirs of the casualties of the sinking of MV Asia South Korea which sank off the vicinity of Bantayan Island en route to Iloilo on December 23, 1999. Their total claim for damages is in the amount of PhP 380,000,000.00. An Amended and Second Amended Complaint were filed in April and August 2000 respectively. Defendant Trans- Asia Shipping's main defense is that the cause of the accident was force majeure as the vessel was seaworthy and properly manned at the time of accident.

On April 18, 2013, the Regional Trial Court issued its Decision ordering Trans-Asia Shipping to pay PhP 801,000.00 for four deaths and PhP585,000.00 for 13 survivors or a total of PhP1,386,000.00. Although Trans-Asia Shipping offered to pay in accordance with the Decision, not a single plaintiff accepted payment. Instead, some of the plaintiffs filed their Motion for New Trial, some filed Motion of Reconsideration of the Decision, and some filed their Notice of Appeal.

The trial court issued an Order granting new trial for two plaintiffs and set the hearing for reception of evidence for said plaintiffs. The trial court also issued its Order dated March 22, 2016 modifying the award of damages to PhP8,865,399.96 for four deaths and 11 survivors, plus 15% interest on the total monetary award. Trans-Asia Shipping filed its Motion for Reconsideration of the two Orders, which was denied by the trial court. Trans-Asia Shipping has filed its Notice of Appeal. At the May 17, 2017 hearing, plaintiff manifested that they are willing to study the settlement of the case.
In August 2017, the parties signed a Compromise Agreement whereby Trans-Asia Shipping paid the total amount of PHP 8,839,313.95 for thirteen 13 Complainants (4 Deaths and 9 Survivors). In October 2017, another three (3) plaintiffs signed a Compromise Agreement whereby Trans-Asia Shipping paid the total amount of Php 594,250.00. On October 6, 2017, the trial court issued its Orders approving the two Compromise Agreement and declaring the case as CLOSED AND TERMINATED insofar as the 16 Complainants are concerned.

Trans-Asia Shipping is currently working for the settlement of the remaining three (3) plaintiffs (all survivors) with a probable settlement amount from Php600,000.00 to Php1,000,000.00 only.

d. *Nelly A. Gangoso, et. al. vs. Trans-Asia Shipping Lines, Inc., Civil Case No. CEB-36075, Regional Trial Court of Cebu City.*

This Complaint was filed by 5 plaintiffs on October 2009 arising from the sinking of MV Asia South Korea. A Compromise Agreement dated June 18, 2013 was entered into by four of the plaintiffs pursuant to which said plaintiffs agreed to withdraw their claims against Trans-Asia Shipping in return for the payment by defendant of the amount of PhP75,000.00 each to said plaintiffs. Plaintiff Nelly A. Gangoso pursued this case against Trans-Asia Shipping. Plaintiff Nelly Gangoso and defendant Trans-Asia have completed the presentation of their respective documentary and testimonial evidence. Plaintiff has filed her Memorandum, and defendant was supposed to file its Memorandum on April 28, 2017. On May 28, 2017, a Decision was issued by the trial court, awarding a total of PhP1,050,000 in favor of the plaintiff. Trans-Asia filed its Motion for Reconsideration of the said Decision and when the same was denied, Trans-Asia filed its Appeal which is now pending resolution by the Court of Appeals.

e. *Trans-Asia Shipping Lines, Inc. vs. Philippine Fire and Marine Insurance Corporation, et.al. Civil Case No. 39098, Regional Trial Court of Cebu City.*

   This Complaint was filed by Trans-Asia in September 2012 to collect the insurance proceeds arising from the sinking of MV Asia Malaysia, which proceeds are in the approximate amount of PhP120,000,000. Said Complaint was filed when defendant Philippine Fire only offered to pay the amount of PhP50,000,000. Defendant Philippine Fire filed its Motion to Dismiss the complaint on the ground of lack of jurisdiction and insufficient docket fees paid. When said Motion to Dismiss was denied, defendant Philippine Fire filed a Petition for Certiorari with the Court of Appeals in December 2014. Said Petition for Certiorari was dismissed by the Court of Appeals on June 28, 2016. On March 30, 2017, the regional trial court issued an Order setting the case for pre-trial on June 9, 2017. At the 9 June hearing, the case was remanded to the Executive Judge for transfer to Branch 11, which is the only commercial court in Cebu City. At Branch 11, Philippine Fire filed a Motion to Suspend Proceedings attaching the Notice of Stay Order issued by the Insurance Commission. Trans-Asia filed its Opposition to Philippine Fire's Motion to Suspend Proceedings. This matter is now pending resolution by the trial court.

Item 5. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of this calendar year covered by this report.

III. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY

Item 1. Principal market where the registrant's common equity is traded

The Company's common shares are traded at the Philippine Stock Exchange ("PSE") beginning August 8, 2017. The high and low sale prices of each quarterly period for year 2018 are as follows:

Period	High	Low
1Q 2018	9.79	7.00
2Q 2018	8.56	6.45
3Q 2018	7.76	5.43
4Q 2018	9.77	4.40

As of January 22, 2019, the market capitalization of the Company, based on the closing price of PhP 6.65 per share, was approximately PhP12.2 billion.

Item 2. Holders

The following are the top registered holders of the Company's securities based on the records as of December 31, 2018:

Name of Stockholders	Number of shares held	% to Total
Udenna Corporation	1,275,384,606	70.000002%
PCD Nominee Corporation (Filipino)	527,802,472	28.968658%
PCD Nominee Corporation (Non-Filipino)	17,511,620	0.961133%
Caroline G. Taojo	800,000	0.000439%
Noe B. Taojo	400,000	0.000220%
Clive C. Kian	50,000	0.002744%
Myra P. Villanueva	9,300	0.000005%
Milagros P. Villanueva	7,300	0.000004%
Myrna P. Villanueva	7,300	0.000004%
Marietta V. Cabreza	5,000	0.000003%
Owen Nathaniel S. Au	10	0.000001%
Eduardo A. Bangayan	1	0.000000%
Miguel Rene A. Dominguez	1	0.000000%
Jesus S. Guevara II	1	0.000000%
Gener T. Mendoza	1	0.000000%
Arthur Kenneth L. Sy	1	0.000000%
Cherylyn C. Uy	1	0.000000%
Efren E. Uy	1	0.000000%
TOTAL	**1,821,977,615**	**100.0000%**

Item 3. Dividends

The Company's dividend policy is to declare at least 20% of its prior year's net income as dividends, whether in stock or in cash or a combination of both, subject to the existence of unrestricted retained earnings, CLC's financial condition, as well as requirements of applicable laws and regulations, the terms and conditions of our existing loan facilities, and the absence of circumstances that may restrict the payment of such dividends.

Each holder of a common share is entitled to such dividends as may be declared in accordance with the Company's dividend policy. The Company's current dividend policy entitles holders of common shares to receive dividends based on the recommendation of the Board of Directors. Such recommendation will consider such factors as operating expenses, implementation of business plans, and working capital.

Item 4. Recent sale of securities

The Company has not sold or transferred any securities that are not registered under the Code nor did it issue any additional securities in exchange for any properties, services and other securities.

Item 5. Corporate Governance

The Company adopted a Manual of Corporate Governance (the "Manual") to ensure its compliance with the leading practice on good corporate governance and related Philippine SEC rules and regulations. The Manual was approved and adopted by its Board of Directors and deemed effective as of March 27, 2017.

The Manual features the following provisions:

- *Protection of investors.* The Manual provide for shareholders' rights and protection, investor relations and a disclosure system to ensure transparency and accountability.

- *Board of Directors and Management.* The detailed qualifications and disqualifications, duties, functions and responsibilities of the Board and executive officers are also enumerated in the Manual.

- *Checks and balances.* The Manual contains the vision, strategic objectives, key policies, procedures for the management of the Company, and mechanisms for monitoring and evaluating management's performance.

- *Compliance with the Manual.* The appointment of a Compliance Officer to monitor compliance with and violations of the Manual is also provided.

- *Creation of committees.* The Manual mandates the creation of the Nomination Committee, the Audit Committee, the Corporate Governance Committee, the Board Risk Oversight Committee and the Related Party Transaction Committee, to ensure the performance of certain important functions of the Board and of Management.

The Company will continue to improve its corporate governance, and will amend, the Manual as may be necessary.

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND DECEMBER 31, 2017
(Amounts in Philippine Pesos)

	Notes		September 30, 2018 (Unaudited)		December 31, 2017 (Audited)
A S S E T S					
CURRENT ASSETS					
Cash and cash equivalents	4	P	719,646,861	P	1,441,704,190
Trade and other receivables - net	5		1,057,375,448		876,420,381
Financial assets at fair value through profit or loss	6		3,947,736		3,947,736
Inventories	7		358,318,972		184,863,983
Advances to related parties	20		2,532,811,744		2,488,434,793
Other current assets	8		2,847,475,567		1,926,336,910
Total Current Assets			7,519,576,328		6,921,707,993
NON-CURRENT ASSETS					
Property and equipment - net	9		15,008,060,045		10,999,596,427
Investments in an associate and a joint venture	10		2,071,166,759		2,268,935,614
Goodwill	24		5,637,918,869		5,637,918,869
Post-employment benefit asset	17		8,147,831		8,190,054
Deferred tax assets	19		230,193,955		215,516,180
Other non-current assets - net	11		393,170,669		327,749,182
Total Non-current Assets			23,348,658,128		19,457,906,326
TOTAL ASSETS		P	30,868,234,456	P	26,379,614,319

	Notes	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	13	**P 2,554,078,066**	P 1,380,849,406
Interest-bearing loans	12	**5,988,832,724**	3,434,490,978
Advances from related parties	20	**150,353,363**	1,040,772,152
Advances from customers	2	**14,484,333**	14,521,850
Deposits for future stock subscription	14	**180,000,000**	180,000,000
Income tax payable		**10,097,210**	50,809,743
Total Current Liabilities		**8,897,845,696**	6,101,444,129
NON-CURRENT LIABILITIES			
Interest-bearing loans	12	**8,520,803,936**	6,897,669,657
Post-employment benefit obligation	17	**36,588,880**	36,588,880
Deferred tax liabilities - net	19	**138,247,691**	170,537,584
Other non-current liabilities		**21,381,001**	15,985,657
Total Non-current Liabilities		**8,717,021,508**	7,120,781,778
Total Liabilities		**17,614,867,204**	13,222,225,907
EQUITY			
Capital stock	21	**1,821,977,615**	1,821,977,615
Additional paid-in capital	21	**9,998,370,157**	9,998,370,157
Revaluation reserves	21	**1,461,388,964**	1,429,917,004
Other reserves	21	**(1,058,033,280)**	(1,058,033,280)
Retained earnings		**1,029,663,796**	965,156,916
Total Equity		**13,253,367,252**	13,157,388,412
TOTAL LIABILITIES AND EQUITY		**P 30,868,234,456**	P 26,379,614,319

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 PROFIT OR LOSS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(Unaudited)

	Notes	For the nine months ended 2018	For the nine months ended 2017	For the quarter ended 2018	For the quarter ended 2017
REVENUES					
Freight		**P 1,259,532,693**	P 646,434,580	**P 404,203,818**	P 211,213,389
Charter fees	20	**1,189,239,735**	1,047,277,604	**243,660,466**	372,713,023
Passage		**726,677,148**	339,528,146	**181,831,279**	86,812,180
Tugboat fees		**221,912,729**	192,695,282	**42,505,129**	65,096,501
Rendering of services		**252,396,832**	1,605,113	**98,390,564**	538,417
Standby charges	20	**21,267,126**	40,406,157	**511,033**	9,162,991
Sale of goods		**23,700,360**	28,163,983	**7,509,099**	13,749,399
		3,694,726,623	2,296,110,865	**978,611,388**	759,285,900
COST OF SALES AND SERVICES	15	**2,426,790,444**	1,480,780,788	**708,697,453**	547,850,178
GROSS PROFIT		**1,267,936,179**	815,330,077	**269,913,935**	211,435,722
OTHER OPERATING EXPENSES	16	**590,639,067**	298,113,702	**166,649,224**	108,099,048
OPERATING INCOME		**677,297,112**	517,216,375	**103,264,711**	103,336,674
		130,768,040	**174,079,714**		117,854,541
OTHER INCOME (CHARGES) - Net		**1,314,939,750**	**788,667,779**	**608,873,640**	**438,449,163**
Finance costs	18	**(526,531,828)**	(552,940,846)	**(178,365,952)**	(330,350,115)
Share in net income (loss) of an associate	10	**(197,768,855)**	62,386,769	**(253,747,266)**	-
Finance income	18	**1,361,433**	106,131,731	**(10,111,198)**	97,197,120
Other income	18	**129,406,607**	67,947,983	**63,499,950**	20,657,421
		(593,532,643)	(316,474,363)	**(378,724,466)**	(212,495,574)
PROFIT (LOSS) BEFORE TAX		**83,764,469**	200,742,012	**(275,459,755)**	(109,158,900)
TAX EXPENSE	19	**40,751,211**	48,910,689	**35,315,598**	16,608,231
NET PROFIT (LOSS)		**P 43,013,258**	P 151,831,323	**(P 310,775,353)**	(P 125,767,131)
Earnings (Loss) Per Share (Basic and Diluted)	22	**P 0.024**	P 0.134	**(P 0.171)**	(P 0.111)

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 ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(Unaudited)

	Notes	For the nine months ended 2018	For the nine months ended 2017	For the quarter ended 2018	For the quarter ended 2017
NET PROFIT (LOSS)		**P 43,013,258**	P 151,831,323	**(P 310,775,353)**	(P 125,767,131)
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified subsequently to profit or loss:					
Revaluation of vessels	9	**75,665,117**	49,040,962	**(10,153,046)**	(1,247,994)
Tax expense	19	**(22,699,535)**	(14,712,289)	**3,045,914**	(204,821)
Remeasurement of post-employment benefit obligation	17	-	(1,930,731)	-	-
Tax income	19	-	579,219	-	579,219
Currency exchange differences on translating financial statements of foreign operations		-	(81,660)	-	-
Other Comprehensive Income (Loss) - net of tax		52,965,582	32,895,501	(7,107,132)	(873,596)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P 95,978,840**	P 184,726,824	**(P 317,882,485)**	(P 126,640,727)

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 ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(Unaudited)

	Note	Capital Stock	Additional paid-in Capital	Revaluation Reserves	Other Reserves	Retained Earnings	Total
Balance at January 1, 2018	21	P 1,821,977,615	P 9,998,370,157	P 1,429,917,004	(P 1,058,033,280)	P 965,156,916	P 13,157,388,412
Total comprehensive income (loss) for the period		-	-	52,965,582	-	43,013,258	95,978,840
Transfer of revaluation reserves through depreciation, net of tax	21	-	-	(21,493,622)	-	21,493,622	-
Balance at September 30, 2018	21	**P 1,821,977,615**	**P 9,998,370,157**	**P 1,461,388,964**	**(P 1,058,033,280)**	**P 1,029,663,796**	**P 13,253,367,252**
Balance at January 1, 2017		P 500,000,000	P -	P 1,370,998,267	(P 1,058,033,280)	P 747,704,000	P 1,560,668,987
Issuance of shares during the period	21	775,384,615	5,272,615,385	-	-	-	6,048,000,000
Total comprehensive income for the period				33,769,097	-	151,831,323	185,600,420
Transfer of revaluation reserves through depreciation, net of tax		-	-	(28,352,211)	-	28,352,211	-
Balance at September 30, 2017	21	P 1,275,384,615	P 5,272,615,385	P 1,376,415,153	(P 1,058,033,280)	P 927,887,534	P 7,794,269,407

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 CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(Unaudited)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 83,764,469**	P 200,742,012
Adjustments for:			
Depreciation and amortization	9, 11	**623,718,524**	402,173,066
Interest expense	18	**455,512,746**	402,566,577
Share in net loss (income) of an associate	10	**197,768,855**	(62,386,769)
Unrealized foreign currency loss - net	18	**61,846,526**	43,777,769
Interest income	18	**(1,361,432)**	(1,716,620)
Operating profit before working capital changes		**1,421,249,688**	985,156,035
Increase in trade and other receivables		**(180,955,067)**	(143,853,102)
Increase in inventories		**(173,454,989)**	(73,974,191)
Increase in advances to related parties		**(44,376,951)**	(6,095,621,836)
Increase in other current assets		**(1,010,832,697)**	(995,086,826)
Decrease in post-employment benefit asset		**42,223**	2,919,518
Increase in other non-current assets		**(129,085,532)**	(2,195,544)
Increase in trade and other payables		**1,160,210,339**	136,197,966
Decrease in advances from customers		**(37,517)**	-
Increase (decrease) in other non-current liabilities		**5,395,344**	(10,629,299)
Cash generated from (used in) operations		**1,048,154,841**	(6,197,087,279)
Interest received		**1,361,432**	1,716,620
Cash paid for income taxes		**(61,436,907)**	(76,088,104)
Net Cash From (Used in) Operating Activities		**988,079,366**	(6,271,458,763)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	9	**(4,514,892,051)**	(636,906,692)
Proceeds from disposal of property and equipment	9	**100,416,137**	1,001,114
Additions to drydocking costs	11	**(74,894,484)**	(142,942,183)
Additions to interest in a joint venture	10	**-**	(5,000,000)
Net Cash Used in Investing Activities		**(4,489,370,398)**	(783,847,761)
Balance carried forward		**(P 3,501,291,032)**	(P 7,055,306,524)

	Notes	2018	2017
Balance brought forward		**(P 3,501,291,032)**	(P 7,055,306,524)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing loans	12	**5,105,776,938**	7,924,139,192
Repayments of interest-bearing loans	12	**(957,754,773)**	(2,153,383,988)
Repayments of advances from related parties	20	**(920,997,626)**	(533,000,000)
Interest paid	18	**(442,494,425)**	(320,911,526)
Proceeds from advances from related parties	20	**30,578,837**	565,508,050
Collection of subscription receivable	21	**-**	350,000,000
Proceeds from issuance of shares of stock	22	**-**	5,277,788,810
Net Cash From Financing Activities		**2,815,108,951**	11,110,140,538
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		**(35,875,248)**	8,098,991
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(722,057,329)**	4,062,933,005
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**1,441,704,190**	508,940,431
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**P 719,646,861**	P 4,571,873,436

Supplemental Information for Non-cash Investing Activity--

In 2018, the Group acquired certain transportation equipment through obtaining mortgage loan from a local bank totaling P3.4 million (see Notes 9 and 12).

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
NOTES TO CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND DECEMBER 31, 2017
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Information and Operations

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

On November 28, 2016 and May 12, 2017, the Company's Board of Directors (BOD) and stockholders approved the change in the corporate name of the Company from Chelsea Shipping Group Corp. to Chelsea Logistics Corp. and from Chelsea Logistics Corp. to Chelsea Logistics Holdings Corp., respectively, and for this purpose, amended the Company's Articles of Incorporation and By-laws, which 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 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, 2018 and December 31, 2017, the Company holds ownership interests in the following subsidiaries:

Subsidiaries	Explanatory Notes	Percentage of ownership 2018	2017
Direct interest:			
Chelsea Shipping Corporation (CSC)	*(a)*	**100%**	100%
Trans-Asia Shipping Lines, Incorporated (Trans-Asia)	*(b)*	**100%**	100%
Udenna Investments B. V. (UIBV)	*(c)*	**100%**	100%
Starlite Ferries, Inc. (Starlite)	*(d)*	**100%**	100%
Work-link Services, Inc. (WSI)	*(e)*	**100%**	100%
Indirect interest:			
Bunkers Manila, Inc. (BMI) [1]	*(f)*	**100%**	100%
Michael, Inc. (MI) [1]	*(g)*	**100%**	100%
PNX-Chelsea Shipping Corp. (PNX-Chelsea) [1]	*(h)*	**100%**	100%
Chelsea Ship Management &Marine Services Corp. (CSMMSC) [1]	*(i)*	**100%**	100%
Fortis Tugs Corporation (FTC) [1]	*(j)*	**100%**	100%
Davao Gulf Marine Services, Inc. (DGMSI)[2]	*(k)*	**100%**	100%
Chelsea Marine Manpower Resources, Inc. (CMMRI) [1]	*(l)*	**100%**	100%
Chelsea Dockyard Corporation (CDC) [1]	*(m)*	**100%**	-
CD Ship Management &Marine Services Corp. (CDSMMSC) [1]	*(n)*	**100%**	-
Quality Metals &Shipworks, Inc. (QMSI)[3]	*(o)*	**100%**	100%
Oceanstar Shipping, Inc. (Oceanstar)[3]	*(p)*	**100%**	100%
Dynamic Cuisine, Inc. (DCI)[3]	*(q)*	**100%**	100%
Starsy Shoppe, Inc. (SSI)[3]	*(r)*	**100%**	100%
Starbites Food Services Corp. (Starbites)[4]	*(s)*	**100%**	-
KGLI-NM Holdings, Inc. (KGLI-NM) Preferred C shares	*(t)*	**80%**	80%

[1]*Wholly owned subsidiary of CSC*
[2]*Wholly owned subsidiary of FTC*
[3]*Wholly owned subsidiary of Trans-Asia*
[4]*Wholly owned subsidiary of Starlite*

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

(a) Incorporated on July 17, 2006 and is engaged in the business of maritime trade through conveyance, carriage, loading, transportation, discharging and storage of petroleum products, goods and merchandise of every kind, over waterways in the Philippines.

(b) Incorporated on March 25, 1974 and is engaged in the transport of passengers and cargoes within Philippine territorial waters and/or in the high seas.

(c) Incorporated on August 25, 1994 under the laws of the Netherlands, having its corporate seat in Amsterdam, and is incorporated to participate in, to administer, to finance, to conduct the management of and to render advice and services to other companies and enterprises. UIBV is formerly known as KGL Investment B.V, a private company with limited liability.

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

(d) Incorporated on August 25, 1994 and is primarily engaged in general business of domestic shipping, to own and operate vessels of any class, type of description for domestic trade, to charter in and out any such vessel.

(e) Incorporated on June 2, 1994 and is engaged in logistics services such as but not limited to cargo freight forwarding (air, land and sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crafting, etc.

(f) Incorporated on March 7, 2000 and is established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.

(g) Incorporated on December 26, 1957 and is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.

(h) Incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.

(i) Incorporated on March 30, 2012 and is engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.

(j) Incorporated on April 8, 2013 and is engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbours, and other waterways between the various ports of the Philippines.

(k) Incorporated on January 18, 2012 and is engaged in, operates, conducts, and provides tug and marine services to all vessels, foreign or coastwise that dock and undock in the District Port of Davao and all other ports in the Philippines.

On December 15, 2016, FTC acquired 100% of the outstanding capital stock of DGMSI, a Davao-based tug service provider.

(l) Incorporated on June 9, 2016 and is primarily engaged in the business of providing full and partial crewing for domestic and foreign vessels, to act as the authorized representative and crew manager of shipping companies, and to provide allied maritime services for said vessels and companies.

(m) Incorporated on January 8, 2018 and is engaged in the general business of building and repair of ships, boats and other kinds of vessels as well as in ship breaking activities.

(n) Incorporated on March 14, 2018 and is engaged to carry on the business of ship management and to act as agent, broker, ship chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals and for such purpose, to act as principal in and hire the services of a local manning agent for the overseas employment for seamen, and to equip any and all kinds of ships, barges and vessels of every class and description owned by any shipping corporation.

(o) Incorporated on November 28, 2007 and is engaged in machining and mechanical works on ship machineries and industrial plants.

(p) Incorporated on July 6, 2006 primarily to engage in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas and is presently engaged in the charter or lease of maritime vessels.

(q) Incorporated on June 21, 2000 primarily to establish and maintain restaurant, coffee shops, refreshment parlors, cocktail lounges and cater goods, drinks, refreshments and other food commonly served in such establishments.

(r) Incorporated on September 30, 2005 and is engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.

(s) Incorporated on June 27, 2018 and is engaged to purchase 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 locally.

(t) Organized under Philippines laws and registered with SEC on August 8, 2008 as an investment holding company.

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

1.3 Approval of Consolidated Interim Financial Statements

The consolidated interim financial statements of the Group, which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated interim statement of profit or loss and consolidated interim statement of comprehensive income for the three months and nine months then ended, and the consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the nine months then ended (including the comparative audited consolidated financial statements as of December 31, 2017 and the unaudited consolidated interim profit or loss and consolidated interim statement of comprehensive income for the three months and nine months ended September 30, 2017, and the consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the nine months ended September 30, 2017) were authorized for issue by the Company's BOD on November 5, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements are presented in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. As allowed under PAS 34, the Group 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 consolidated interim financial statements are summarized below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Interim Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated interim 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 interim 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 Consolidated Interim Financial Statements

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

The consolidated interim financial statements presented consist of consolidated balances of the Group as of and for the nine months ended September 30, 2018 (including the comparative consolidated financial statements as of December 31, 2017 and for the nine months ended September 30, 2017).

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

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

The Group adopted for the first time the following new standards, interpretations and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PFRS 9 (2014)	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements – (2014-2016 Cycle) PAS 28 (Amendments)	:	Investments in Associates– Measuring Investment in Associates at Fair Value through Profit or Loss

Discussed below are the relevant information about these new standards, interpretations and annual improvements.

(i) PFRS 9 (2014), *Financial Instruments*. This new standard on financial instruments replaces 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 (FVTOCI) 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.

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

The Group adopted PFRS 9 as issued by the IASB in July 2014, which resulted in changes in accounting policies. The Group did not early adopt any PFRS 9 in previous periods.

The adoption of PFRS 9 has not resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The Group's financial assets previously classified as loans and receivables under PAS 39 shall be classified as financial assets at amortized costs under PFRS 9; while those equity securities previously classified as fair value through profit or loss under PAS 39 shall be continued to be classified as fair value through profit or loss under PFRS 9 through designation. Moreover, financial liabilities previously shall be continued to be measured at amortized costs. Hence, no reclassification adjustment is necessary upon adoption of PFRS 9.

On the other hand, the application of the PFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and other receivable, advances to related parties, and other financial assets at amortized costs did not result in the recognition of additional allowance for credit losses.

(ii) PFRS 15, *Revenue from Contract with Customers*. This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: 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.

The Group's revenues mainly pertain to the sale services which are recognized as the Group renders and completes the performance obligation agreed with the customer, who, in turn, receives and consumes the benefits provided by the Group as it performs the agreed service. The disaggregation of the Group's sources of revenues is presented as part of the analysis of segment information in Note 25.4. The adoption of PFRS 15 has not resulted to changes in the Group's accounting policies; hence, no adjustment is recognized in the consolidated financial statements.

(iii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no impact on the Group's consolidated interim financial statements as the Group.

(iv) Annual Improvements to PFRS 2014 - 2016 Cycle. PAS 28 (Amendments), *Investments in Associates – Clarification on Fair Value through Profit or Loss Classification* is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. The application of this annual improvement has no impact on the Group's consolidated interim financial statements as the Group continues to measure its investments in an associate and a joint venture using equity method of accounting.

(b) Effective in 2018 but not Relevant to the Group

The following amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's consolidated interim financial statements:

PAS 40	:	Investment Property – Reclassification to and from investment property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contract – Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts
Annual Improvements – (2014-2016 Cycle)		
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short Term Exemptions

(c) Effective Subsequent to 2018 but not Adopted Early

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

(i) PAS 28 (Amendments), *Investment in Associates – Long-term Interests in Associates and Joint Ventures* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of these amendments in the Group's consolidated interim financial statements.

(ii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this amendment in the Group's consolidated interim 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 the Group's consolidated interim financial statements.

(iv) PFRS 10 (Amendments), *Consolidated Interim 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.

(v) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the tax authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation in the Group's consolidated interim financial statements.

(vi) Annual Improvements to PFRS 2015 - 2017 Cycle (effective January 1, 2019). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's consolidated interim financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization.* The amendments clarify that when a specific borrowing remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of an entity's general borrowings used in calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation.* The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

2.3 Basis of Consolidation

The Group's consolidated interim financial statements as of and for the nine months ended September 30, 2018 and as of December 31, 2017 comprise the accounts of the Company and its subsidiaries as enumerated in Note 1.2, after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated interim financial statements.

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

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

(a) Investments in Subsidiaries

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

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

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

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

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

(b) Investment 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 Group'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 Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

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

(c) Investment in a Joint Venture

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

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

2.4 Segment Reporting

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

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 25, 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 interim 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 in accordance with PFRS 9

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding paragraph.

(i) Financial Assets at FVTPL

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include equity securities which are held for trading purposes or designated as at FVTPL.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in as part of Finance Income in the consolidated interim statement of profit or loss.

Interest earned on these investments is reported in profit or loss while dividend income is reported in profit or loss under when the right of payment has been established in accordance with PFRS 15.

(ii) Financial Assets at Amortized cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to officers and employees), 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.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2018, the Group has not made such designation.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) *Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39*

Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL and loans and receivables. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

A more detailed description of the four categories of financial assets relevant to the Group as of September 30, 2018 and December 31, 2017 follows:

(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 Company 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 at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to officers and employees), 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.

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

Non-compounding interest, dividend income 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. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss (see Note 2.16).

A financial asset is reclassified out of the FVTPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term or under rare circumstances. A financial asset that is reclassified out of the FVTPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(c) Impairment of Financial Assets

The Group applies the PFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and other receivable, advances to related parties, and other financial assets at amortized costs.

To measure the expected credit losses, trade and other receivable, advances to related parties, and other financial assets at amortized costs have been grouped based on shared credit risk characteristics and the days past due.

Trade and other receivable, advances to related parties, and other financial assets at amortized costs are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due, unless the Group assessed that there are qualitative factors that would suggest that the outstanding receivable is not impaired.

Impairment losses on trade and other receivable, advances to related parties, and other financial assets at amortized costs are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

In the prior year, the impairment of trade and other receivable, advances to related parties, and other financial assets at amortized costs was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognized in a separate provision for impairment. Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

2.6 Inventories

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

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

2.7 Property and Equipment

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

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

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

Revalued amounts represent fair values determined based on appraisals performed by external professional appraiser every after drydocking, which is done once every two periods. In addition, appraisal of vessels is conducted more frequently if market factors indicate a material change in fair value (see Note 28.4).

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

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

Vessels and vessel equipment	5 to 35 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 periods or the lease term, whichever is shorter.

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

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

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

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

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

2.8 Drydocking Costs

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

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

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

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

2.9 Other Assets

Other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated interim 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.

Obligations under finance lease (presented as part of interest-bearing loans) are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, at the inception of the lease [see Notes 2.17(a) and 23.4].

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. The Group does 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 Group 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 interim 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 interim 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 consolidated interim 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 only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

In addition, the following specific recognition criteria must also be met before revenue is recognized:

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

(b) *Passage* – Revenue is recognized upon completion of the route and is based on the published tariff rates per passenger and route of the vessel.

(c) *Freight* – Revenue is recognized when services have been completed and is generally based on a rate per cubic meter or weight of the cargo, whichever is higher, while rates for containerized cargo are based on a fixed rate per container.

(d) *Tugboat fees* – Revenue, which consist of fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts, is recognized upon the completion of contractually agreed services.

(e) *Standby charges* – Revenue is recognized upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the counterparty.

(f) *Logistics services* – Revenue is recognized when contractually-agreed tasks have been substantially performed. Service fees are also recognized when cargoes are received by either the shipper or consignee for export and import transactions.

(g) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

(h) *Rentals* – Revenue from rentals arising from the short-term lease of office space is recognized at the agreed rates over the lease term [see Note 2.17(b)].

(i) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Except for revenues from rentals and interest, the performance obligation for revenues arising from the rendering of services and sale of goods is determined to be satisfied at a point in time.

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

2.17 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

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

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

(b) Group as Lessor

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

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

2.18 Functional Currency and Foreign Currency Transactions

(a) Transactions and Balances

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

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

(b) Translation of Financial Statements of Foreign Subsidiary

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

(i) Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) Income and expenses for each profit or loss account are translated at average exchange rates over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income under currency exchange differences on translating financial statements of foreign operations, which is included under items that will be reclassified subsequently to profit or loss.

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

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

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

2.19 Impairment of Non-financial Assets

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

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

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

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

2.20 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

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

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

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

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

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

(d) Profit-sharing and Bonus Plans

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

(e) Compensated Absences

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

2.21 Borrowing Costs

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

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

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

2.22 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred 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 (APIC) includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, 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 and cumulative translation adjustments on financial statements of foreign subsidiaries.

Other reserves pertain to the difference between the Group's cost of investment and the net identifiable assets 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 interim 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 interim financial position at the end of the reporting period (adjusting event) is reflected in the consolidated interim financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated interim financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated interim financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated interim 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 interim 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) Application of Expected Credit Losses (ECL) to Financial Assets at Amortized Cost

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is based on the Group's historical observed default rates. The management intends to regularly calibrate (i.e. on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e. forecast economic conditions).

(c) 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.

Management has assessed that the sale and leaseback arrangement with a financing institution in 2018 is accounted for as finance lease. All other leases are accounted for as operating lease.

(d) 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.

(e) Recognition of Provisions and Contingencies

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

3.2 Key Sources of Estimation Uncertainty

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 are presented as follows:

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

The measurement of the ECL allowance for financial assets at amortized cost is an area that requires the use of complex models and significant assumptions about the future economic conditions and credit behavior (e.g. likelihood of customers defaulting and the resulting losses).

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 advances to related parties and security deposits is required to be recognized in 2018 and 2017 (see Notes 8, 11, 20.4, and 23.3).

(b) Determination of Net Realizable Value of Inventories

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

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

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

The carrying amounts of property and equipment and drydocking costs are analyzed in Notes 9 and 11, respectively. Based on management's assessment as at September 30, 2018 and December 31, 2017, there is no change in the estimated useful lives of property and equipment and drydocking costs during those periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Fair Value Measurement of Vessels

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

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

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

(e) Determining Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at September 30, 2018 and December 31, 2017, will be fully utilized in the coming periods. The carrying value of deferred tax assets as of September 30, 2018 and December 31, 2017 is disclosed in Note 19.2.

(f) Impairment of Non-financial Assets

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

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

(g) Valuation of Post-employment Defined Benefit Obligation

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 17.2.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cash on hand and in banks	**P 647,274,751**	P 1,426,064,323
Short-term placements	**72,372,110**	15,639,867
	P 719,646,861	P 1,441,704,190

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

The balances of cash on hand and in banks as of September 30, 2018 and December 31, 2017 did not include an amount of P27.7 million and 31.0 million, respectively, which is shown as Restricted cash under the Other Current Assets and Other Non-current Assets in the consolidated statements of financial position (see Notes 8and 11). Such amount is not available for the general use of the Group.

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following as of:

	Note	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade receivables	20.1, 20.3	**P 937,313,756**	P 802,786,761
Due from agencies		**50,728,459**	54,229,144
Advances to officers and employees		**68,513,024**	19,001,031
Claims receivables		**16,001,869**	15,794,361
Others		**2,420,115**	2,210,859
		1,074,977,223	894,022,156
Allowance for doubtful accounts		**(17,601,775)**	(17,601,775)
		P 1,057,375,448	P 876,420,381

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, 2018 and December 31, 2017 is shown below.

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	**P 17,601,775**	P 14,566,313
Impairment losses during the period	**-**	3,035,462
Balance at end of period	**P 17,601,775**	P 17,601,775

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

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

Claims receivables include charges made by the customers 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, noninterest-bearing cash advances for business-related expenditures and are subject to liquidation.

Certain trade receivables amounting to P238.0 million and P199.4 million as of September 30, 2018 and December 31, 2017, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans and borrowings (see Note 12.1).

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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.

There were no significant changes in the fair value of financial assets at FVTPL for the periods ended September 30, 2018 and December 31, 2017.

7. INVENTORIES

This account includes the following:

	Note	**September 30, 2018 (Unaudited)**	December 31, 2017 (Audited)
Spare parts		**P 155,958,526**	P 87,620,499
Fuel and lubricants	20.2	**111,656,545**	49,034,701
Shipping supplies		**87,820,695**	39,829,380
Food, beverage and other supplies		**2,112,320**	5,350,929
Electrical parts		**770,886**	3,028,474
		P 358,318,972	P 184,863,983

As of September 30, 2018 and December 31, 2017, based on management's assessment, the net realizable value of inventories is higher than its cost.

8. OTHER CURRENT ASSETS

The breakdown of this account as of September 30, 2018 and December 31, 2017 follows:

	Notes	**September 30, 2018 (Unaudited)**	December 31, 2017 (Audited)
Advances to suppliers		**P 2,021,217,196**	P 1,477,527,421
Input VAT		**361,875,416**	69,644,935
Deferred input VAT		**167,636,860**	185,770,148
Prepayments		**105,188,923**	31,937,943
Creditable withholding taxes		**85,951,856**	96,556,752
Deferred charges		**42,102,862**	29,780,327
Deferred loss on sale and leaseback arrangement	12.4	**21,671,941**	-
Security deposits	20.3, 23.3	**12,427,014**	5,122,339
Restricted cash	4	**27,657,633**	29,406,231
Others		**23,417,806**	590,814
		P 2,847,475,567	P 1,926,336,910

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

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment loss of property and equipment at the beginning and end of September 30, 2018 and December 31, 2017 are shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	CIP	Total
September 30, 2018							
Cost or revalued amounts	P 213,761,703	P 12,788,835,648	P 120,110,255	P 96,809,277	P 124,117,517	P 4,473,093,025	P 17,816,727,425
Accumulated depreciation and amortizaiton	-	(2,643,202,333)	(50,626,398)	(34,000,904)	(78,623,125)	-	(2,806,452,760)
Accumulated impairment loss	-	(2,214,620)	-	-	-	-	(2,214,620)
Net carrying amount	**P 213,761,703**	**P 10,143,418,695**	**P 69,483,857**	**P 62,808,373**	**P 45,494,392**	**P 4,473,093,025**	**P 15,008,060,045**
December 31, 2017							
Cost or revalued amounts	P 211,673,989	P 12,863,128,955	P 114,549,466	P 51,089,515	P 128,551,325	P 588,837,757	P 13,957,831,007
Accumulated depreciation and amortizaiton	-	(2,792,252,270)	(46,095,605)	(30,714,077)	(86,958,008)	-	(2,956,019,960)
Accumulated impairment loss	-	(2,214,620)	-	-	-	-	(2,214,620)
Net carrying amount	P 211,673,989	P 10,068,662,065	P 68,453,861	P 20,375,438	P 41,593,317	P 588,837,757	P 10,999,596,427
January 1, 2017							
Cost or revalued amounts	P 104,250,013	P 9,366,967,816	P 58,950,480	P 44,644,547	P 57,993,472	P 335,657,251	P 9,968,463,579
Accumulated depreciation and amortization	-	(2,053,621,702)	(23,075,954)	(26,555,834)	(44,427,026)	-	(2,147,680,516)
Accumulated impairment loss	-	(2,214,621)	-	-	-	-	(2,214,621)
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

A reconciliation of the carrying amounts of property and equipment at the beginning and end of September 30, 2018 and December 31, 2017 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, 2018, net of accumulated depreciation and amortization and impairment losses	P 211,673,989	P 10,068,662,065	P 68,453,861	P 20,375,438	P 41,593,317	P 588,837,757	P 10,999,596,427
Additions	2,087,714	487,283,861	15,593,310	37,746,698	14,888,028	3,892,344,714	4,449,944,325
Revaluation increment	-	75,665,117	-	-	-	-	75,665,117
Reclassification	-	8,089,446	-	8,089,446	-	(8,089,446)	8,089,446
Disposal	-	(103,222,059)	(159,029)	-	(3,463,665)	-	(106,844,753)
Depreciation and amortization charges for the year	-	(393,059,735)	(14,404,285)	(3,403,209)	(7,523,288)	-	(418,390,517)
Balance at September 30, 2018, net of accumulated depreciation and amortization and impairment losses	**P 213,761,703**	**P 10,143,418,695**	**P 69,483,857**	**P 62,808,373**	**P 45,494,392**	**P 4,473,093,025**	**P 15,008,060,045**
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment losses	P 104,250,013	P 7,311,131,493	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,[illegible]	P 7,818,568,442
Balance from acquired subsidiaries at January 1, 2017, net of accumulated depreciation							-
and amortization	-	1,825,913,470	14,089,612	-	12,377,408	-	1,852,380,490
Additions	107,423,976	1,268,178,847	44,002,428	3,682,827	30,191,753	433,531,471	1,887,011,302
Revaluation increment	-	67,317,920	-	-	-	-	67,317,920
Reclassification	-	180,118,385	-	-	232,580	(180,350,965)	-
Disposal	-	(9,335,148)	(8,507,385)	-	(1,606,112)	-	(19,448,645)
Depreciation and amortization charges for the year	-	(574,662,902)	(17,005,320)	(1,396,102)	(13,168,758)	-	(606,233,082)
Balance at December 31, 2017, net of accumulated depreciation and amortization and impairment losses	P 211,673,989	P 10,068,662,065	P 68,453,861	P 20,375,438	P 41,593,317	P 588,837,757	P 10,999,596,427

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 Chelsea Intrepid	September 20, 2018	P	120,000,000
M/Tug Fortis I	August 6, 2018		37,284,000
M/Tug Fortis II	August 6, 2018		46,710,000
M/Tug Fortis VII	August 8, 2018		26,797,000
MV Starlite Tamaraw	August 1, 2018		24,829,000
MV Starlite Archer	July 30, 2018		468,126,000
MV Starlite Eagle	July 28, 2018		466,130,000
MV Starlite Ferry	July 26, 2018		18,504,000
MV Starlite Jupiter	July 26, 2018		29,531,000
MV Starlite Navigator	July 26, 2018		29,903,000
MV Starlite Pacific	July 26, 2018		13,961,000
MV Starlite Pioneer	July 26, 2018		431,161,000
MV Starlite Polaris	July 26, 2018		9,287,000
MV Starlite Saturn	July 26, 2018		451,146,000
MT Ernesto Uno	May 29, 2018		152,000,000
MT Chelsea Resolute	January 10, 2018		255,000,000
MV Starlite Reliance	November 22, 2017		450,000,000
MT Denise	November 11, 2017		195,000,000
MT Jasaan	July 7, 2017		43,000,000
MT Excellence	June 14, 2017		150,000,000
MT BMI Patricia	June 5, 2017		56,000,000
MV Trans-Asia 3	February 11, 2017		207,385,000
M/Tug Pindasan	January 6, 2017		40,419,000
M/Tug Samal	January 6, 2017		33,451,000
M/Tug Sigaboy	January 6, 2017		28,880,000
MT Chelsea Charlize	June 27, 2016		470,000,000
MT Chelsea Endurance	June 8, 2016		347,422,000
MT Great Princess	May 31, 2016		1,450,000,000
MV Trans-Asia 5	May 17, 2016		114,000,000
MV Asia Philippines	May 17, 2016		71,000,000
MV Trans-Asia 2	May 7, 2016		90,000,000
MV Trans-Asia 8	April 28, 2016		90,000,000
MV Trans-Asia 10	April 27, 2016		85,500,000
MVAsia Pacific	April 27, 2016		71,000,000
MV Trans-Asia 9	April 25, 2016		86,000,000
MV Starlite Annapolis	April 4, 2016		34,869,000
MT Chelsea Enterprise	March 4, 2016		135,000,000
MV Starlite Pioneer	February 24, 2016		462,265,000
MT Chelsea Denise II	December 23, 2015		487,000,000
M/Tug Fortis I	November 17, 2015		85,000,000
MT Great Diamond	August 5, 2015		1,021,886,700
MT Chelsea Cherylyn	December 29, 2014		880,000,000

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

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

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, 2018 and December 31, 2017 are as follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cost	**P10,191,563,569**	P 10,096,699,931
Accumulated depreciation	**(1,858,985,154)**	(1,768,872,688)
Net carrying amount	**P 8,332,578,415**	P 8,327,827,243

Depreciation and amortization is classified in the consolidated interim statements of profit and loss as follows (unaudited):

	Notes	**2018**	2017
Cost of sales and services	15	**P 395,092,756**	P 264,055,745
Other operating expenses		**23,297,761**	13,862,986
	16	**P 418,390,517**	P 277,918,731

The Group's vessels with a net carrying amount of P9,421.9 million and P8,755.6 million as of September 30, 2018 and December 31, 2017, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 12).

10. INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Associate – KGLI-NM		
Cost	**P 2,104,212,296**	P 2,104,212,296
Equity share in other comprehensive income from previous year	**106,087,393**	-
Equity share in net profit (loss)	**(197,768,855)**	(1,962,214)
Equity share in other comprehensive income during the period	**-**	108,049,607
	2,012,530,834	2,210,299,689
Jointly controlled entity – Meridian Maritime Training Center Center (Meridian)	**58,635,925**	58,635,925
	P 2,071,166,759	P 2,268,935,614

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 (See Note 21.1).

Presented below are the financial information of the Group's associate as of September 30, 2018 and December 31, 2018.

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Total Assets	**P16,986,324,628**	P18,205,544,373
Total Liabilities	**17,541,484,704**	18,045,884,835
Total Revenues	**15,466,154,000**	21,591,089,000
Net Income (Loss)	**(620,354,000)**	276,244,000

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

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

No share in profit or loss was recognized from the investment in joint venture as the facility is still under construction as of September 30, 2018 and December 31, 2017.

As of September 30, 2018 and December 31, 2017, management believes that the investments in an associate and a joint venture are not impaired.

11. OTHER NON-CURRENT ASSETS

This account is composed of the following as of:

	Notes	**September 30, 2018 (Unaudited)**	December 31, 2017 (Audited)
Drydocking costs – net		**P 360,274,652**	P 303,509,254
Security deposits	20.3, 23.3	**21,049,552**	12,730,611
Other investments		**8,572,236**	8,272,236
Software		**1,600,000**	1,600,000
Restricted cash	4	**-**	1,637,081
Others		**1,674,229**	-
		P 393,170,669	P 327,749,182

Other investments pertain to investments in insurance security fund.

A reconciliation of the net carrying amount of drydocking costs at the beginning and end of September 30, 2018 and December 31, 2017 is shown below.

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	**P 303,509,254**	P 169,125,830
Additions	**262,093,405**	325,647,628
Amortization charges for the period	**(205,328,007)**	(212,524,095)
Balance from acquired subsidiaries	**-**	21,259,891
Balance at end of period	**P 360,274,652**	P 303,509,254

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

12. INTEREST-BEARING LOANS

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

	Notes	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Current:			
Bank loans	12.2	**P 4,667,394,826**	P 2,445,380,253
Term loans	12.1	**1,286,680,967**	968,128,892
Mortgage loans	12.3	**23,233,155**	20,981,833
Obligations under finance lease	12.4	**11,523,776**	-
		5,988,832,724	3,434,490,978
Non-current:			
Term loans	12.1	**8,344,848,248**	6,746,237,521
Mortgage loans	12.3	**124,533,006**	140,997,812
Obligations under finance lease	12.4	**51,422,682**	-
Bank loans	12.2	**-**	10,434,324
		8,520,803,936	6,897,669,657
		P14,509,636,660	P10,332,160,635

A reconciliation of the carrying amounts of interest-bearing loans at the beginning and end of September 30, 2018 and December 31, 2017 is shown below.

	Term loans (see Note 12.1)	Bank loans (see Note 12.2)	Mortgage loans (see Note 12.3)	Obligations under finance lease (see Note 12.4)	Total
Balance as of January 1, 2018	P 7,714,366,413	P 2,455,814,577	P 161,979,645	P -	P 10,332,160,635
Cash flows from financing activities:					
Additions	2,681,445,464	2,358,281,852	-	66,049,622	5,105,776,938
Repayments	(790,253,940)	(146,701,603)	(17,696,066)	(3,103,164)	(957,754,773)
	1,891,191,524	2,211,580,249	(17,696,066)	62,946,458	4,148,022,165
Non-cash financing activities:					
Additions	-	-	3,482,582	-	3,482,582
Restatement of foreign currency denominated loans	25,971,278	-	-	-	25,971,278
	25,971,278	-	3,482,582	-	29,453,860
Balance at September 30, 2018	**P 9,631,529,215**	**P 4,667,394,826**	**P 147,766,161**	**P 62,946,458**	**P 14,509,636,660**
Balance as of January 1, 2017	P 2,596,979,367	P 4,576,345,754	P 199,457,057	P -	P 7,372,782,178
Cash flows from financing activities:					
Additions	1,404,093,151	1,184,823,399	-	-	2,588,916,550
Repayments	(559,970,152)	(1,512,915,688)	(78,213,314)	-	(2,151,099,154)
	844,122,999	(328,092,289)	(78,213,314)	-	437,817,396
Balance from acquired subsidiaries	2,446,689,650	7,561,112	-	-	2,454,250,762
Additions	-	-	40,735,902	-	40,735,902
Reclassification	1,800,000,000	(1,800,000,000)	-	-	-
Conversion from USD to PHP	20,298,400	-	-	-	20,298,400
Restatement of foreign currency denominated loans	6,275,997	-	-	-	6,275,997
	4,273,264,047	(1,792,438,888)	40,735,902	-	2,521,561,061
Balance at December 31, 2017	P 7,714,366,413	P 2,455,814,577	P 161,979,645	P -	P 10,332,160,635

12.1 Term Loans

The details of the Group's term loans as of September 30, 2018 and December 31, 2017 are as follows:

	Security	Terms	Interest Rates	Outstanding Balance: September 30, 2018 (Unaudited)	Outstanding Balance: December 31, 2017 (Audited)
China Banking Corporation (CBC)	CSC shares of stocks/ Continuing Suretyship	6 years	4.50%	**P 1,800,000,000**	P 1,800,000,000
Development Bank of the Philippines (DBP)	MT Chelsea Providence	15 years	6.50%	**1,500,000,000**	-
Philippine Business Bank (PBB)	MV Eagle, MV Navigator MV Archer, MV Saturn	10 years	7.50%	**996,444,850**	1,037,444,850
PBB	Unsecured	15 years	7.00%	**800,000,000**	800,000,000
DBP	Trans - Asia 16, 17 and 18	15 years	6.50%	**618,000,000**	-
DBP	MV Pioneer, MV Reliance	15 years	6.95%	**600,000,000**	606,000,000
DBP	MV San Pedro Calungsod MV San Lorenzo Ruis Uno MV St. Nicholas of Myra	15 years	6.50%	**563,445,464**	-
BDO	Trans - Asia 1, Trans - Asia 10	10 years	4.25%	**555,691,950**	567,439,501
CBC	MT Chelsea Charlize	7 years	3.25%	**343,589,667**	366,102,000
PBB	MT Chelsea Dominance	7 years	6.06%	**324,355,500**	373,008,825
PBB	MT Chelsea Endurance	7 years	6.06%	**275,112,500**	316,379,375
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	**285,000,000**	296,250,000
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	**285,000,000**	296,250,000
CTBC Bank (Phils) Inc. (CTBC)	Continuing Suretyship	5 years	4.09%	**285,000,000**	296,250,000
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	**190,000,000**	197,500,000
BDO	MT Chelsea Denise II	5 years	6.46%	**161,520,000**	196,140,000
Asia United Bank (AUB)	Mtug Fortis III and Mtug Fortis V	7 years	5.56%	**59,370,834**	67,114,859
AUB	Mtug Fortis I and Mtug Fortis II	5 years	7.00%	**5,555,555**	22,222,222
United Coconut Planters Bank (UCPB) and Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal Mtug Sigaboy	5 years	6.00% to 6.50%	**3,714,594**	25,696,844
BDO Unibank, Inc. (BDO)	MT Great Princess	5 years	5.25%	-	335,482,560
BDO	MT Great Diamond	7 years	One year LIBOR plus 3.50%	-	134,052,501
BDO	Trans - Asia 10	9.38 years	4.25%	-	39,584
				9,651,800,914	7,733,373,121
Discount on loans payable				**(20,271,699)**	(19,006,708)
				P 9,631,529,215	**P 7,714,366,413**

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

In 2013, PNX-Chelsea entered into a Memorandum of Agreement (MOA) with China Shipbuilding & Exports Corporation (CSEC) for the acquisition of one unit of oil tank (MT Great Princess) in the amount of US$21,187,500. In connection with the acquisition of an oil tank vessel, PNX-Chelsea entered into an OLSA amounting to US$14 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. In September 2013, BDO granted the loan and released the first tranche amounting to US$4 million. The second tranche was availed by PNX-Chelsea 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-Chelsea entered into a MOA with CSC for the importation of one unit of oil tank vessel (MT Chelsea Denise II) from China for a total cost of US$7,300,000. In connection with the MOA, PNX-Chelsea entered in another OLSA with the same local bank for P300.0 million to finance the acquisition of MT Chelsea Denise II in 2014. The loan is subject to effective interest rate of 6.46%per annum and is payable for a quarterly basis for five periods commencing at the end of the fourth quarter of 2015. These loans have been fully settled as of September 30, 2018.

Interest incurred on these loans amounted to P12.3 million and P29.1 million in 2018 and 2017, respectively, and are presented as part of Finance costs under the Other Income (Charges) account in the consolidated interim statements of profit or loss (see Note 18.1).

Debt issuance costs amounted to P0.8 million (first tranche) and P2.2 million (second tranche), of which P0.3 million and P1.1 million, respectively, were amortized in 2018 and 2017 using the effective interest rates of 5.54% and 5.58% for each tranche. Amortized debt issuance costs were recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account of the consolidated interim statement of profit or loss (see Note 18.1). Unamortized debt issuance costs are deducted against the current and non-current portion of the related interest-bearing loans.

(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. These loans have been fully settled as of September 30, 2018.

Interest incurred on these loans is presented as part of Finance costs under the Other Income (Charges) account in the consolidated interim statements of profit or loss (see Note 18.1). The related unpaid interest as of December 31, 2017 is presented as part of Accrued expenses under the Trade and Other Payables account in the 2017 consolidated statement of financial position (see Note 13).

Related debt issuance costs amounted to P8.2 million, of which P0.1 million and P2.4 million was amortized in 2018 and 2017, respectively, using the effective interest rate of 4.65%. Amortized debt issuance costs were recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account of the consolidated interim statement of profit or loss (see Note 18.1). The unamortized debt issuance costs are included as part of the current and non-current portion of the related loan.

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

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

Interest incurred on this loan is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated interim statements of profit or loss (see Note 18.1). The related unpaid interest as of September 30, 2018 and December 31, 2017 amounted to P1.0 million and P1.3 million, respectively, and is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

Certain trade receivables amounting to P173.1 million and P171.9 million as of September 30, 2018 and December 31, 2017, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 5). Moreover, the loan is secured by a chattel mortgage on MT Chelsea Charlize with net carrying amount of P433.2 million and P445.1 million as of September 30, 2018 and December 31, 2017, respectively (see Note 9).

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

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

Interest incurred on these loans is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated interim statements of profit or loss (see Note 18.1). The related unpaid interest as of September 30, 2018 and December 31, 2017 amounted to P5.1 million and P6.6 million, respectively, and is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totaling P712.2 million and P731.2 million, respectively, as of September 30, 2018 and December 31, 2017 (see Note 9).

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

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

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

Interest expense related to these loans is presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated interim statements of profit or loss (see Note 18.1).

Certain trade receivables amounting to P26.7 million and P27.5 million as of September 30, 2018 and December 31, 2017, respectively, were assigned to secure the payment of these interest-bearing loans (see Note 5). Moreover, certain tugboats of FTC with net carrying amounts of P237.8 million and P247.0 million as of September 30, 2018 and December 31, 2017, respectively, were used as collateral to secure the payment of these loans (see Note 9).

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

In 2014, Trans-Asia availed loans from BDO for the acquisition of MV Trans-Asia 10 totaling to P120.0 million at an interest rate of 4.5% per annum. Also, a loan amounting to P79.7 million was obtained from BDO to provide financing to Oceanstar for the purchase of MV Trans-Asia 8 and 9. Principal and interest payments on these loans are made monthly. Trans-Asia made additional loans from BDO totaling to P263.5 million in 2016 at an interest rate of 4.25% per annum. Principal payments are made monthly with a grace period of one year and interest on these loans is payable monthly in arrears.

Interest expense related to these loans presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated interim statements of profit or loss (see Note 18.1).

(g) *TLA with CBC – Trans-Asia*

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

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

Interest expense related to these loans presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated interim statements of profit or loss (see Note 18.1).

(h) TLA with UCPB and PBComm – DGMSI

In 2014, DGMSI obtained loans from UCPB and PBComm to fund its acquisition of second hand 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 related to these loans presented as part of Finance costs under the Other Income (Charges) – net section of the consolidated interim statements of profit or loss (see Note 18.1).

(i) TLA with CBC

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

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

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

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

Interest expense incurred on these loans amounted to P7.2 million and is presented as part of Finance costs under the Other Income (Charges) account in the 2018 consolidated interim statement of profit or loss (see Note 18.1).

The loan is secured by Trans-Asia shares, a corporate guarantee by Udenna and individual surety of the Company's Chairman of the BOD [see Note 20.8(a)].

(k) TLA with PBB – Starlite

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

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

Interest incurred on these loans amounted to P34.1 million in 2018 and is presented as part of Finance costs under the Other Income (Charges) account in the 2018 consolidated interim statement of profit or loss (see Note 18.1). The related unpaid interest as of September 30, 2018 and December 31, 2017 is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

Certain vessels of Starlite with net carrying amounts of P1,285.0 million and P1,283.4 million as of September 30, 2018 and December 31, 2017 were used as collateral to secure the payment of these loans (see Note 9).

(l) TLA with DBP - Starlite

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

Interest incurred on these loans is presented as part of Finance costs under the Other Income (Charges) account in the 2018 consolidated interim statement of profit or loss (see Note 18.1). The related unpaid interest as of September 30, 2018 and December 31, 2017 is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

Certain vessels of Starlite with net carrying amounts of P791.4 million and P735.9 million as of September 30, 2018 and December 31, 2017were used as collateral to secure the payment of these loans (see Note 9).

The agreement requires Starlite to maintain debt-to-equity ratio of not more than 8.00:1.00, current ratio of 0.50:1.00 and DSCR of at least 1.00. As of September 30, 2018 and December 31, 2017, Starlite has complied with these covenants.

(m) TLA with DBP – PNX-Chelsea

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

Interest incurred on these loans is presented as part of Finance costs under the Other Income (Charges) account in the consolidated interim statements of profit or loss (see Note 18.1). The related unpaid interest as of September 30, 2018 is presented as part of Accrued expenses under the Trade and Other Payables account in the 2018 consolidated statement of financial position (see Note 13).

Certain trade receivables amounting to P38.2 million as of September 30, 2018 were assigned to secure payment of this interest-bearing loan (see Note 5). Moreover, certain vessels of PNX-Chelsea with net carrying amounts of P557.3 million of September 30, 2018 were used as collateral to secure the payment of these loans (see Note 9).

The agreement requires PNX-Chelsea to maintain debt-to-equity ratio of not more than 2.34:1.00. As of September 30, 2018 and December 31, 2017, PNX-Chelsea has complied with these covenants.

(n) TLA with DBP – Trans-Asia

On May 2, 2018, Trans-Asia entered into a loan agreement with DBP amounting to P618.0 million to finance the acquisition of Trans-Asia 16, Trans-Asia 17 and Trans-Asia 18. The loan is subject to annual interest rate of 6.50% and is payable quarterly in arrears up to 15 years from the initial drawdown, inclusive of one-year grace period from the date of signing.

Interest incurred on these loans is presented as part of Finance costs under the Other Income (Charges) account in the consolidated interim statements of profit or loss (see Note 18.1). The related unpaid interest as of September 30, 2018 is presented as part of Accrued expenses under the Trade and Other Payables account in the 2018 consolidated statement of financial position (see Note 13).

(o) TLA with DBP – CSC

On September 28, 2018, CSC entered into a loan agreement with DBP amounting to P1.5 billion to refinance the acquisition of MT Chelsea Providence and Floating Dock Exuberance. The loan is subject to annual interest rate of 6.50% and is payable quarterly in arrears up to 15 years from the initial drawdown, inclusive of one-year grace period from the date of signing.

The loan is secured by the receivables of Providence. Moreover, certain vessel and floating dock of CSC with net carrying amounts of P1,636.7 million of September 30, 2018 were used as collateral to secure the payment of these loans (see Note 9).

12.2 Bank Loans

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

	Security	Terms	Interest Rates	Outstanding Balance September 30, 2018 (Unaudited)	Outstanding Balance December 31, 2017 (Audited)
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 5.375%	P 2,060,057,625	P 923,290,258
UCPB	MT Chelsea Intrepid MT BMI Patricia	90 days	5.00% to 5.75%	887,300,000	890,502,192
CBC	Unsecured	60 days	6.00%	520,000,000	-
Pentacapital	Unsecured	360 days	6.00%	400,000,000	-
DBP	MT Chelsea Cherylyn	180 days	4.00 to 4.25%	298,500,000	300,000,000
Union Bank of the Philippines	Unsecured	360 days	4.50%	200,000,000	-
Unicapital	Unsecured	90 days	5.50%	198,500,000	140,000,000
PBCom	MT Ernesto Uno	180 to 270 days	4.75%	-	130,765,000
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%	71,700,000	57,300,000
PVB	Unsecured	180 days	4.18%	21,165,887	-
Chinabank Savings	Unsecured	48 days	0.71%	8,535,276	1,086,678
BPI	Unsecured	48 days	9.47% to 10.28%	1,636,038	2,436,125
Security Bank Corporation (SBC)	Chattel Mortgage	5 years	6.50%	-	10,434,324
				P 4,667,394,826	P 2,455,814,577

The bank loans were obtained to finance the drydocking of certain vessels and to support the Group's working capital requirements. These loans are secured by certain vessels owned by the Group with total net carrying amount of P1,233.0 million and P1,637.4 million as of September 30, 2018 and December 31, 2017, respectively (see Note 9).

Interest incurred on these loans is presented as part of Finance costs under the Other Income (Charges) account in the consolidated interim statements of profit or loss (see Note 18.1). The related unpaid interest as of September 30, 2018 and December 31, 2017 is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

12.3 Mortgage Payables

	Security	Terms	Interest Rates	Outstanding Balance September 30, 2018 (Unaudited)	Outstanding Balance December 31, 2017 (Audited)
BDO	Real Estate Mortgage	10 years	4.25%	P 113,333,333	P 120,000,000
AUB	Chattel Mortgage on Transportation Equipment	3 to 5 years	7.00% to 8.50%	21,923,583	27,411,954
CBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	2,462,125	3,839,567
RCBC	Chattel Mortgage on Transportation Equipment	3 years	7.00%	3,222,328	3,996,246
BDO	Chattel Mortgage on Transportation Equipment	3 years	7.32%	3,371,845	3,129,183
PNB	Chattel Mortgage on Transportation Equipment	1 year	7.30%	2,899,572	2,358,952
BDO	Chattel Mortgage on Transportation Equipment	3 years	6.90% to 7.53%	553,375	1,243,743
				P 147,766,161	P 161,979,645

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

These loans are secured by certain properties and transportation equipment with total carrying amount of P55.0 million and P57.6 million as of September 30, 2018 and December 31, 2017, respectively (see Note 9).

12.4 Obligations Under Finance Lease

In 2018, the Group entered into a finance lease agreement through sale and leaseback arrangement with a local bank to seek additional funding and accommodate expenses for the acquisition of certain machinery and equipment. These finance lease agreements have effective interest rates of 6.49% to 6.76% per annum, payable in 48 equal monthly payments and are secured by a chattel mortgage on the Group's machinery and equipment. Total interest expense incurred amounted to P0.6 million for the nine months ended September 30, 2018 and is shown as part of Finance Costs under Other Income (Charges) – net section in the 2018 consolidated statement of profit or loss (see Note 18.1). There was no similar transaction in 2017.

13. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	**September 30, 2018 (Unaudited)**	December 31, 2017 (Audited)
Trade payables	20.2, 20.6	**P 2,214,633,527**	P 1,053,282,818
Accrued expenses	12	**94,107,557**	168,041,389
Deferred output VAT		**73,260,645**	69,258,421
Output VAT		**16,325,416**	19,601,544
Deposits payable		**1,574,281**	885,112
Provisions		**458,450**	801,086
Others		**153,718,192**	68,979,036
		P 2,554,078,068	P 1,380,849,406

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

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

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

14. DEPOSITS FOR FUTURE STOCK SUBSCRIPTION

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	**P 180,000,000**	P 50,000,000
Addition during the period	**-**	180,000,000
Reversal to advances	**-**	(50,000,000)
Balance at end of period	**P 180,000,000**	P 180,000,000

The balance as at September 30, 2018 and December 31, 2017 represents preferred shares subscription of certain individuals in Trans-Asia. These are presented as current liability in the consolidated statements of financial position as the requirements of SEC Financial Reporting Bulletin No. 006 (as revised in 2013) for classification as equity has not been complied with as of the end of the reporting period (see Note 2.11).

15. COST OF SALES AND SERVICES

The details of this account for the nine months ended September 30 are shown below (unaudited).

	Notes	**2018**	2017
Bunkering	20.2	**P 735,038,443**	P 381,143,995
Depreciation and amortization	9, 11	**600,420,763**	388,310,080
Salaries and employee benefits	17.1	**387,725,066**	203,237,359
Charter hire fees		**120,949,442**	80,340,500
Port expenses		**115,906,603**	97,580,508
Insurance		**95,181,373**	57,583,387
Repairs and maintenance		**69,207,983**	129,121,123
Supplies		**64,442,465**	23,415,355
Outside services		**54,361,935**	58,435,401
Delivery		**39,949,004**	-
Rentals	23.3	**37,592,510**	-
Taxes and licenses		**22,672,777**	18,321,534
Transportation and travel		**13,702,291**	10,997,424
Utilities and communication		**12,631,167**	2,037,614
Technology		**6,726,404**	-
Cost of inventories sold		**6,662,630**	17,351,947
Commission		**2,389,816**	1,243,020
Professional fees		**1,688,985**	2,550,506
Representation and entertainment		**181,732**	346,850
Miscellaneous		**39,359,055**	8,764,185
		P 2,426,790,444	P 1,480,780,788

16. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the nine months ended September 30 are presented below (unaudited).

	Notes	2018	2017
Bunkering	20.2	**P 735,038,443**	P 382,604,592
Depreciation and amortization	9, 11	**623,718,524**	402,173,066
Salaries and employee benefits	17.1, 20.7	**613,346,044**	286,273,267
Taxes and licenses		**141,293,539**	90,614,204
Charter hire fees		**120,949,442**	80,340,500
Port expenses		**117,536,153**	97,580,508
Insurance		**98,054,086**	60,844,912
Outside services		**86,368,734**	74,496,178
Repairs and maintenance		**81,810,659**	134,788,891
Supplies		**74,559,934**	32,413,772
Rentals	20.3, 23.3	**68,057,059**	18,963,047
Delivery		**39,950,475**	-
Transportation and travel		**33,610,752**	23,937,548
Utilities and communication		**27,311,440**	9,218,337
Professional fees		**17,906,882**	21,962,952
Representation and entertainment		**12,241,549**	7,727,810
Commission		**11,298,445**	5,102,812
Technology		**6,726,634**	-
Cost of inventories sold		**6,662,630**	17,351,947
Advertising and promotions		**4,986,465**	-
Miscellaneous	20.8(b)	**96,001,622**	32,500,147
		P 3,017,429,511	P 1,778,894,490

These expenses are classified in the consolidated interim statements of profit or loss as follows (unaudited):

	Note	2018	2017
Cost of sales and services	15	**P 2,426,790,444**	P 1,480,780,788
Other operating expense		**590,639,067**	298,113,702
		P 3,017,429,511	P 1,778,894,490

17. SALARIES AND EMPLOYEE BENEFITS

17.1 Salaries and Employee Benefits

The details of salaries and employee benefits for the nine months ended September 30 are presented below (unaudited).

	Notes	2018	2017
Short-term employee benefits		**P 608,082,747**	P 283,260,500
Other employee benefits		**5,221,074**	331,025
Post-employment benefits	17.2(b)	**42,223**	2,680,742
	16	**P 613,346,044**	P 286,273,267

These expenses are classified in the consolidated interim statements of profit or loss as follows (unaudited):

	Notes	2018	2017
Cost of sales and services	15	**P 387,725,066**	P 203,237,359
Other operating expense		**225,620,978**	83,035,907
	16	**P 613,346,044**	P 286,273,267

17.2 Post-employment Defined Benefits

(a) Characteristics of Post-employment Defined Benefit Plan

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

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

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

(i) For regular employees who were hired before December 1, 2006

- more than two periods to five periods – 7.5 days per year of service
- five periods and nine months to ten periods – 15 days per year of service
- ten periods and nine months to 15 periods – 22.5 days per year of service
- 15 periods and nine months and above – 30 days per year of service

(ii) For regular employees who were hired starting December 1, 2006

- Five periods and nine months to nine periods – 7.5 days per year of service
- Nine periods and nine months to 15 periods – 15 days per year of service
- 15 periods and five months to 20 periods – 22.5 days per year of service
- 20 periods and nine months and above – 30 days per year of service

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

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

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

(i) Post-employment Benefit Asset

The amounts of post-employment defined benefit asset of Trans-Asia and MI as of September 30, 2018 and December 31, 2017, which is recognized in the consolidated statements of financial position are determined as follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Fair value of plan assets	**P 41,456,400**	P 41,456,400
Present value of the obligation	**(32,927,352)**	(32,885,129)
	8,529,048	8,571,271
Effect of the asset ceiling	**(381,217)**	(381,217)
	P 8,147,831	P 8,190,054

The movements in the present value of post-employment defined benefit obligation recognized as of September 30, 2018 and December 31, 2017 books are as follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	**P 32,885,129**	P 34,820,143
Current service cost	**42,223**	6,856,642
Interest cost	**-**	1,848,950
Actuarial gains	**-**	(10,007,052)
Benefits paid	**-**	(633,554)
Balance at end of period	**P 32,927,352**	P 32,885,129

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	P 41,456,400	P 39,693,662
Interest income	-	2,090,913
Balance from MI	-	1,502,033
Return on plan assets (excluding amounts included in net interest)	-	(1,196,654)
Benefits paid	-	(633,554)
Balance at end of period	P 41,456,400	P 41,456,400

The composition of the fair value of plan assets as at September 30, 2018 and December 31, 2017 by category and risk characteristics is shown below.

Cash and cash equivalents	P 22,866,053
Debt securities	
Philippine government bonds	11,373,808
Corporate bonds	6,140,132
Unit investment trust funds	743,292
Equity securities	332,850
Others	265
	P 41,456,400

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

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	P 42,261,263	P 11,078,452
Balance from acquired subsidiaries	-	15,709,900
Actuarial gains	-	10,209,258
Current service cost	-	9,154,718
Interest cost	-	1,234,567
Benefits paid	-	(5,125,632)
Balance at end of period	P 42,261,263	P 42,261,263

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	**P 5,672,383**	P 7,031,908
Balance of MI reclassified to asset	**-**	(1,502,033)
Interest income	**-**	296,954
Return on plan assets (excluding amounts included in net interest)	**-**	(154,446)
Balance at end of period	**P 5,672,383**	P 5,672,383

The composition of the fair value of plan assets as of September 30, 2018 and December 31, 2017 by category and risk characteristics is shown below.

Cash	P 9,923
Equity securities	1,689,378
Debt securities	1,956,795
Unit investment trust funds	2,011,278
Others	5,009
	P 5,672,383

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

The plan assets earned a return of P1.0 million in 2017.

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

(iii) Post-employment benefit expense

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

Recognized in profit or loss:	
Current service cost	P 2,680,742
Net interest income	(268,783)
	P 2,411,959
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	15	P	1,875,881
Other operating expenses			805,861
	17.1	P	2,681,742

The net interest income earned related to the post-employment defined benefit obligation is presented as part of Finance costs under the Other Income (Charges) – net section of the 2017 consolidated interim statements of profit or loss (see Note 18.3).

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 as at December 31, 2017, the following actuarial assumptions were used:

Discount rates	5.70%
Expected rate of salary increase	5.00% - 8.00%

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

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in cash and cash equivalents, debt and equity securities and unit investment trust fund (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 below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2017.

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

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

(ii) Asset-liability Matching Strategies

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

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

A large portion of the plan assets as of September 30, 2018 and December 31, 2017consists of cash and cash equivalents and equity and debt securities, although the Group also invests in UITF. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are in a diversified portfolio of local blue chip entities.

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

(iii) Funding Arrangements and Expected Contributions

As of September 30, 2018, the plan is underfunded by P36.6 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 21 periods' time when a significant number of employees is expected to retire.

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

The maturity profile of undiscounted expected benefit payments from the plan within the next 10 periods from December 31, 2017 follows:

Within one year	P	6,573,460
More than one year but not more than five years		29,145,966
More than five periods but not more than ten years		40,137,840
	P	75,857,266

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

18. OTHER INCOME (CHARGES) - Net

18.1 Finance Costs

The details of this account for the nine months ended September 30 follow (unaudited):

	Note		**2018**		2017
Interest expense on interest-bearing loans	12	**P**	**455,512,746**	P	402,566,577
Foreign currency exchange losses – net			**67,304,765**		148,192,880
Bank charges			**3,714,317**		2,181,389
		P	**526,531,828**	P	552,940,846

18.2 Finance Income

The breakdown of this account for the nine months ended September 30 is shown below (unaudited).

	2018	2017
Interest income	**P 1,361,432**	P 1,716,620
Foreign currency exchange gains	**-**	104,415,111
	P 1,361,432	P 106,131,731

18.3 Other Income

Presented below are the details of other income for the nine months ended September 30 (unaudited).

	Notes	**2018**	2017
Handling and trucking		**P 103,054,976**	P 35,119,315
Rebates		**8,000,000**	14,828,417
Rental income	20.3, 23.2	**4,611,941**	5,306,552
Miscellaneous		**13,739,690**	12,693,699
		P 129,406,607	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.

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

19. TAXES

19.1 Registration with the Board of Investments (BOI)

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

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

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

19.2 Current and Deferred Taxes

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

	2018	2017
Recognized in profit or loss:		
Regular corporate income tax (RCIT)	**P 108,771,208**	P 94,375,449
Minimum corporate income tax (MCIT)	**816,834**	433,433
Final tax at 20% and 7.5%	**86,539**	165,075
	109,674,581	94,973,958
Deferred tax income relating to origination and reversal of temporary differences	**(68,923,370)**	(46,063,268)
	P 40,751,211	P 48,910,689
Recognized in other comprehensive income:		
Deferred tax income relating to origination and reversal of temporary differences	**(P 22,699,535)**	(P 14,133,070)

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated interim statements of profit or loss for the period ended September 30 (unaudited) is as follows:

	2018	2017
Tax on pretax profit at 30%	**P 25,129,341**	P 60,222,604
Adjustments for income subjected to lower tax rates	**(47,232)**	(135,125)
Tax effects of:		
Net profit on BOI-registered activities	**(33,344,719)**	(7,924,550)
Nontaxable income	**(3,720,364)**	(18,716,031)
Nondeductible expenses	**51,157,261**	18,366,319
Unrecognized deferred tax assets on Net Operating Loss Carry Over (NOLCO)	**1,576,924**	2,910,574
Excess of optional standard deduction	**-**	(5,813,102)
	P 40,751,211	P 48,910,689

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
NOLCO	**P 331,240,886**	P 205,236,419
Revaluation reserves on property and equipment	**(112,993,421)**	(559,367)
Retirement benefit obligation	**8,270,182**	7,826,009
MCIT	**7,516,871**	482,989
Capitalized borrowing costs	**(7,165,158)**	-
Impairment losses on trade and other receivables	**2,507,974**	1,829,076
Unrealized foreign currency gain – net	**(319,139)**	-
Impairment losses on property and equipment	**611,054**	611,054
Accrued expenses	**90,000**	90,000
Others	**434,706**	-
	P 230,193,955	P 215,516,180

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Revaluation reserves on property and equipment	**(P 143,407,926)**	(P 250,001,452)
Capitalized borrowing costs	**-**	(7,165,158)
Revaluation surplus on disposed vessel	**(3,036,983)**	(3,036,983)
Impairment losses on long-term financial assets	**2,721,268**	2,721,268
Provision on estimated liability	**2,659,620**	2,659,620
Loss on contamination	**2,057,831**	2,057,831
Post-employment benefit obligation	**700,075**	1,975,112
NOLCO	**410,883**	73,383,371
MCIT	**357,765**	8,040,124
Unrealized foreign currency gain – net	**(84,251)**	(403,390)
Impairment losses on trade and other receivables	**51,291**	730,189
Others	**(677,264)**	(1,498,116)
	(P 138,247,691)	(P 170,537,584)

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

	2018 (Unaudited)		2017 (Audited)	
	Profit or Loss	Other Comprehensive Income	Profit or Loss	Other Comprehensive Income
Deferred tax expense (income):				
NOLCO	(P 53,031,978)	P -	(P 30,086,624)	P -
Revaluation reserves of vessels	(16,859,007)	(22,699,535)	(15,899,019)	14,712,289
MCIT	648,477	-	(433,433)	-
Unrealized foreign currency loss – net	319,139	-	230,793	-
Post-employment benefit obligation	-	-	-	(579,219)
Impairment loss on property and equipment	-	-	31,110	-
Others	-	-	93,905	-
	(P 68,923,370)	(P 22,699,535)	(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 RCIT, whichever is higher.

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

Year	Original Amount	Applied in Previous Periods	Applied in Current Period	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2018	P 210,480,073	P -	P -	P -	P 210,480,073	2021
2017	906,451,769	-	23,067,992	-	883,383,777	2020
2016	10,638,820	-	10,638,820	-	-	2019
2015	11,642,046	-	-	-	11,642,046	2018
	P 1,139,212,708	P -	P 33,706,812	P -	P 1,105,505,896	
MCIT:						
2018	816,834	P -	P -	P -	P 816,834	2021
2017	772,955	-	-	-	772,955	2020
2016	4,392,543	-	-	-	4,392,543	2019
2015	3,357,615	-	1,465,311	-	1,892,304	2018
	P 9,339,947	P -	P 1,465,311	P -	P 7,874,636	

Except for Trans-Asia, DGMSI and FTC, which opted to claim OSD, the Group opted to claim itemized deductions in computing for its income tax due in 2017. In 2018, the Group opted to claim itemized deductions in computing for its income tax due.

20. RELATED PARTY TRANSACTIONS

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

A summary of the Group's transactions with its related parties for the periods ended September 30, 2018 and 2017 and the related outstanding balances as of September 30, 2018 and December 31, 2017 is presented below.

		Amounts of Transactions		Outstanding Balances	
Related Party Category	Notes	**September 30, 2018 (Unaudited)**	September 30, 2017 (Unaudited)	**September 30, 2018 (Unaudited)**	December 31, 2017 (Audited)
Udenna					
Cash advances granted	20.4	(P 231,689,356)	P 6,290,067,914	**P 2,196,544,653**	P 2,428,234,009
P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI)					
Chartering of services rendered	20.1	**469,021,447**	411,740,679	**235,346,568**	271,054,727
Fuel purchases	20.2	**184,880,024**	98,036,541	**(102,730,175)**	(77,121,463)
Cash advances obtained	20.4	**34,188**	84,830,229	**(894,839)**	(929,026)
Acquisition of CSC's shares	20.6	-	-	**(500,000,000)**	(500,000,000)
Related party under common ownership					
Rental income	20.3	**3,801,723**	3,777,726	**571,219**	1,131,385
Rental expense	20.3	**1,243,133**	1,806,667	**(408,341)**	(378,191)
Donation	20.8(b)	**270,000**	270,000	**(180,000)**	(90,000)
Cash advances granted	20.4	**276,011,308**	(194,446,078)	**336,212,092**	60,200,784
Cash advances obtained	20.4	**920,963,439**	(117,338,279)	**(118,879,687)**	(1,039,843,126)

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

20.1 Charter Fees and Standby Charges

The Group entered into chartering agreements with PPPI, which are made on the same terms as those transactions with third parties. The amounts of revenue recognized are presented as part of Charter fees and Standby charges under the Revenues section of the consolidated interim statements of profit or loss. The related outstanding receivable as of September 30, 2018 and December 31, 2017, is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

The outstanding receivables from related parties are unsecured and do not bear any interest. Further, no impairment loss was recognized on the outstanding receivables from related parties as of September 30, 2018 and December 31, 2017 based on management's assessment.

20.2 Fuel Purchases

The Group purchases fuel and lubes from Phoenix Petroleum Philippines, Inc. (PPPI). Fuel consumed is included as part of Bunkering under the Cost of Sales and Services account in the consolidated interim statements of profit and loss (see Note 15) while the remaining fuel and lubricants inventory amounting to P111.7 million and P49.0 million as of September 30, 2018 and December 31, 2017, respectively, are included as part of the Inventories account in the consolidated statements of financial position (see Note 7). The outstanding liability arising from these transactions as of September 30, 2018 and December 31, 2017 is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

20.3 Rentals

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

Furthermore, the Group bills certain related parties under common ownership for their corresponding share on the office space rent. Income from this transaction is presented as Other Income under the Other Income (Charges) – net section of the consolidated interim statements of profit or loss (see Note 18.3). The related receivable as of September 30, 2018 and December 31, 2017, is presented as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 5).

No impairment loss was recognized on the outstanding receivables from these transactions as management has determined that such financial assets are fully collectible.

20.4 Advances to and from Related Parties

In the normal course of business, the Group grants and obtains unsecured, noninterest-bearing cash advances to and from its related parties mainly for working capital requirements and other purposes. As of September 30, 2018 and December 31, 2017, the outstanding receivable and payable balances from these advances are shown as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position. These advances have no repayment terms and are generally payable in cash on demand or through offsetting arrangement with the related parties.

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	**P 2,488,434,793**	P 194,446,078
Net advances	**44,376,951**	2,293,988,715
Balance at end of period	**P 2,532,811,744**	P 2,488,434,793

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

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	**P 1,040,772,152**	P 85,759,255
Net advances (payments)	**(920,997,626)**	955,012,897
Balance at end of period	**P 150,353,363**	P 1,040,772,152

20.5 Transactions with Post-employment Benefit Plan

The Group's retirement fund is a multi-employer retirement plan, which is administered by a trustee bank. The retirement fund includes investments in cash and cash equivalents, equity and debt securities, and UITF with fair value totaling P47.2 million as of September 30, 2018 and December 31, 2017.

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

20.6 Acquisition of CSC's Shares

On November 24,2016, the Company acquired all of the outstanding shares of CSC from PPPI, a related party under common ownership, for a total consideration of P2.0 billion. The carrying amounts of the consolidated assets and liabilities of CSC at the time of acquisition amounted to P8.4 billion and P5.4 billion, respectively. The excess of the net identifiable assets over the acquisition price is presented as Other Reserves under the equity section of the consolidated statements of financial position (see Note 21.3).

As of September 30, 2018 and December 31, 2017, the outstanding liability to PPPI arising from this transaction amounted to P500.0 million, which is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

20.7 Key Management Personnel Compensation

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

20.8 Others

(a) Certain interest-bearing loans of the Group were secured by a corporate guarantee of Udenna and by certain stockholders through a continuing surety agreement with the respective banks (see Note 12).

(b) The Group granted donations amounting to P0.3 million in 2018 and 2017 to Udenna Foundation, Inc., a non-stock, non-profit organization, established by Udenna. This is presented as part of Miscellaneous under the Other Operating Expenses account in the consolidated statement of profit and loss (see Note 16).

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)	**September 30, 2018 (Unaudited)**	December 31, 2017 (Audited)
Authorized - P1 par value	**2,000,000,000**	2,000,000,000	**P 2,000,000,000**	P 2,000,000,000
Issuedand outstanding				
Balance at beginning of period	**1,821,977,615**	500,000,000	**P 1,821,977,615**	P 500,000,000
Issuance and subscription during the period	-	1,321,977,615	-	1,321,977,615
Balance at end of period	**1,821,977,615**	1,821,977,615	**P 1,821,977,615**	P 1,821,977,615

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 was fully collected in 2017.

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to CLC 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna (see Note 10). In addition, the Group recognized APIC amounting to P5,272,615,385, in the 2017 consolidated statement of financial position.

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 for a total gross proceeds of P5.8 billion. In addition, the Group recognized the APIC amounting to P4,725,754,772, net of issuance costs amounting to P565,265,468, in the 2017 consolidated statement of financial position. As at September 30, 2018, the Company's listed shares closed at P8.02 per share.

21.2 Revaluation Reserves

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

	Property and Equipment (see Note 9)	AFS Financial Assets	Post-employment Benefit Obligation (see Note 17.2)	Investment in Associate and a Joint Venture (see Note 10)	Cumulative translation adjustments	Total
Balance as of January 1, 2018	P 1,287,281,993	P -	P 34,808,921	P 108,049,607	(P 223,517)	P 1,429,917,004
Revaluation increment	52,965,582	-	-	-	-	52,965,582
Depreciation transferred to retained earnings - revalued tankers	(30,705,174)	-	-	-	-	- (30,705,174)
Other comprehensive income before tax	22,260,408	-	-	-	-	22,260,408
Tax income	9,211,552	-	-	-	-	9,211,552
Other comprehensive income after tax	31,471,960	-	-	-	-	31,471,960
Balance at September 30, 2018	**P 1,318,753,953**	**P -**	**P 34,808,921**	**P 108,049,607**	**(P 223,517)**	**P 1,461,388,964**
Balance as of January 1, 2017	P 1,335,232,117	P 34,725	P 35,731,425	P -	P -	P 1,370,998,267
Remeasurements of post-employment benefit obligation	-	-	(1,317,864)	-	-	(1,317,864)
Disposal of AFS financial assets	-	(49,607)				(49,607)
Gain on revaluation of tankers	67,317,920	-	-	108,049,607	-	175,367,527
Pre-acquisition other comprehensive income	(55,484,964)	-	-		-	(55,484,964)
Currency exchange differences on translating financial statements of foreign operations	-	-	-	-	(223,517)	(223,517)
Depreciation transferred to retained earnings - revalued tankers	(65,518,941)	-	-	-	-	- (65,518,941)
Other comprehensive income before tax	(53,685,985)	(49,607)	(1,317,864)	108,049,607	(223,517)	52,772,634
Tax income (expense)	5,735,861	14,882	395,360	-	-	6,146,103
Other comprehensive income after tax	(47,950,124)	(34,725)	(922,504)	108,049,607	(223,517)	58,918,737
Balance at December 31, 2017	**P 1,287,281,993**	**P -**	**P 34,808,921**	**P 108,049,607**	**(P 223,517)**	**P 1,429,917,004**

21.3 Other Reserves

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

22. EARNINGS PER SHARE

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

	2018	2017
Net profit	**P 43,013,258**	P 151,831,323
Divided by weighted average shares outstanding	**1,821,977,615**	1,137,239,385
Earnings per share – basic and diluted	**P 0.024**	P 0.134

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of September 30, 2018 and 2017; hence, diluted earnings per share is equal to the basic earnings per share.

23. COMMITMENTS AND CONTINGENCIES

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

23.1 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.

23.2 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering certain office space. The leases have terms from one to five years, with renewal options, and include annual escalation from 5.0% to 10.0%. The future minimum lease receivables under these agreements amounted to P1.6 million as of September 30, 2018 and December 31, 2017.

Rent income amounted to P2.0 million and P1.8 million in 2018 and 2017, respectively, and is presented as part of Other income account under Other Income (Charges) – net section of the consolidated statement of profit and loss (see Note 18.3).

23.3 Operating Lease Commitments – Group as Lessee

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Within one year	**P 20,217,519**	P 4,177,691
More than one year but not more than five years	**111,492,038**	-
	P 131,709,557	P 4,177,691

Total rentals from these operating leases amounted to P23.0 million and P6.5 million in 2018 and 2017, respectively, and is included as Rentals under the Cost of Sales and Services and Other Operating Expenses account in the consolidated interim statements of profit or loss (see Notes 15 and 16).

The related security deposit on this operating lease amounted to P5.7 million and P5.1 million as of September 30, 2018 and December 31, 2017, respectively, and is shown as Security deposits under the Other Current Assets and Other Non-current Assets accounts in the consolidated statements of financial position (see Notes 8 and 11).

23.4 Finance Lease Commitments – Group as Lessee

The Group has finance leases covering certain machinery and equipment with terms maturing in 2021. The future minimum lease payment (MLP) under finance leases together with the present value (PV) of net minimum lease payments (NMLP) as of September 30, 2018 (nil as of December 31, 2017) follows:

	MLP	PV of NMLP
Within one year	P 11,523,776	P 11,523,776
After one year but not more than five years	51,422,682	51,422,682
	P 62,946,458	**P 62,946,458**

Total liability relating the finance lease is shown as part of Interest-bearing Loans in the 2018 consolidated statement of financial position (see Note 12.4).

23.5 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 interim financial statements. The related liability is presented as part of Provisions under Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

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

23.6 Unused Lines of Credit

As of September 30, 2018 and December 31, 2017, the Group has unused lines of credit amounting to P299.8 million and P236.0 million, respectively.

23.7 Mergers and Acquisitions

On June 28, 2018, the Company received the Philippine Competition Committee's (PCC) decision declaring void its 2016 acquisition of Trans-Asia for failure to notify and secure PCC approval of such acquisition. On the same date, The PCC also issued another decision regarding the Company's acquisition of additional direct shareholdings in KGLI-NM and consequent consolidation of ownership over 2GO, which decision is dependent on the final outcome of the PCC's decision on the Trans-Asia acquisition.

On July 13, 2018, the Company filed a Motion for Reconsideration with the PCC for redress with regard to the PCC's voiding of the acquisition of Trans-Asia and the penalty of P22.8 million for non-notification. On July 18, 2018, the Company filed its Motion for Partial Reconsideration of the above KGLI-NM Decision wherein the Company prayed that it be allowed to proceed with the transaction without the PCC's imposed condition voiding the acquisition of Trans-Asia.

Subsequently, on September 5, 2018, the Company received the order of the PCC setting the Trans-Asia and the KGLI-NM acquisitions for joint hearing on September 17, 2018. At said hearing, CLC Chairman Dennis A. Uy confirmed that CLC intends to acquire Trans-Asia and that CLC agreed to be bound by the remedies or conditions of the PCC to address the competition concerns arising from the acquisition of Trans-Asia.

On September 21, 2018, the Company and Trans-Asia filed their separate Notification Forms on the Trans-Asia acquisition. Subsequently, on October 4, 2018, the PCC ruled in its Resolution that the Motion for Reconsideration of said Decision is denied for being moot, and reduced the penalty earlier imposed to 1% of the Trans-Asia transaction or P 11.4 million. On 9 October 2018, the Notice of Sufficiency from the PCC regarding said Forms was received and the imposed penalty was subsequently paid on 10 October 2018. On 14 October 2018, the Company filed its Waiver of the Period for Phase 1 review and on 19 October 2018, the Company filed its Voluntary Commitments which are presently under review by the PCC.

23.8 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 consolidated interim 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 consolidated interim financial statements.

24. GOODWILL

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

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

	UIBV	WSI	Starlite	Total
Cash and cash equivalents	P 25,508,842	P 65,588,642	P 88,983,637	P 180,081,121
Trade and other receivables	765,659	63,365,673	844,057,036	908,188,368
Prepayments and other current assets	-	4,936,396	89,270,689	94,207,085
Property and equipment	-	13,864,952	2,301,692,380	2,315,557,332
Investment in an associate	2,104,212,296	-	-	2,104,212,296
Other non-current assets	-	5,614,686	11,470,799	17,085,485
Trade and other payables	-	(18,282,601)	(360,025,772)	(378,308,373)
Interest-bearing loans	-	(7,561,112)	(2,446,689,650)	(2,454,250,762)
Other non-current liabilities	-	(6,025,955)	(18,663,921)	(24,689,876)
Net Assets	P 2,130,486,797	P 121,500,681	P 510,095,198	P 2,762,082,676

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

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

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

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

25. SEGMENT INFORMATION

25.1 Business Segments

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

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

(b) Tugboats services is involved in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbors and other waterways between the various ports of the Philippines;

(c) Roll-on/roll of passenger shipping services is involved in the transport of passengers and cargoes within Philippine territorial waters and/or high seas;

(d) Distribution and warehousing services is involved in the logistics services such as but not limited to cargo freight forwarding (air, land and sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crating, etc.

(e) Ship management and crewing services is involved in the business of ship management and in providing full and partial crewing for domestic and foreign vessels; and,

(f) Investing and other activities include holding companies.

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

25.2 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.

25.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation and combination both in 2018 and 2017.

25.4 Analysis of Segment Information

The tables presented in the succeeding page present revenue and profit information regarding business segments for the periods ended September 30, 2018 and 2017and certain asset and liability information regarding segments as at September 30, 2018 and December 31, 2017.

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
2018								
SEGMENT RESULTS								
Sales to external customers	P -	P 1,268,461,885	P 221,912,729	P 2,013,692,318	P 190,659,691	P -	P -	P 3,694,726,623
Intersegment sales	224,768,902	-	-	-	-	295,467,094	(520,235,996)	-
Total revenues	224,768,902	1,268,461,885	221,912,729	2,013,692,318	190,659,691	295,467,094	(520,235,996)	3,694,726,623
Cost of sales and services	-	664,332,701	158,606,669	1,569,779,568	102,380,874	227,157,726	(295,467,094)	2,426,790,444
Other operating expenses	134,500,654	237,599,217	50,311,190	310,159,244	40,614,977	44,160,689	(226,706,904)	590,639,067
Operating profit (loss)	90,268,248	366,529,967	12,994,870	133,753,506	47,663,840	24,148,679	1,938,002	677,297,112
Finance costs	(22,648,175)	(303,722,610)	(4,065,075)	(195,444,698)	(428,401)	(222,869)	-	(526,531,828)
Share in net income of an associate	(197,768,855)	-	-	-	-	-	-	(197,768,855)
Finance income	275,354	162,186	234,498	504,090	177,647	7,658	-	1,361,433
Other income	1,241,013	7,749,167	-	121,243,239	91,498	1,019,692	(1,938,002)	129,406,607
Profit (loss) before tax	(128,632,415)	70,718,710	9,164,293	60,056,137	47,504,584	24,953,160	-	83,764,469
Tax expense (income)	29,589,615	(50,726,702)	9,910,870	25,978,505	17,650,116	8,348,806	-	40,751,211
Net profit (loss)	**(P 158,222,030)**	**P 121,445,412**	**(P 746,577)**	**P 34,077,632**	**P 29,854,468**	**P 16,604,354**	**P -**	**P 43,013,258**
SEGMENT ASSETS AND LIABILITIES								
Total assets	**P 19,652,340,884**	**P 14,085,920,827**	**P 1,050,949,325**	**P 8,659,526,666**	**P 219,035,209**	**P 118,631,886**	**(P 12,918,170,341)**	**P 30,868,234,456**
Total liabilities	**P 5,449,666,309**	**P 9,360,826,646**	**P 529,915,997**	**P 6,967,404,596**	**P 63,496,385**	**P 99,940,072**	**(P 4,856,382,801)**	**P 17,614,867,204**
2017								
Sales to external customers	P -	P 1,096,038,949	P 192,695,282	P 1,007,376,634	P -	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	62,674,072	179,671,469	-	(7,767,032)	2,409,746	517,216,375
Finance costs	(357,757,459)	(163,868,369)	(7,557,188)	(23,354,255)	-	(403,576)	-	(552,940,846)
Finance income	104,869,008	131,087	419,770	702,337	-	9,529	-	106,131,731
Other income	62,386,769	9,628,984	-	60,379,509	-	349,236	(2,409,746)	130,334,752
Profit (loss) before tax	(197,841,440)	133,459,581	55,536,655	217,399,060	-	(7,811,843)	-	200,742,013
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 124,847,773)	P 87,021,853	P 38,839,714	P 157,324,084	-	(P 6,506,554)	P -	P 151,831,323
SEGMENT ASSETS AND LIABILITIES								
Total assets	P 18,951,605,041	P 11,412,401,836	P 853,196,994	P 6,338,410,534	P 168,650,550	P 64,814,514	(P 11,409,465,150)	P 26,379,614,319
Total liabilities	P 4,684,787,143	P 7,772,852,340	P 516,755,576	P 5,261,321,618	P 37,821,516	P 64,171,046	(P 5,115,483,332)	P 13,222,225,907

26. 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 27. 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.

26.1 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, 2018 and December 31, 2017 closing rates follow:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Financial assets	**P 5,681,045**	P 191,301,896
Financial liabilities	**(343,589,667)**	(834,908,373)
Net exposure	**(P 337,908,622)**	(P 643,606,477)

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P24.8 million and P69.3 million in 2018 and 2017, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax in 2018 and 2017 by the same amount. This sensitivity of the net result for the period assumes a +/- 7.33% and +/-10.77% change of the Philippine peso/U.S. dollar exchange rate for the periods ended September 30, 2018 and December 31, 2017, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous nine months for 2018 and 12 months in 2017 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

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

(b) *Interest Rate Sensitivity*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At September 30, 2018 and December 31, 2017, the Group is exposed to changes in market interest rates through cash in bank and certain bank borrowings which are subject to variable interest rates (see Note 12). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.

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

The changes in percentages would affect profit or loss before tax by +/- P1.0 million and +/-P18.6 million for the periods ended September 30, 2018 and December 31, 2017, respectively.

26.2 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, 2018 (Unaudited)**	December 31, 2017 (Audited)
Cash and cash equivalents	4	**P 1,071,144,492**	P 1,441,704,190
Trade and other receivables – net (excluding advances to officers and employees)	5	**988,862,424**	857,419,350
Restricted cash	8, 11	**27,657,633**	31,043,312
Security deposits	8, 11	**33,476,566**	17,852,950
Advances to related parties	20.4	**2,532,811,744**	2,488,434,793
		P 4,302,455,228	P 4,836,454,595

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.

The Group applies the PFRS 9 simplified approach in measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and other receivables.

To measure the expected credit losses, trade receivables and other assets have been grouped based on shared credit risk characteristics and the days past due. The other assets relate to receivables from both third and related parties other than trade receivables and have substantially the same risk characteristics as the trade receivables. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other assets.

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Not more than three months	P 102,390,999	P 271,416,774
More than three months but not more than one year	186,795,854	77,355,212
More than one year	140,100,307	118,815,142
	P 429,287,159	P 467,587,128

Financial assets past due for more than three months pertain mostly to the trade receivables from PPPI. The management believes that such receivables are not impaired as it may be offset against the Group's liabilities to PPPI.

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.

26.3 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, 2018, 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	12	P 4,294,694,270	P 2,786,959,685	P 6,131,521,511	P 4,478,320,937
Trade and other payables (except for government-related obligations)	13	2,339,313,918	-	-	-
Advances from related parties	20.4	75,176,682	75,176,681	-	-
		P 6,709,184,870	P 2,862,136,366	P 6,131,521,511	P 4,478,320,937

As at December 31, 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	12	P 2,852,209,328	P 1,626,989,697	P 6,652,104,772	P 805,378,747
Trade and other payables (except for government-related obligations)	13	1,222,209,319	-	-	-
Advances from related parties	20.4	520,386,076	520,386,076	-	-
		P 4,594,804,723	P 2,147,375,773	P 6,652,104,772	P 805,378,747

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.

27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

27.1 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.

		September 30, 2018		December 31, 2017	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets:					
Loans and Receivables					
Cash and cash equivalents	4	**P 719,646,861**	**P 719,646,861**	P 1,441,704,190	P 1,441,704,190
Trade and other receivables - net	5	**988,862,424**	**988,862,424**	857,419,350	857,419,350
Restricted cash	8, 11	**27,657,633**	**27,657,633**	31,043,312	31,043,312
Security deposits	8, 11	**33,476,566**	**33,476,566**	17,852,950	17,852,950
Advances to related parties	20.4	**2,532,811,744**	**2,532,811,744**	2,488,434,793	2,488,434,793
Financial Assets at FVTPL -					
Equity securities	6	**3,947,736**	**3,947,736**	3,947,736	3,947,736
		P 4,306,402,964	**P 4,306,402,964**	P 4,840,402,331	P 4,840,402,331
Financial Liabilities:					
At amortized cost:					
Trade and other payables	13	**P 2,339,313,918**	**P 2,339,313,918**	P 1,222,209,318	P 1,222,209,318
Interest-bearing loans	12	**14,509,636,660**	**14,509,636,660**	10,332,160,635	10,332,160,635
Advances from related parties	20	**150,353,363**	**150,353,363**	1,040,772,152	1,040,772,152
		P 16,999,303,941	**P 16,999,303,941**	P 12,595,142,105	P 12,595,142,105

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

27.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set off financial assets and financial liabilities in 2018 and 2017 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instruments may have the option to settle on a net basis in the event of default of one of the parties through approval by the respective BOD and stockholders of both parties or upon instruction by Udenna. 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.

28. FAIR VALUE MEASUREMENTS AND DISCLOSURES

28.1 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.

28.2 Financial Instruments Measured at Fair Value

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

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

The Group has no financial liabilities measured at fair value as of September 30, 2018 and December 31, 2017.

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

The tables in the succeeding page summarize the fair value hierarchy of the Group's financial assets and financial liabilities as of September 30, 2018 and December 31, 2017, which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:				
Loans and Receivables				
Cash and cash equivalents	P 719,646,861	P -	P -	P 719,646,861
Trade and other receivables - net	-	-	988,862,424	988,862,424
Restricted cash	27,657,633	-	-	27,657,633
Security deposits	-	-	33,476,566	33,476,566
Advances to related parties	-	-	2,532,811,744	2,532,811,744
	P 747,304,495	**P -**	**P 3,555,150,734**	**P 4,302,455,228**
Financial Liabilities:				
At amortized cost:				
Trade and other payables	P -	P -	P 2,339,313,918	P 2,339,313,918
Interest-bearing loans	-	-	14,509,636,660	14,509,636,660
Advances from related parties	-	-	150,353,363	150,353,363
	P -	**P -**	**P 16,999,303,941**	**P 16,999,303,941**

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

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.

28.4 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 9). To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the vessels. In estimating the fair value of these vessels, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's non-financial assets indicated above is their current use.

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

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

29. 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, 2018 (Unaudited)	December 31, 2017 (Audited)
Total liabilities	**P 17,614,867,204**	P13,222,225,907
Total equity	**13,253,367,252**	13,157,388,412
Debt-to-equity ratio	**1.33 :1.00**	1.00 : 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.