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#### 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. Employee Stock Option Plan
- 8. Election of Members of the Board of Directors
- 9. Delegation to the Board of Directors of the Authority to Appoint the Company's External Auditor
- 10. Other Matters
- 11. Adjournment

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

Taguig City, February 21, 2019.

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 State $\sqrt{}$ Definitive Information State										
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:										
	•	019 Radisson Davao vay, Davao City, 8000									
9.	Approximate date on which the Information S stockholders:	Statement is first to be sent or given to									
	February 21, 2019										
10.	Securities registered pursuant to Sections 8 ar SRC:	nd 12 of the Code or Sections 4 and 8 of the									
	Title of Each Class Common Shares Par Valu Php 1.00										
11.	Are any or all of Company's securities listed o	n a Stock Exchange?									
	VYes	No									
If y	res, disclose the name of such Stock Exchange and	d the class of securities listed therein:									

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 21, 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

## 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%

<sup>\*</sup>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											
Common	Dennis A. Uy	Filipino	Direct	100,001	NIL						
			Indirect	892,769,224	49.000%						
Common	Cherylyn C. Uy	Filipino	Direct	1	NIL						
			Indirect	382,615,385	21.000%						
Common	Chryss Alfonsus V. Damuy	Filipino	Direct	522,000	0.029%						
Common	Eduardo A. Bangayan	Filipino	Direct	70,001	NIL						

Title of Class	Name of Beneficial Owner	Citizenship	Nature of Beneficial Ownership	No. of Shares	Percentage of Outstanding Shares
Common	Miguel Rene A. Dominguez	Filipino	Direct	200,001	0.011%
Common	Jesus S. Guevara II	Filipino	Direct	1	NIL
			Indirect	100,000	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	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 Directo	rs and Officers as a group			1,277,472,917	70.110%

As of December 31, 2018, Directors and Executive Officers of the Company owned an aggregate of **1,277,472,917** shares of the Company, equivalent to 70.11% 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

Office/Position	Name	Age	Citizenship
Independent Director	Gener T. Mendoza	61	Filipino
<b>Executive Officers</b>			
President and CEO	Chryss Alfonsus V. Damuy	45	Filipino
Treasurer	Cherylyn C. Uy	39	Filipino
VP – Finance	Ignacia S. Braga IV	53	Filipino
AVP – Legal and Corporate	Ma. Henedina V. San Juan	57	Filipino
Affairs / Corporate Secretary			
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

#### **Board of Directors**

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.

Following 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., Aetos Air Philippines, 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	2 years
	present	
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	Pennis A. Uy Phoenix Petroleum Philippines, Inc.			
		& CEO		
	2Go Group, Inc.	Chairman		
	PH Resorts Group Holdings, Inc.	Chairman		
	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

#### **Chief Financial Officer**

Filipino, 53 years old, was previously the Vice President for Finance of CLC. She is also the Chief Financial Officer 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 Legal and Corporate Affairs

Filipino, 57 years old, is the Corporate Secretary and concurrently the Assistant Vice President for Legal 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)

Except for the above, there are no other Family Relationships up to the fourth civil degree either by consanguinity or affinity among the Directors, Executive Officers or persons nominated.

#### 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, 23<sup>rd</sup> 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 PhP400,000,000.000 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 Group's transactions with its related parties for the periods ended December 31, 2018, 2017 and 2016 and the related outstanding balances as of December 31, 2018 and 2017 is presented below.

			А	moı	unts of Transactio	ns			Outstanding I	Balances
			2018		2017		2016			
Related Party Category	Notes	_	(One year)	_	(One year)	(	Four months)	_	2018	2017
Parent —										
Cash advances granted	20.4	P	518,714,995	Р	2,428,234,009	Р	10,000,000	P	<b>2,946,949,004</b> P	2,428,234,009
Associate —										
Chartering of services rendered	20.1		376,645,369		69,405,000		-		38,277,400	77,733,600
Related parties under										
common ownership:										
Chartering of services rendered	20.1		680,403,799		531,535,742		954,615,182		185,639,320	271,054,727
Fuel purchases	20.2		1,504,293,849		363,571,237		132,524,625	(	67,824,287) (	77,121,463)
Acquisition of CSC's shares	20.6		-		-		2,000,000,000	(	500,000,000) (	500,000,000)
Rental income	20.3		5,072,938		5,044,967		9,273,407		571,219	1,131,385
Rental expense	20.3		2,825,746		2,295,681		2,356,626	(	408,341) (	378,191)
Donation	20.8(b)		360,000		360,000		360,000	(	210,000) (	90,000)
Cash advances granted	20.4		120,405,421	(	194,446,078)		-		180,606,205	60,200,784
Cash advances obtained	20.4	(	1,004,673,484)		955,012,897	(	290,681,863)	(	36,098,668) (	1,040,772,152)

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 60,134,374	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)				ns)
	Salary	Bonus	Other	Total
Name and Principal Position		Estimated	Compensation	
	For	the Year Endi	ng December 31	, 2019
Chryss Alfonsus V. Damuy				
President and CEO				
Cherylyn C. Uy				
Treasurer				
Ignacia S. Braga IV				
Chief Financial Officer				
Irwin M. Montano				
Chief Operating Officer of				
Starlite Ferries, Inc.				
Ma. Henedina V. San Juan				
Corporate Secretary and AVP				
for Legal and Corporate Affairs				

Compensation of Executive Officer and Directors (in PhP millions)				
	Salary	Bonus	Other	Total
Name and Principal Position		Estimated	Compensation	
	For	the Year Endir	ng December 31	, 2019
CEO & Most Highly	22.7	3.5	7.6	33.8
Compensated Executive				
Officers				
All other officers as a group	5.4	0.8	-	6.2
unnamed				

Compensation of E	Compensation of Executive Officer and Directors (in PhP millions)			
	Salary	Bonus	Other	Total
Name and Principal Position		Actual Co	ompensation	
	For	the Year Ende	d December 31	, 2018
Chryss Alfonsus V. Damuy				
President and CEO				
Cherylyn C. Uy Treasurer				
Ignacia S. Braga IV VP-Finance				
Irwin M. Montano VP – Human Resources				
Ma. Henedina V. San Juan				
Corporate Secretary and AVP				
for Legal and Corporate Affairs				
CEO & Most Highly Compensated Executive Officers	19.6	8.6	6.1	34.3
All other officers as a group unnamed	4.3	0.9	-	5.2

Compensation of Executive Officer and Directors (in PhP millions)				
	Salary	Bonus	Other	Total
Name and Principal Position		Actual Co	ompensation	
	For	the Year Ende	d December 31	, 2017
Chryss Alfonsus V. Damuy				
President and CEO				
Cherylyn C. Uy Treasurer				
Ignacia S. Braga IV				
VP – Finance				
Arthur Kenneth Sy				
President – Trans-Asia				

Compensation of Executive Officer and Directors (in PhP millions)				ns)
	Salary	Bonus	Other	Total
Name and Principal Position		Actual Co	ompensation	
	For	the Year Ende	d December 31	, 2017
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 13<sup>th</sup> 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)**

Chelsea Logistics Holdings Corp., upon the approval of its Board of Directors and Shareholders, plans to offer an Employee Stock Option Plan (ESOP) to all the regular employees of the Company, its subsidiaries (at least 66.67%-owned), and the wholly-owned subsidiaries of its subsidiaries (the "Group").

The maximum number of CLC common shares that could be subscribed by a participant under this Plan shall be computed as follows:

Monthly Salary (as of IOD) x N (factor based on the collective salaries of Eligible Employees) x 13 (number of months) x Tenure of Eligible Employee

Subscription Price

The Subscription Price shall be equivalent to the Volume Weighted Average Price (VWAP) of CLC shares in the Philippine Stock Exchange 30 trading days prior to the Initial Offering Date. The Initial Offering Date (IOD) shall be determined by the Board of Directors and the Shareholders of the Company.

The Option Period shall be for a period of ten (10) years from the Initial Offering Date. The Option Shares shall be issued in two (2) tranches: i) Initial Offer for the regular employees as of IOD, and ii) Subsequent Offer on a date, which will be determined by the Board of Directors, for individuals who will be regular employees of the Group after the IOD.

The Employee Stock Option Plan will also be subject to the approval of the Securities and Exchange Commission.

#### **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.

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	PhP4,577,000

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 to "Chelsea Logistics and Infrastructure Holdings Corp."

The amendment in the corporate name is needed to align the same to the previous amendment of the Primary Purpose of the Corporation which included the 'development, management and operation of infrastructure facilities and systems and the business of building, rehabilitating, renovating, constructing, developing, operating and maintaining such facilities and systems, including the commercial assets thereof and all allied business for the operation and maintenance of such facilities and systems'.

This amendment in the Primary Purpose of the Corporation as stated in its Articles of Incorporation was approved by the Securities and Exchange Commission on June 18, 2018.

#### **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. Delegation to the Board of Directors of the Authority to Appoint the Company's External Auditor

## 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 Stock and Transfer Agent of the Company, BDO Unibank, Inc. – Trust and Investments Group, Securities Service and Corporate Agencies Department (BDO Trust), will validate the votes when voting is done by secret ballot. Likewise, BDO Trust 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 26<sup>th</sup>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 21<sup>st</sup> day of February 2019.

CHELSEA LOGISTICS HOLDINGS CORP.

MA. HENEDINA V. SAN JUAN

Corporate Secretary

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

26 February	<ul> <li>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); Designation of the Corporation's Vice President for Finance Ignacia S. Braga IV as authorized signatory for this transaction.</li> </ul>
5 March	<ul> <li>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.</li> </ul>
19 March	<ul> <li>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 &amp; CEO Chryss Alfonsus V. Damuy as authorized signatory for the said transaction.</li> </ul>
	<ul> <li>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 &amp; CEO Chryss Alfonsus V. Damuy as authorized representatives for this business transaction.</li> </ul>
	<ul> <li>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 &amp; CEO Chryss Alfonsus V. Damuy as authorized signatory for the abovementioned business objective.</li> </ul>
	<ul> <li>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.</li> </ul>

10 April	<ul> <li>Authority for the Corporation to open a Corporate Credit Card Account (Corporate Card) with Rizal Commercial Banking Corporation; Designation of the Corporation's President &amp; CEO Chryss Alfonsus V. Damuy or VP – Finance Ignacia S. Braga IV as authorized signatory for this transaction.</li> <li>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</li> </ul>
	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	<ul> <li>Authority for the Corporation to enter into a Sub-Lease Agreement with Planet Sports Inc. for a 206.06 sq.m. unit located at 9<sup>th</sup> Avenue corner 30<sup>th</sup> St., Bonifacio Global City, Taguig City; Designation of the President &amp; CEO of the Corporation Chryss Alfonsus V. Damuy as authorized signatory for the Sub-Lease Agreement.</li> </ul>
	<ul> <li>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.</li> </ul>

- 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	<ul> <li>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 &amp; CEO Chryss Alfonsus V. Damuy as the authorized signatories for this transaction with the Bank.</li> <li>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 &amp; CEO Chryss Alfonsus V. Damuy as authorized signatory for the Hospital Credit Service Agreement.</li> </ul>
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	<ul> <li>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</li> </ul>

	Corporation's Vice President for Finance Ignacia S. Braga IV as
	authorized signatory for this transaction.
	<ul> <li>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.</li> </ul>
	<ul> <li>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.</li> </ul>
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	<ul> <li>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 &amp; 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.</li> <li>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.</li> </ul>
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	<ul> <li>Confirmation of the authority of the President &amp; 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.</li> </ul>
	<ul> <li>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.</li> </ul>
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

	<ul> <li>Agreement and the Margin and Collateral Agreement and all other documents for this transaction.</li> <li>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.</li> </ul>
28 January	Designation of the Bank of China Ltd. (Manila Branch) as depository bank of the Corporation; Designation of Dennis A. Uy and Cherylyn C. Uy as Class A signatories for transactions in 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 transactions in the amounts P5,000,000.00 and below; Designation of the Chairman of the Board Dennis A. Uy and Treasurer Cherylyn C. Uy as signatory for an loan / credit accommodations from the Bank.
13 February	Designation of President & CEO Chryss Alfonsus V. Damuy as authorized signatory for the Freedom of Information Request Form of the Philippine Ports Authority in connection with the Davao Sasa Port Project.
	<ul> <li>Authority for the Corporation to apply, secure and obtain the guarantee of Trade and Investment Development Corporation of the Philippines also known as Philippine Export-Import Credit Agency for loans which the Corporation may obtain from nominated banks / financial institutions; Designation of President &amp; CEO Chryss Alfonsus V. Damuy as authorized signatory for all documents which may be required for this guarantee.</li> </ul>
	<ul> <li>Designation of Chief Financial Officer Ignacia S. Braga IV as authorized signatory for loan / credit accommodation to be secured by the Corporation from BDO Unibank, Inc., authorized to sign the Loan Agreement, Promissory Note, Mortgage Contract and other documents which may be required by the Bank.</li> </ul>

#### 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 years ended December 31, 2018 and 2017. The following discussion should be read in conjunction with the attached audited consolidated financial statements of the Company as of December 31, 2018 and 2017, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three periods ended December 31, 2018, 2017 and 2016.

## A. Comparable Discussion on Material Changes in Results of Operations for the Year Ended December 31, 2018 vs. December 31, 2017

#### Revenues

Presented below is the comparison of the Group's consolidated revenues for the year ended December 31, 2018 as compared to the pro-forma combined revenues for the same period in 2017.

					Change	
Amount in PhP Millions	2018		2017		Peso	%
Tankering	1,746	34%	1,217	31%	529	43%
Freight	1,709	33%	1,387	35%	322	23%
Passage	969	19%	773	20%	196	25%
Tugboat fees	334	6%	261	7%	73	28%
Logistics	287	6%	240	6%	47	20%
Others	127	2%	31	1%	96	310%
Total	5,172	100%	3,909	100%	1,263	32%

Based on the comparison of actual 2018 performance for the against 2017, the Group's revenues increased by ₱1,263 million or 32% to ₱5,172 million from ₱3,909 million. Each business segment of the Group showed robust growth and improved profitability. The tankering revenues increased from ₱1,217 million to ₱1,746 million as a result of higher freight rates charged for farther distance of port calls during the current year. Similarly, freight segment increased by 23% from ₱1,387 million for the year ended 31 December 2017 to ₱1,709 million during 2018 as a result of the acquisition of three freighters in November 2017. On the other hand, passage revenues increased by 25% which was attributable to the full years' operations of MV Starlite Eagle in 2018 which only started commercial operations in April 2017 plying the Roxas — Caticlan route as well as the commencement of operations of MV Salve Regina in September 2018 plying the Batangas — Caticlan route and the acquisition of MV Stella Del Mar plying Liloan — Lipata.

Tugboat fees improved by 28% for year ended 31 December 2018 from ₱261 million to ₱334 million. The increase in tugboat fees was primarily due to additional customers acquired during the last quarter of 2017 coupled with higher number of port calls in Calaca Industrial Park where Fortis Tugs Corporation is the exclusive tugboat service provider.

Finally, revenues from logistics services, which currently accounts for 6% of the Group's total revenues, increased from ₱240 million to ₱287 million as a result of additional customers acquired during the current year.

#### **Costs of Sales and Services**

The increase in Costs of Sales and Services significantly came from larger bunkering costs, crew salaries and employee benefits, and supplies. Bunkering costs grew 43% from ₱867 million to ₱1,243 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, crew salaries and employee benefits and vessel supplies increased as a result of the full years' operations of MV Starlite Eagle and three freighters namely, MV San Lorenzo Uno, MV San Pedro Calungsod and MV St. Nicholas of Myra. In addition, five new vessels commenced operations in 2018, which include MV Stella Del Mar, MV Salve Regina, MV Trans-Asia 1, MV Trans-Asia 16 and MV Trans-Asia 17.

Meanwhile, charter hire costs also increased by 145% from ₱98 million to ₱240 million primarily due to deliveries made by Chelsea Shipping Corp. for Phoenix Petroleum Philippines, Inc. in to NPC Malaya. The Group had to hire third party vessels as all of its barges are currently covered by a Contract of Affreightment in servicing the bunkering requirements of 2GO Group, Inc.

## **Other Operating Expenses**

Other Operating Expenses grew from ₱530 million to ₱899 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, availment of new 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 Trans-Asia as well as settlement of tax assessments of various companies covering the taxable years 2014 to 2016.

## Other Income (Charges)

Other charges primarily include interest expense on loans and borrowings totalling \$779 million, share in net losses of 2Go Group, Inc. amounting to \$453 million and foreign currency exchange losses of \$64 million resulting from the Group's loans and borrowings denominated in foreign currency.

#### **EBITDA and Net Profit**

Overall, the Group) posted a net loss of ₱551 million for the year ended 31 December 2018 compared to the ₱161 million net profit reported during the year ended 31 December 2017. A significant portion of the net loss reported by the Group can be attributed to its share in net losses of 2Go Group, Inc. amounting to ₱453 million. Excluding this amount, CLC would have reported a net loss of just ₱98 million, which is primarily due to higher bunkering costs and increased interest rates as discussed further in the succeeding paragraphs.

EBITDA, on the other hand, grew by 6% from ₱1,525 million in 2017 to ₱1,615 million in 2018.

#### **Financial Condition**

December 31, 2018 vs. December 31, 2017

Total resources of the Group grew to ₱32,291 million as of 31 December 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 declined by 69% from ₱1,442 million as of 31 December 2017 to only ₱443 million as of 31 December 2018 as a result of the Group's cash management efforts maintaining certain level of cash and some timing in disbursements and collections.

Trade and other receivables surged by 21% from ₱876 million as of 31 December 2017 to ₱1,430 million as of 31 December 2018 primarily as a result of timing of collections from customers.

Increase in inventories of approximately ₱341 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 ₱165 million as of 31 December 2018 while fuel and lubricants rose from ₱49 million to ₱217 million as of the end of the reporting period.

The increase in Other Current Assets from ₱464 million as of 31 December 2017 to ₱963 million as of 31 December 2018 was primarily due to the related input value-added taxes related to various capital asset expenditures.

Property and equipment grew from ₱11,303 million as of 31 December 2017 to ₱17,304 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. In addition, the Group also acquired a 2.5 hectare property in Brgy. Ligid-Tipas, Taguig City, where CLC will build a warehouse in relation to its continued expansion in the logistics business.

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. Following 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 and MT Great Princess are covered by a five-year Bareboat Agreement since November 2016 and March 2017, respectively. 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. Meanwhile, the drydocking procedures for MT Chelsea Endurance, MT Chelsea Dominance, MT Jasaan, MV San Lorenzo Ruiz, MV St. Nicholas of Myra, MTug Fortis III, MV Starlite Archer, MV Trans-Asia 5, MV Trans-Asia 12, MV Asia Philippines and MV Starlite Saturn are scheduled to be completed during the first quarter of 2019; accordingly, appraisals will be conducted during such period.

As disclosed in the consolidated financial statements, management estimates the useful lives of vessels between 2 to 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. Drydocking costs, as an industry practice, is amortized over an estimated useful lives of 24 months.

The decline in Investments in an associate and a joint venture from ₱2,269 million as of 31 December 2017 to ₱1,821 million as of 31 December 2018 was 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 ₱3,497 million as of 31 December 2018. The increase in Trade and other payables was primarily due to timing of payment of trade payables.

Interest-bearing loans significantly increased by 51% from ₱10,332 million as of 31 December 2017 to ₱15,620 million as of 31 December 2018 primarily as a result of additional loan drawdown during the period as part of the Group's continued expansion programs.

Advances from related parties significantly declined due to repayments made by such related parties.

Deposits for future stock subscriptions was reclassified as Non-controlling interests in 2018 as the application for the increase in Trans-Asia's authorized capital stock and creation of preferred shares were approved by the SEC in May 2018. Such preferred shares were subscribed by individual stockholders.

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 52% was mainly due to the tax effect of depreciation on revaluation increment related to vessels.

Other reserves pertain to the excess of the acquisition price over the net identifiable assets of Chelsea Shipping Corp. (CSC) amounting to \$1.0 billion. As disclosed in the notes to the consolidated financial statements, CLC acquired CSC on November 24, 2016 for a total consideration of \$2.0 billion. The carrying amounts of the consolidated assets and liabilities of CSC and subsidiaries amounted to \$8.4 billion and \$5.4 billion, respectively. The business combination entered on December 12, 2016 is accounted for under the pooling-of-interest method (see Note 20.6).

The decrease in retained earnings was primarily due to the results of the Company's financial performance for the year ended 31 December 2018.

## B. Comparable Discussion on Material Changes in Results of Operations for the Periods Ended December 31, 2017 vs. December 31, 2016

#### **Revenues**

The Company generated total revenues of ₱3,909 million for the year ended December 31, 2017 which was more than double the 2016 revenues of ₱1,638. The increase was primarily due to the Company's acquisitions which resulted to additional freight revenues of ₱1,387 million, passage revenues of ₱773 million and revenues from logistics services of ₱244 million.

The decrease in charter fees and standby charges by \$299 million or approximately 20% during 2017 was primarily due to the change in charter agreements involving M/T Great Diamond (formerly Chelsea Thelma) and M/T Great Princess (formerly Chelsea Donatela), which are the two largest vessels registered in the Philippines. The two vessels are the subject of a Bareboat Agreement entered into by the Company with a Vietnam-based petroleum company effective November 2016 and March 2017, respectively. Of the four-types of charter agreements, the bareboat charter yields the least revenue since all costs related to the operation of the vessel are being shouldered by the charterer instead of the ship owner on a cost-plus basis. In 2016, both M/T Great Diamond and M/T Great Princess were under the voyage charter type of agreement wherein all costs were shouldered by the ship owners, hence, revenue was largest as the costs were also high. The bareboat agreement entered into by the Company is for a period of five years, renewable for another five years. In addition, the drydocking of MT Chelsea Cherylyn and MT Chelsea Denise II, which has a total capacity of 10.3 million liters at any given time also contributed to the decline in tinkering revenues.

Tugboat fees also improved by more than 100% for the year ended December 31, 2017 with the Company reporting a total of ₱261 million for 2017 as compared to only ₱118 million in 2016. The improvement in tugboat fees arose from the acquisition of Davao Gulf Marine Services, Inc., which contributed total revenues of ₱121 million. In addition, the increased port calls in Calaca Seaport (formerly Phoenix Petroterminals & Industrial Park) also contributed to the increase in tugboat fees.

#### **Costs and Expenses**

The Group recognized costs of sales and services of ₱2,862 million for the year 2017 as compared to ₱1,261 million in 2016 as a result of acquisitions of Trans-Asia, SFI and WSI which increased cost of sales and services by ₱943 million, ₱626 million and ₱125 million, respectively. In addition, the increase in bunkering costs as a result of higher prices of fuel in the global market also contributed to increased cost of sales and services.

General and administrative expenses jumped to ₱530 million in 2017 from ₱155 million in 2016, which was primarily due to increased number of administrative and support personnel resulting in higher salaries and employee benefits, taxes and licenses, professional fees and depreciation and amortization which are directly related to the continued expansion of the Company.

#### Other Income (Charges)

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

#### **EBITDA and Net Profit**

The Group's net profit for the year ended December 31, 2017 amounted to ₱161 million as compared to ₱132 million in 2016, which included a one-time gain on bargain purchase amounting to ₱158 million. This gain is equivalent to the excess of the fair value of Trans-Asia's net assets acquired over the Company's total acquisition price.

Meanwhile, the Company's EBITDA improved by 105% from ₱749 million to ₱1,525 million.

#### **Financial Condition**

(December 31, 2017 vs. December 31, 2016)

The Company reached a significant milestone in 2017 raising approximately P5.8 billion through the initial listing of its share in the Philippine Stock Exchange. This paved the way for the Company to acquire shipping and logistics companies, implement fleet expansion and increase its market share in the shipping and logistics industry. Hence, total resources of the Group grew to ₱26,380 million as of December 31, 2017 from ₱10,760 million as of December 31, 2016.

Cash and cash equivalents surged by 183% from ₱509 million as of December 31, 2016 to ₱1,442 million as of December 31, 2017 as a result of the Company's initial public offering in August 2017.

Trade and other receivables decreased by 7% from ₱945 million as of December 31, 2016 to ₱876 million as of December 31, 2017 as a result of collections related to the Group's tankers and freight segments.

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

Increase in inventories of approximately ₱106 million was due to acquisition of spare parts inventories and other consumables in preparation for drydocking of certain vessels. Spare parts inventories rose from ₱36 million as of December 31, 2016 to ₱88 million as of December 31, 2017 while shipping supplies skyrocketed to ₱40 million from only ₱1.1 million as of the end of the previous year.

Advances to related parties increased significantly from ₱194 million as of December 31, 2016 to ₱2,488 million as of December 31, 2017 as a result of advances granted to related parties for working capital requirements and other purposes. These advances are unsecured, non-interest-bearing and are generally settled in cash or through offsetting arrangements with the related parties.

The increase in Other Current Assets from ₱464 million as of December 31, 2016 to ₱300 million as of December 31, 2017 was primarily due to the related input value-added taxes related to various capital asset expenditures.

Property and equipment rose to ₱11,303 million as of the end of current year from ₱7,988 million as of December 31, 2016 as a result of the acquisition of Starlite Ferrries, Inc. (SFI), which owns 14 vessels, including five (5) that are less than two years of age.

The increase in Investments in an associate and a joint venture from ₱46 million as of December 31, 2016 to ₱2,269 million as of December 31, 2017 was due to the acquisition of the all outstanding shares of Udenna Investments B.V. (UIBV), which holds 79.99% economic interest in KGLI-NM, which in turn owns 39.85% economic interest in Negros Navigation Co., Inc. (Nenaco), the parent company of 2Go Group, Inc. The acquisition was made through issuance of the Company's shares. This account also includes the Company's share in the revaluation of the associate's vessels amounting to ₱108.0 million.

Increase in goodwill was the result of the acquisition of UIBV, SFI and Worklink Services, Inc. (WSI). Goodwill, which represents the excess of the acquisition cost over the fair value of the net assets acquired, amounted to ₱3,917 million, ₱1,168 million and ₱478 million related to the acquisition of UIBV, SFI and WSI, respectively.

The increase of ₱208 million in deferred tax assets can be attributed to the tax effect of net operating losses incurred by the Company and certain subsidiaries within the Group.

The increase in Other Non-Current Assets from ₱252 million as of December 31, 2016 to ₱1,486 million as of December 31, 2017 was primarily due to downpayments made for the acquisition of additional vessels. The deliveries of these vessels were accepted in various dates in 2018.

Trade and other payables slightly increased by ₱22 million from ₱1,359 million as of December 31, 2016 to ₱1,381 million as of December 31, 2017. 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 ₱7,373 million as of December 31, 2016 to ₱10,332 million as of December 31, 2017 primarily as a result of the consolidation of SFI, which obtained financing from Development Bank of the Philippines and Philippine Business Bank to acquire brand new vessels in 2016 and 2017.

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

Deposits for future stock subscription increased by \$\bigsep\$130.0 million as a result of the subscription of preferred shares in Trans-Asia by its former owners. As of December 31, 2017, all of Trans-Asia's authorized capital stock has been fully issued and outstanding and an application for increase has not been filed and, as such, these deposits are presented as part of the Liabilities section of the statements of financial position.

The decline in income tax payable was primarily due to lower taxes due as some of the Company's subsidiaries reported net operating losses for the current year.

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

Retained earnings significantly increased by ₱217.5 million primarily due to the results of the Company's financial performance for the year ended December 31, 2017.

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

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

	December 31, 2018	December 31, 2017	December 31, 2016
Current Ratio	0.64	0.89	0.36
Debt-to-Equity Ratio	to-Equity Ratio 1.50 1.00		5.89
Book Value per Share	7.09	7.22	3.12
EBITDA Margin	27%	26%	
Return on Average	-4.26%	2.19%	
Equity			
Earnings per Share	-0.30	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

Management 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

As disclosed in the notes to the consolidated financial statements, the Group signed two shipbuilding contracts for the delivery of two 98-meter bed/seat Ro-Ro type passenger ferry ships presently identified as Builder's Nos. 1190 and 1191. The total contract price for these vessels amount to  $\pm$  3,970 million (approximately  $\pm$ 1.879 million). Total amounts paid as of December 31, 2018 amounted to  $\pm$ 180.6 million.

In addition, CLC, and its majority shareholder, Udenna Corporation together with China Telecommunications Corporation (CT) and Mindanao Islamic Telephone Company, Inc. (MISLATEL) submitted their bid as a consortium (i.e. the MISLATEL Consortium) for the New Major Player (NMP) in the Philippines' telecommunications market. CLC's Board of Directors approved its participation in the NMP selection process on November 6, 2018. The consortium's proposal was submitted to the National Telecommunications Commission ("NTC") Selection Committee on November 7, 2018. After the review process, on the same day, the NTC named MISLATEL as the provisional third telecommunications player in the Philippines.

Upon issuance by the NTC of the Confirmation Order finally designating MISLATEL as the NMP, CLC and Udenna shall each make equity infusions into MISLATEL to enable it to meet the Php10,000,000,000.00 minimum capitalization requirement, in the following proportion: (i) Udenna -35%; (ii) CLC -25%.

# 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**

#### **Principal Products and Services**

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	<b>Contribution to Sales</b>
Freight	This pertains to revenues generated from transporting cargo from loading port to discharge port.	33%
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.	34%
Passage	This pertains to revenues generated from ferrying passengers from the point of embarkation to the point of disembarkation.	19%
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.	6%
Others	This pertains to revenues generated from ancillary services.	2%

#### **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	Туре
1. M/T Chelsea Providence	CSC	2013	Medium Range Tanker
2. M/T Chelsea Great	CSC	2012	Oil/Chemical Tanker
Diamond			
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

Name of Vessel	Registered Owner	Year Built	Туре
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	1980	Passenger Ship
	Shipping		
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	1979	Passenger Ship
	Shipping		
28. MV Asia Philippines	Trans Asia Shipping	1975	Passenger Ship
29. MV Trans-Asia 18	Trans-Asia	1998	Passenger Ship
23. 1010 114113 / (SIG 10	Shipping	1550	r ussenger simp
30. MV Trans-Asia 19	Trans-Asia	2018	Passenger Ship
30	Shipping		T deserve of the
31. MV Trans Asia 5	Trans Asia	1989	Container Cargo Ship
	Shipping		, and a second p
32. MV Trans Asia 12	Trans Asia	1998	Container Cargo Ship
	Shipping		
33. MV Trans Asia 15	Trans Asia	1995	Container Cargo Ship
	Shipping		
34. MV Trans-Asia 16	Trans-Asia	1996	Container Cargo Ship
	Shipping		
35. MV Trans-Asia 17	Trans-Asia	1999	Container Cargo Ship
	Shipping		
36. MV Asia Pacific	Trans Asia	1981	General Cargo Ship
	Shipping		
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

Name of Vessel	Registered Owner	Year Built	Туре
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
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

<sup>\*</sup>vessels at dry docking stage

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.,

<sup>\*\*</sup>operated by 2Go under a bare boat agreement

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 square meters 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**

	Interest		Interest Outstar		
	Security	Terms	Rates	2018	2017
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%	976,884,263	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%	581,880,000	606,000,000
DBP	MV San Pedro Calungsod				
	MV San Lorenzo Ruis Uno				
	MV St. Nicholas of Myra	15 years	6.50%	557,526,997	-
BDO Unibank, Inc. (BDO)	Trans - Asia 8, Trans - Asia 9,				
	Trans - Asia 10	10 years	4.25%	494,370,980	567,439,501
PBB	MV Salve Regina	15 years	7.00%	460,000,000	-
PBB	MV Stella Del Mar	15 years	7.00%	346,699,500	-
CBC	MT Chelsea Charlize	7 years	3.25%	316,344,000	366,102,000
PBB	MT Chelsea Dominance	7 years	6.06%	308,137,725	373,008,825
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	281,250,000	296,250,000
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	281,250,000	296,250,000
CTBC Bank (Phils) Inc. (CTBC)	Continuing Suretyship	5 years	4.09%	281,250,000	296,250,000
РВВ	MT Chelsea Endurance	7 years	6.06%	261,356,875	316,379,375
CBC	Unsecured	10 years	7.00%	200,000,000	= ' '
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	187,500,000	197,500,000
BDO	MT Chelsea Denise II	5 years	6.46%	149,980,000	196,140,000
Asia United Bank (AUB)	Mtug Fortis VI, Mtug Fortis VII				
	and Mtug Fortis VIII	7 years	5.56%	70,357,350	-
AUB	Mtug Fortis III and Mtug	,			
	Fortis V	7 years	5.56%	56,789,496	67,114,859
United Coconut Planters Bank (UCPB) and	Mtug Pindasan, Mtug Samal	,	6.00% to	,,	. , ,
Philippine Bank of Communications (PBComm)	Mtug Sigaboy	5 years	6.50%	2,321,621	25,696,844
AUB	Mtug Fortis I and Mtug	,			-,,-
	Fortis II	5 years	7.00%	_	22,222,222
BDO	MT Great Princess	5 years	5.25%	_	335,482,560
BDO	MT Great Diamond	7 years	One year LIBOR		,
	iiii dicat biaiioiia	, ,cu.s	plus 3.50%	_	134,052,501
BDO	Trans - Asia 10	9.38 years	4.25%	-	39,584
				10,531,898,807	7,733,373,121
Discount on loans payable			(	46,406,432 )	( 19,006,708)

#### **Secured Bank Loans**

			Interest		Outstand	ing Balaı	nce
	Security	Terms	Rates		2018		2017
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 5.375%	Р	2,013,768,437	Р	923,290,258
UCPB	MT Chelsea Intrepid						
	MT BMI Patricia	90 days	5.00% to 5.75%		920,200,000		890,502,192
CBC	Unsecured	60 days	6.00%		480,000,000		-
Pentacapital	Unsecured	360 da ys	6.00%		400,000,000		-
DBP	MT Chelsea Cherylyn	180 da ys	4.00 to 4.25%		300,000,000		300,000,000
Landbank of the Philippines		90 days	9.00%		300,000,000		-
Union Bank of the Philippines	Unsecured	360 days	4.50%		200,000,000		-
PVB	Unsecured	180 days	11.04%		167,341,997		-
Robinsons Bank Corporation	MT Chelsea Denise	180 da ys	5.50%		79,400,000		57,300,000
BDO Unibank Inc	Trans-Asia 1	180 da ys	6.50%		33,500,000		-
Unicapital	Unsecured	90 days	5.50%		-		140,000,000
PBCom	MT Ernesto Uno	180 to 270 days	4.75%		-		130,765,000
Chinabank Savings	Unsecured	48 days	0.71%		-		1,086,678
BPI	Unsecured	48 days	9.47% to 10.28%		-		2,436,125
Security Bank Corporation (SBC)	Chattel Mortgage	5 years	6.50%		<u> </u>		10,434,324
				Р	4,894,210,434	Р	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 PhP380,000,000.00. 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 PhP801,000.00 for 4 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 PHP8,839,313.95 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 Php594,250.00. 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
3Q 2017	11.22	9.35
4Q 2017	10.36	8.29
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 February 18, 2019, the market capitalization of the Company, based on the closing price of PhP6.11 per share, was approximately PhP11.13 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	0.00001%
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.

Since its incorporation, the Company has not declared any cash or stock dividends to its shareholders.

#### 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.

#### **Compliance with Corporate Governance Manual**

The Company strives to fully comply with its Corporate Governance Manual. To date, the Company's compliance is not measured by weight program nor by a grading system. The Company's compliance with its Corporate Governance Manual, however, is manually examined against the adopted written principles.

In August 2018, in pursuance to its commitment to adopt leading corporate governance practices, Company with the approval of its Board of Directors has adopted four (4) Board Committee Charters, namely: (i) Board Risk Oversight Committee Charter, (ii) Corporate Governance Committee Charter, (iii) Audit Committee Charter; and (iv) Related Party Transactions Committee Charter.

Further, on the same year, the members of the Audit Committee were also changed to adopt the corporate governance recommendation that the Audit Committee be composed of at least three (3) Independent Directors, including the Chairman of the Committee.

Similarly, in October 2018, the re-designing and re-development of the Company's website was completed in order to conform to the mandatory website contents of the Philippine Securities and Exchange Commission and Philippine Stock Exchange (PSE). All Company disclosures made through the PSE Edge System are mirrored in the Company website. The Company charters, policies and manual for various activities and processes are also available on the Company website.

#### **Corporate Governance Outlook**

Early 2019, in order to improve on the corporate governance practices of the Company, a Committee was created to formulate governance related policies, including the Code of Business Conduct and Ethics, Insider Trading Policy and Policy on Conflict of Interest.

In addition, included in the Agenda for this year's Annual Shareholders' Meeting is the approval of the proposed Employee Stock Option Plan (ESOP 2019). This will form part of the Company's program in recognizing and rewarding the performance of its employees beyond short-term financial measures.

The Company shall endeavor to adopt and implement more leading corporate governance practices in the future.



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Chelsea Logistics Holdings Corp. and subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the periods ended December 31, 2018, 2017 and 2016 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araulo, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

**DENNIS A. UY** 

Chairman of the Board

TIN 172-020-135

CHRYSS ALFONSUS V. DAMUY

President and Chief Executive Officer

TIN 913-898-959

CHERYLYN C. UY

Treasurer

TIN 209-221-478

SUBSCRIBED AND SWORN to before me this 13<sup>th</sup> day of February 2019 at Taguig City, affiants exhibited to me their respective TIN.

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Series of 2019.



## **Report of Independent Auditors**

Punongbayan & Araullo

20th Floor, Tower 1 The Enterprise Center 6766 Ayala Avenue 1200 Makati City Philippines

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The Board of Directors and Stockholders
Chelsea Logistics Holdings Corp. and Subsidiaries
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
Stella Hizon Reyes Road
Bo. Pampanga, Davao City

#### Opinion

We have audited the consolidated financial statements of Chelsea Logistics Holdings Corp. and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2018 and 2017, and the period August 26 to December 31, 2016, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for the periods then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significant in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### (a) Revenue Recognition

#### Description of the Matter

The Group's revenues from rendering of services consist of charter fees, freight revenues, passage fees and tugboat fees representing 92% of the total revenues of the Group. In our view, revenue recognition is significant to our audit because the amount is significant and it involves voluminous transactions at any given period of time, requires proper observation of cut-off procedures and directly impacts the Group's profitability.

The Group's disclosures on its revenue recognition policy and disaggregation of revenues are fully disclosed in Notes 2 to 25, respectively, to the consolidated financial statements

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others, the following:

- Understanding the policies and procedures applied to revenue recognition, as well as compliance therewith, including an analysis of the effectiveness of controls related to revenue recognition processes employed by the Group;
- Evaluating the appropriateness of the Group's revenue recognition in relation to its compliance with the requirements of PFRS 15, Revenue from Contracts with Customers, which include the following:
  - Reviewing and discussing with management significant customer contracts, including contractual terms and conditions, for all different types of identified revenue streams, to ensure these contracts are appropriately accounted for in accordance with PFRS 15,
  - Identifying performance obligations on customer contracts for each revenue streams and evaluating when such performance obligations are satisfied (i.e., point in time or over time), and,
  - Testing charter agreements, billing invoices, vessel fixture notes, bills of lading and other related supporting documents, on a sample basis, of revenue transactions throughout the current period to determine whether revenue transaction is properly recognized at the time the Group satisfies its performance obligation;
- Confirming trade receivables, on a sample basis, as of the end of the reporting period from rendering of services; and, performing alternative procedures such as, but not limited to, examining cash receipts, or billing invoices and vessel fixture notes;
- Testing billing invoices and vessel fixture notes immediately prior and subsequent to the current reporting period to determine whether the related revenue transactions are recognized in the proper reporting period; and,



Performing substantive analytical review procedures over revenues such as, but not limited
to, yearly and monthly analyses of sales per vessel, per customer, and per service lines,
verifying validity of the underlying data used in the analyses, and following up variances
from our expectations.

#### (b) Impairment of Goodwill

#### Description of the Matter

Under Philippine Accounting Standard 36, *Impairment of Assets*, the Group is required to annually test the amount of its goodwill for impairment. As of December 31, 2018, the Group's goodwill amounted to P5.6 billion. We considered the impairment of goodwill as a key audit matter because the amount of goodwill is material to the consolidated financial statements. In addition, management's assessment process is highly judgmental, and is based on significant assumptions, specifically the determination of the discount rate and cash flow projections used in determining the cash generating units over which the goodwill was allocated. The assumptions used by management are generally affected by expected future market and economic conditions.

The Group's policy on impairment assessment of goodwill is more fully described in Note 2 to the consolidated financial statements while their corresponding carrying amounts are disclosed in Note 24 to the consolidated financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to goodwill included, among others, the following:

- Involving our own valuation specialist to assist in evaluating the reasonableness of the
  assumptions and methodology used by management and their external valuation expert in
  determining the cash-generating units attributable to the goodwill, which include the
  discount rate and the cash flow projections, by comparing them to external and historical
  data, and, performing sensitivity analysis of the projections and discount rate to determine
  whether a reasonably possible change in assumptions could cause the carrying amount of
  cash-generating units to exceed the recoverable amount;
- Assessing the professional competence, reputation, experience and objectivity of the Group's external valuation expert as evidenced by certification, license or recognition by the appropriate professional organizations; and.
- Comparing the net present value of excess earnings attributable to the cash-generating units over which the goodwill was allocated.

### (c) Fair Value of Vessels under Property and Equipment

#### Description of the Matter

The carrying amount of the Group's vessels under the Property and Equipment account amounted to P14.4 billion. As allowed under PAS 16, *Property, Plant and Equipment*, the Group measures its vessels based on a revalued amount which represent fair market values at the date of the revaluation. Management determined the fair value based on appraisals by independent appraiser every after drydocking of vessels, which is performed once every two years.

The disclosure on fair value of the Group's vessels was significant in our audit as the amount is material to the consolidated financial statements and the determination of fair values includes significant assumptions and estimates.



The methods and assumptions used in determining the fair value of vessels is more fully described in Notes 3 and 28 to the consolidated financial statements while the fair value of vessels as at December 31, 2018 is disclosed in Note 9.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to valuation of vessels included:

- Determining whether the independent appraisers engaged by the Group has the necessary professional competency, reputation, experience and objectivity;
- Evaluating the results of the work performed by the independent appraisers by understanding the methods and data used in determining the fair value of vessels; and.
- Assessing the appropriateness and reasonableness of bases used in the valuation such as the vessel's certificates, operating condition of the vessel equipment, main engine, and other auxiliary machineries and equipment.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission Form 17-A, which we obtained prior to the date of the auditors' report, and the Group's SEC Form 20-IS (Definitive Information Statement) and Annual Report, which are expected to be made available to us after that date, for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

If, based on the work performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit
  procedures that are appropriate in the circumstances, but not for the purpose of expressing
  an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the
  entities or business activities within the Group to express an opinion on the consolidated
  financial statements. We are responsible for the direction, supervision and performance of
  the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audits resulting in this independent auditors' report is Ramilito L. Nañola.

#### **PUNONGBAYAN & ARAULLO**

By: Randito L. Nañola

Partner

CPA Reg. No. 0090741

TIN 109-228-427

PTR No. 7333698, January 3, 2019, Makati City

SEC Group A Accreditation

Partner - No. 0395-AR-3 (until May 19, 2019) Firm - No. 0002-FR-5 (until Mar. 26, 2021)

BIR AN 08-002511-19-2018 (until Jan. 25, 2021)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jun. 24, 2021)

February 13, 2019

#### CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES

### (Formerly Chelsea Logistics Corp.)

#### (A Subsidiary of Udenna Corporation)

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

(With Corresponding Figures as of January 1, 2017) (Amounts in Philippine Pesos)

	Notes	2018	(As restated - see Note 2)	January 1, 2017 (As restated - see Note 2)	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	4	P 443,495,969	P 1,441,704,190	P 508,940,431	
Trade and other receivables - net	5	1,430,045,495	876,420,381	944,516,250	
Subscription receivable	21	<b>S</b>	848	350,000,000	
Financial assets at fair value through					
profit or loss	6	3,947,736	3,947,736	11,279,636	
Inventories	6 7	525,904,778	184,863,983	78,874,626	
Advances to related parties	20	3,127,555,209	2,488,434,793	194,446,078	
Other current assets	8	963,520,687	464,257,356	300,384,940	
Total Current Assets		6,494,469,874	5,459,628,439	2,388,441,961	
NON-CURRENT ASSETS					
Property and equipment - net	9	17,303,897,157	11,303,105,681	7,987,694,272	
Investments in an associate and a joint venture	10	1,821,168,833	2,268,935,614	45,560,925	
Goodwill	24	5,641,434,544	5,637,918,869	74,294,814	
Post-employment benefit asset	17	12,300,710	8,190,054	4,873,519	
Deferred tax assets - net	19	283,345,565	215,516,180	7,300,178	
Other non-current assets - net	11	734,638,640	1,486,319,482	251,739,307	
Total Non-current Assets		25,796,785,449	20,919,985,880	8,371,463,015	
TOTAL ASSETS		P 32,291,255,323	P 26,379,614,319	P 10,759,904,976	

	Notes	2018	December 31, 2017 (As restated - see Note 2)	January 1, 2017 (As restated - see Note 2)		
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Trade and other payables	13	P 3,496,662,037	P 1,380,849,406	P 1,358,754,469		
Interest-bearing loans	12	6,555,553,721	3,434,490,978	5,029,479,642		
Advances from related parties	20	36,098,668	1,040,772,152	85,759,255		
Advances from customers	2	14,484,333	14,521,850	14,484,000		
Income tax payable		22,769,050	50,809,743	75,923,029		
Total Current Liabilities		10,125,567,809	5,921,444,129	6,564,400,395		
NON-CURRENT LIABILITIES						
Interest-bearing loans	12	9,064,308,132	6,897,669,657	2,343,302,536		
Post-employment benefit obligation	17	35,162,375	36,588,880	4,046,544		
Deferred tax liabilities - net	19	82,471,428	170,537,584	223,354,572		
Deposits for future stock subscription	14	*	180,000,000	50,000,000		
Other non-current liabilities		58,792,374	15,985,657	14,131,942		
Total Non-current Liabilities		9,240,734,309	7,300,781,778	2,634,835,594		
Total Liabilities		19,366,302,118	13,222,225,907	9,199,235,989		
EQUITY						
Equity attributable to shareholders of						
the Company						
Capital stock	21	1,821,977,615	1,821,977,615	500,000,000		
Additional paid-in capital	21	9,998,370,157	9,998,370,157			
Revaluation reserves	21	1,497,869,655	1,429,917,004	1,370,998,267		
Other reserves	21	( 1,058,033,280)	( 1,058,033,280)	( 1,058,033,280)		
Retained earnings		484,769,058	965,156,916	747,704,000		
		12,744,953,205	13,157,388,412	1,560,668,987		
Non-controlling interest	14	180,000,000	168 - 168 -	·		
Total Equity		12,924,953,205	13,157,388,412	1,560,668,987		
TOTAL LIABILITIES AND EQUITY		P 32,291,255,323	P 26,379,614,319	P 10,759,904,976		

See Notes to Consolidated Financial Statements.

# CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (Formerly Chelsea Logistics Corp.) (A Subsidiary of Udenna Corporation) CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND FOR THE PERIOD AUGUST 26 TO DECEMER 31, 2016 (Amounts In Philippine Pesos)

	Notes	2-	2018 (One year)	8	2017 (One year)	-	2016 (Four months)
REVENUES							
Charter fees	20	P	1,721,642,369	P	1,194,216,186	Р	1,422,433,646
Freight			1,708,880,761		1,387,445,706		
Passage			969,290,258		773,491,556		19
Rendering of services			377,620,815		243,826,107		2
Tugboat fees			333,938,349		261,321,170		118,200,515
Sale of goods			36,643,669		25,815,744		3,456,051
Standby charges	20	_	24,015,822	-	23,050,935	×-	94,295,146
			5,172,032,043		3,909,167,404		1,638,385,358
COST OF SALES AND SERVICES	15	<u> </u>	3,754,741,525	76	2,862,147,364	4	1,261,203,111
GROSS PROFIT			1,417,290,518		1,047,020,040		377,182,247
OTHER OPERATING EXPENSES	16	70	900,510,203	98	529,672,911	-	155,452,662
OPERATING PROFIT		-	516,780,315	X	517,347,129	-0	221,729,585
OTHER INCOME (CHARGES) - Net							
Finance costs	18	C	835,388,144)	(	516,979,233)	(	260,854,770)
Share in net loss of an associate	10	(	453,048,188)	(	1,962,214)	~ 3	
Finance income	18		6,553,683		10,401,760		730,801
Gain on bargain purchase	24		4,370,340		1967		158,228,158
Other income	18	-	138,602,416	8 <u>80</u>	143,921,531		15,490,554
		<b></b>	1,138,909,893)	ι	364,618,156)	(	86,405,257)
PROFIT (LOSS) BEFORE PRE-ACQUISITION INCOME AND TAX		(	622,129,578)		152,728,973		135,324,328
PRE-ACQUISITION INCOME	24	-	2	(	105,375,776)	16	<u> </u>
PROFIT (LOSS) BEFORE TAX		(	622,129,578)		47,353,197		135,324,328
TAX INCOME (EXPENSE)	19	-	71,596,622	6	113,866,526	(	3,644,520)
NET PROFIT (LOSS)		( <u>P</u>	550,532,956)	P	161,219,723	Р	131,679,808
Earnings (Loss) Per Share (Basic and Dliuted)	22	( <u>P</u>	0.302)	P	0.123	P	0.263

	Notes (One year)		NO. CO.	10	2017 (One year)	2016 (Four months)	
NET PROFIT (LOSS)		( <u>P</u>	550,532,956)	P	161,219,723	P	131,679,808
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that will not be reclassified subsequently							
to profit or loss:							
Revaluation of vessels	9		167,829,312		67,317,920		801,886,530
Tax expense	19	t	58,556,375)	1	3,154,527)	ı	23,690,669)
Remeasurement of post-employment benefit obligation	17	-	27,358,603	i	1,317,864)	i	47,994)
Currency exchange differences on translating financial			TOTAL STATE STATE STATES	0.5	30 \$124 FOR \$150 FOR \$1.50 C		
statements of foreign operations	2		1,466,209	t	223,517)		
Share in the revaluation of vessels of an associate	10			2880	108,049,607		
			138,097,749		170,671,619		778,147,867
Items that will be reclassified subsequently							
to profit or loss:							
Fair value gain on disposed available-for-sale financial							
assets reclassified to profit or loss			<b>\$</b>	(	49,607)		2
Taxincome				30.902	14,882		
		-	- 1A	(	34,725)		
Other Comprehensive Income - net of tax		×	138,097,749	2	170,636,894	_	778,147,867
TOTAL COMPREHENSIVE INCOME (LOSS) BEFORE PRE-ACQUISTION							
OTHER COMPREHENSIVE INCOME		(	412,435,207)	() <del>-</del>	331,856,617	-	909,827,675
PRE-ACQUISITION OTHER COMPREHENSIVE INCOME			ж	t	55,484,964)	-	
TOTAL COMPREHENSIVE INCOME (LOSS)		( <u>P</u>	412,435,207)	P	276,371,653	Р	909,827,675

See Notes to Consolidated Financial Statements.

OHEISEA LOGISTICS HOLDINGS CORP., AND SUBSIDIARIES (Formerly Chelsea Logistics Corp.)
[A Subsidiary of Udenna Corporation)
CONSOLIDATE STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018. 2013 AND FOR THE PERIOD AUGUST 28 10 DECEMBER 31, 2016
[Amounts in Philippine Perso]

		3		0.0000	CONTRACTOR CONTRACTOR	¥	Attributable to Owners of the Parent Company	s of the Pa	rent Company								
		ė		Add	Additional paid-in	130	Revaluation		Other		Retained			ž	Non-controlling		
	Notes		Capital Stock		Capital		Reserves		Reserves		Earnings		Total		Interest		Total Equity
Balance at January 1, 2018 Additions during the year Total comprehensive income [loss] for the period	21 14, 21	•	1,821,977,615	•	9,998,370,157	۵	1,429,917,004	٩	1,058,033,280)	ے ہ	965,156,916	ر ه	13,157,388,412	۵	180,000,000	۵ _	13,157,388,412 180,000,000 412,435,207)
Iranster of revaluation reserves through depreciation, net of tax	22	l				J	70,145,098)	l			70,145,098	9					
Balance at December 31, 2018	11	۵	1,821,977,615	ا	9,998,370,157	_	1,497,869,655	اے	1,058,033,280)	•	484,769,058	۵	12,744,953,205		180,000,000	اء	12,924,953,205
Balance at January 1, 2017 Issuance of shares during the period Total comprehensive income for the period	ĸ	۵	500,000,000	۵	9,998,370,157	٩	1,370,998,267	5	1,058,033,280]	۵	747,704,000	۵	1,560,668,987 11,320,347,772 276,371,653	Δ.	* * *	•	1,560,668,987 11,320,347,772 276,371,653
Transfer of revaluation reserves through depreciation, net of tax			200			ال	56,233,193)				56,233,193			Į			
Balance at December 31, 2017	ĸ	۵	1,821,977,615	۵	9,998,370,157	۵	1,429,917,004	اے	1,058,033,280)		965,156,916	۵	13,157,388,412	اء		۵	13,157,388,412
Balance at August 26, 2016 Subscription of shares during the period	77	•	300,000,000	۵	(X S	۵	582,411,766	۵	3 3	۵	561,933,606	۵	2,144,345,372	•	59 19	۵	2,144,345,372
Effect of business combination Total comprehensive income for the period	20	u	1,000,000,000]		w w		778,147,867	_	1,058,033,280)		131,679,808	u	2,058,033,280)		××	AM.	2,058,033,280 ]
depreciation, net of tax Other comprehensive income from acquired subsidiaries	×	ļ	200 20	l	67 54	_	54,090,586 ) 64,529,220	ļ		1	54,090,586		64,529,220				64,529,220
Balance at December 31, 2016		۵	200,000,000	۵		۵	1,370,998,267	٩	1,058,033,280)	۵	747,704,000	۵	1,560,668,987	۵		۵	1,560,668,987

See Notes to 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 YEARS ENDED DECEMBER 31, 2018, 2017 AND FOR THE PERIOD AUGUST 26 TO DECEMBER 31, 2016 (Amounts in Philippine Pesos)

	Notes	-	2018 (One year)	1	2017 (One year)	_	2016 (Four months)
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit (loss) before tax		(P	622,129,578)	P	47,353,197	P	135,324,328
Adjustments for:			377 50 23				
Depreciation and amortization	9		868,058,074		744,566,055		457,719,091
Interest expense	18		776,933,861		507,987,399		163,588,166
Share in net loss of an associate	10		453,048,188		1,962,214		•
Unrealized foreign currency exchange losses (gains) - net	18	(	23,242,597)	(	5,526,564)		75,771,709
Gain on bargain purchase	24	(	4,370,340)		**************************************	(	158,228,158)
Interest income	18	(	3,626,087)	0	4,875,196)	(	393,954)
Gain on sale of property and equipment	9	(	1,326,971)	(	376,008)		8
Gain on sale of available-for-sale (AFS) financial assets			( • )	(	743,911)		<b>©</b>
Gain on sale of financial assets at fair value through profit or loss (FVTPL)			\$ <b>4</b> 3	(	87,784)		2
Fair value gain on disposed AFS reclassified to profit or loss		-	(4)	(	49,607)		<u> </u>
Operating profit before working capital changes			1,443,344,550		1,290,209,795		673,781,182
Decrease (increase) in trade and other receivables		(	526,784,036)		976,280,103	(	248,985,365)
Increase in inventories		(	337,889,509)	(	105,989,357)		5
Increase in advances to related parties		(	639,120,416)	C	2,293,988,715)	(	353,995,562)
Decrease (increase) in other current assets		(	605,136,157 }		73,902,652	(	129,245,702)
Increase in post-employment benefit asset		C	4,110,656)	(	1,998,671)		
Decrease (increase) in other non-current assets			752,790,446	(	1,484,120,418)	(	242,112,669)
Increase (decrease) in trade and other payables			1,950,816,353	(	538,596,382)	1	278,550,987)
Increase (decrease) in advances from customers		t	37,517)		37,850		9,375,509
Increase in post-employment benefit obligation			25,932,098		5,216,732		*
Increase (decrease) in other non-current liabilities		(	7,454,424)		1,853,715	(	2,465,686)
Cash generated from (used in) operations			2,052,350,732	(	2,077,192,696)	(	572,199,280)
Interest received			3,626,087		4,875,196		393,954
Cash paid for income taxes		t	63,428,617 )	(	76,686,630)	1	498,135)
Net Cash From (Used In) Operating Activities		SAN	1,992,548,202	(	2,149,004,130)	(	572,303,461)
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of property and equipment	9	1	5,789,604,581 )	1	1,677,390,638)		1,151,308,873)
Proceeds from disposal of property and equipment	9	111425	201,169,131		7,175,264	***	*
Acquisitions of subsidiaries and additions to interest in a joint venture	10, 24	1	110,089,751]	(	2,290,863,390)	Č	1,834,117,990)
Proceeds from disposal of financial assets at FVTPL		88	70 TO 10 TO	00	7,419,684	28	78 78 8
Proceeds from disposal of AFS financial assets			-	8000	3,809,000		
Net Cash Used in Investing Activities		·	5,698,525,201)	1	3,949,850,080)	(	2,985,426,863)
Balance carried forward		( <u>P</u>	3,705,976,999)	( <u>P</u>	6,098,854,210)	( P	3,557,730,324)

	Notes	2018 (One year)		2017 (One year)		2016 (Four months)	
Balance brought forward		( <u>P</u>	3,705,976,999]	( <u>P</u>	6,098,854,210 )	( <u>P</u>	3,557,730,324)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from interest-bearing loans	12		5,698,373,875		2,588,916,550		5,217,206,036
Repayments of interest-bearing loans	12	ř	1,281,746,979)		2,151,099,154)		1,052,466,589)
Repayments of advances from related parties	20	i	1,039,877,313 )	ì	533,000,000)	ì	290,681,863)
Interest paid	18	i	719,520,091)	ì	320,911,526)	7	158,961,980)
Proceeds from advances from related parties	20	851	35,203,829	337	1,438,012,897	82	-
Proceeds from issuance of shares of stock					5,272,347,772		150,000,000
Collection of subscription receivable	21		•		350,000,000		-
Additional deposits for future stocks subsciptions		41-71		_	180,000,000	£1100	
Net Cash From Financing Activities		-	2,692,433,321		6,824,266,539	-	3,865,095,604
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents		-	127	6	27,270,309		4,786,753
NET INCREASE (DECREASE) IN CASH							
AND CASH EQUIVALENTS		(	1,013,543,678)		752,682,638		312,152,033
CASH AND CASH EQUIVALENTS FROM							
ACQUIRED SUBSIDIARIES	24	37	15,335,457	-	180,081,121	-	165,961,224
CASH AND CASH EQUIVALENTS							
AT BEGINNING OF PERIOD		00000	1,441,704,190	80.1	508,940,431	1000	30,827,174
CASH AND CASH EQUIVALENTS							
AT END OF PERIOD		Р	443,495,969	Р	1,441,704,190	P	508,940,431

#### Supplemental Information for Non-cash Investing and Financing Activities:

In 2018 and 2017, the Group acquired certain transportation equipment through obtaining mortgage loans from a local bank totaling P40.2 million and P40.7 million, respectively (see Notes 9 and 12).

In 2018, the Group acquired certain machinery and equipment amounting to P76.8 million through a sale and leaseback agreement with a local bank (see Note 12).

In 2017, the Company acquired UIBV from Udenna Corporation (Udenna) through share-for-share swap, where the Company issued 775,384,615 common shares in favor of Udenna, in exchange for shares of UIBV (see Note 10).

In 2016, subscribed capital stock amounting to P350.0 million has not been collected as of December 31, 2016 and is presented as Subscription Receivable under current assets in the 2016 consolidated statement of financial position. Such receivable was subsequently collected in 2017 (see Note 21).

See Notes to Consolidated Financial Statements.

# CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (Formerly Chelsea Logistics Corp.) (A Subsidiary of Udenna Corporation) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 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).

On November 12, 2018, the Company's BOD approved the change in the corporate name of the Company from Chelsea Logistics Holdings Corp. to Chelsea Logistics and Infrastructure Holdings Corp. The application for such change is yet to be filed with the SEC as of date of issuance of these consolidated financial statements as the resolution has not yet been ratified by the Company's stockholders.

The Company is 70% owned by 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, Associate and their Operations

As of December 31, 2018 and 2017, the Company holds ownership interests in the following subsidiaries and associate:

	Explanatory	Percentage of ownership			
Subsidiaries	Notes	2018	2017		
Direct interest:					
Chelsea Shipping Corporation (CSC)	(a)	100%	100%		
Trans-Asia Shipping Lines,	107	200/0	100%		
Incorporated (Trans-Asia)	(b)	100%	100%		
Udenna Investments B. V. (UIBV)	(c)	100%	100%		
Starlite Ferries, Inc. (Starlite)	(d)	100%	100%		
Worklink Services, Inc. (WSI)	(e)	100%	100%		
Indirect interest:					
Bunkers Manila, Inc. (BMI)1	(f)	100%	100%		
Michael, Inc. (MI) <sup>1</sup>	(g)	100%	100%		
PNX-Chelsea Shipping Corp.					
(PNX-Chelsea) <sup>1</sup>	(h)	100%	100%		
Chelsea Ship Management & Marine	de W				
Services Corp. (CSMMSC) <sup>1</sup>	(i)	100%	100%		
Fortis Tugs Corporation (FTC)1	(i)	100%	100%		
Davao Gulf Marine Services, Inc.	0.000				
(DGMSI) <sup>2</sup>	(k)	100%	100%		
Chelsea Marine Manpower					
Resources, Inc. (CMMRI) <sup>1</sup>	<i>(1)</i>	100%	100%		
Chelsea Dockyard Corporation (CDC)1	(m)	100%			
CD Ship Management & Marine					
Services Corp. (CDSMMSC) <sup>1</sup>	(n)	100%	2		
Chelsea Shipping and Logistics Singapore	<b>e</b>				
Pte. Ltd. (CSLSP) <sup>1</sup>	(u)	100%	100%		
Quality Metals & Shipworks, Inc.	7800000				
(QMSI) <sup>3</sup>	(o)	100%	100%		
Oceanstar Shipping, Inc. (Oceanstar) <sup>3</sup>	(p)	100%	100%		
Dynamic Cuisine, Inc. (DCI) <sup>3</sup>	(q)	100%	100%		
Starsy Shoppe, Inc. (SSI) <sup>3</sup>	(r)	100%	100%		
Star Maritima Port and Allied Services					
(Star Maritima) <sup>3</sup>	(t)	100%	ä		
Starbites Food Services Corp. (Starbites)	<sup>4</sup> (s)	100%	-		
Southwest Gallant Ferries, Inc. (SGFI)⁴	(d)	100%	## 		
Southwest Premiere Ferries, Inc. (SPFI) <sup>4</sup>	(d)	100%	=		
Associate—					
KGLI-NM Holdings, Inc. (KGLI-NM)					
Preferred C shares	(v)	80%	80%		

<sup>&</sup>lt;sup>1</sup>Wholly owned subsidiary of CSC

<sup>&</sup>lt;sup>2</sup>Wholly owned subsidiary of FTC

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

<sup>&</sup>lt;sup>4</sup>Wholly owned subsidiary of Starlite

Except for UIBV and CSLSP, 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 in the conveyance or carriage of petroleum products, goods, wares and merchandise of every kind, over domestic and international oceans, seas, lakes, rivers, canals, harbours, and other 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.
  - On August 10, 2018 and October 22, 2018, Starlite acquired all of the outstanding shares of stock of SGFI and 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; and, to charter in and out any 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.
- (I) 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. As of December 31, 2018, CDC has not yet started commercial operations.
- (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) Incorporated on October 11, 2018 and is primarily engaged in arrastre services. As of December 31, 2018, Star Maritima has not yet started commercial operations.
- (u) Incorporated and domiciled in the Republic of Singapore and is primarily engaged in the business and management consultancy services. CSLSP has not yet started commercial operations as of December 31, 2018.

(v) 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 Financial Statements

The consolidated financial statements of the Group as of and for the years ended December 31, 2018 (including the comparative consolidated financial statements as of December 31, 2017 and for the periods ended December 31, 2017 and 2016 and the corresponding figures as of January 1, 2017) were authorized for issue by the Company's BOD on February 13, 2019.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

# (b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, Presentation of Financial Statements. The Group presents consolidated statement of comprehensive income separate from the consolidated statement of profit or loss.

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

# (c) Functional and Presentation Currency

These consolidated 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 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.

# (d) Reclassification of Accounts

In 2018, the Group reclassified its 2017 consolidated financial statements to conform to the classifications of drydocking costs, property and equipment, and advances to suppliers to the current year presentation. Accordingly, the Group presents a third consolidated statement of financial position as of January 1, 2017 without the related notes except for the disclosures required under PAS 8, Accounting Policies, Changes in Estimates and Errors.

The following are the details of the reclassifications made:

- In 2018, the Group changed the classification of the net carrying amount of its
  drydocking costs amounting to P303.5 million and P169.1 million as at
  December 31, 2017 and January 1, 2017, respectively, from Other Non-Current
  Assets to Property and Equipment to conform to the presentation and account
  classification of the asset in the current year (see Notes 9 and 11). Both accounts
  are presented under Non-Current Assets section of the consolidated statements of
  financial position.
- The Group also reclassified certain advances to suppliers relating to property and equipment amounting to P1,462.1 million and P245.4 million as at December 31, 2017 and January 1, 2017, respectively, from Other Current Assets account to Other Non-Current Assets account to conform to the presentation and account classification of the asset in the current year (see Notes 8 and 11).
- The Group reclassified the Deposit for Future Stock Subscriptions amounting to P180.0 million and P50.0 million as at December 31, 2017 and January 1, 2017, respectively, from Current Liabilities to Non-Current Liabilities section of the consolidated statements of financial position to conform with the proper classification.

The effects of the reclassification in the consolidated statements of financial position as of December 31, 2017 and the corresponding figures for January 1, 2017 are summarized below.

	Y/A	As Previously						
	_	Reported	Reclassification			As Adjusted		
As of December 31, 2017								
Property and equipment - net	Р	10,999,596,427	Р	303,509,254	Р	11,303,105,681		
Other current assets		1,926,336,910	(	1,462,079,554)		464,257,356		
Other non-current assets – net		327,749,182		1,158,570,300		1,486,319,482		
As of December 31, 2016								
Property and equipment - net	Р	7,818,568,442	Р	169,125,830	Р	7,987,694,272		
Other current assets		545,750,777	(	245,365,837)		300,384,940		
Other non-current assets – net		175,499,300	100	76,240,007		251,739,307		

The reclassifications have no significant impact in the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2017 and the period August 26 to December 31, 2016.

# 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

**Financial Instruments** 

PFRS 15

Revenue from Contracts with Customers;

Clarifications to PFRS 15

International Financial

**Reporting Interpretations** 

Committee (IFRIC) 22

Foreign Currency Transactions and

Advance Consideration

Annual Improvements – (2014-2016 Cycle)

PAS 28 (Amendments)

Investments in Associates-

Clarification on Fair Value through

**Profit or Loss Classification** 

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). PFRS 9, 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 introduced new requirements for: (a) the classification and measurement of financial assets and financial liabilities; (b) impairment of financial assets; and, (c) general hedge accounting. The details of these new requirements as well as their related impact on the Group's consolidated financial statements are described below.

#### Classification and Measurement of Financial Assets

All recognized financial assets that are within the scope of PFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

 debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, are measured subsequently at amortized cost;

- debt instruments that are held within a business model whose objective is both
  to collect the contractual cash flows and to sell the debt instruments, and that
  have contractual cash flows that are solely payments of principal and interest
  on the principal amount outstanding, are measured subsequently at fair value
  through other comprehensive income (FVTOCI); and,
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the standard allows an entity to make the following irrevocable election/designation at initial recognition of a financial asset:

- an entity may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and,
- an entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Management has assessed the Group's existing financial assets and determined that financial assets previously classified as loans and receivables under PAS 39 and measured at amortized cost continue to be measured at amortized cost under PFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Further, there is no change in the measurement of the Group's investments in equity instruments that are held for trading; those instruments were and continue to be measured at FVTPL.

#### Impairment of Financial Assets

In relation to the impairment of financial assets, PFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under PAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

In particular, PFRS 9 requires the measurement of the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), an entity is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. PFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade and other receivables and other financial assets at amortized costs since these financial assets has no financing components.

Management has reviewed all bank balances and such have been assessed to have low credit risk as they are held with reputable banking institutions. With respect to trade and other receivables, the application of the ECL methodology based on the stages of impairment did not have a significant impact on the Group's consolidated financial statements. The Group applies the simplified approach and recognizes lifetime ECL for these assets as these have no significant financing components. Among others, the management has considered the historical loss experience from existing customers which is low and deemed insignificant. The management also considers the existence of financial liabilities with the same counterparties against which these financial assets may be offset. Furthermore, the Group's advances to related parties are repayable on demand and the contractual period is the very short period needed to transfer the cash once demanded.

#### Classification and Measurement of Financial Liabilities

A significant change introduced by PFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer. Specifically, PFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under PAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss. Management has determined that the application of this provision of PFRS 9 has had no impact on the Group's consolidated financial statements since all of the Group's financial liabilities are measured at amortized cost.

# General Hedge Accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

PFRS 9 requires hedging gains and losses to be recognized as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under PAS 1; hence, they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorized as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income.

The application of the PFRS 9 hedge accounting requirements has had no material impact on the consolidated financial statements of the Group.

The Group's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in Notes 2.5 and 2.10.

The Group's initial date of application of PFRS 9 is on January 1, 2018. It has applied the transitional relief under the standard whereby the Group is allowed not to restate the comparative consolidated financial statements. However, the Group's adoption of PFRS 9 did not result in significant adjustment to the opening balance of Retained Earnings in the current year.

(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 arise mainly from charter agreements and related services, sale of goods, and sale of services. Revenues from charter arrangements, except for continuing voyage charter, are recognized over time while all other sources of revenues are recognized as the control transfers at a point in time with the customer, which is typically when the Group renders and completes the performance obligation agreed with the customer (see Note 2.16). The disaggregation of the Group's sources of revenues is presented as part of the analysis of segment information in Note 25.5.

The Group adopted PFRS 15 using the modified retrospective approach. The adoption of PFRS 15 did not result in a significant change in the Group's accounting policies. Accordingly, no cumulative effects from the initial application of the standard was made to the opening balance of the Retained Earnings account at January 1, 2018.

- (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 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The application of this interpretation has no impact on the Group's consolidated financial statements as its current policy is consistent with the requirements of this interpretation.
- (iv) Annual Improvements to PFRS 2014 2016 Cycle. Among those improvements 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 a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition. In respect of the option for an entity that is not an investment entity to retain the fair value measurement applied by its associates and joint ventures that are investment entities when applying the equity method, the amendments make a similar clarification that this choice is available for each investment entity associate or investment entity joint venture. The application of this interpretation has no impact on the Group's consolidated 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 financial statements.

PAS 40 (Amendments) : Investment Property – Transfers of Investment

Property

PFRS 2 (Amendments) : Share-based Payments – Classification and

Measurement of Share-based Payment

Transactions

PFRS 4 (Amendments) : Insurance Contracts – 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 and interpretations to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

(i) PAS 19 (Amendments), Employee Benefits – Plan Amendment, Curtailment or Settlement (effective January 1, 2019). The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). The standard is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured with the discount rate used in the remeasurement [also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)].

Management does not anticipate that the application of the amendments in the future will have a material impact in the Group's consolidated financial statements.

- (ii) 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 does not anticipate that the application of the amendments in the future will have a material impact in the Group's consolidated financial statements.
- (iii) PFRS 9 (Amendments), Financial Instruments Prepayment Features with Negative Compensation (effective from January 1, 2019). The amendments clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. Management does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

(iv) 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 similarly to as 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 has initially decided to make use of the practical expedient available on transition to PFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with PAS 17 and Philippine Interpretation IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019. The Group will apply the definition of a lease and related guidance set out in PFRS 16 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of PFRS 16, the Group has carried out an implementation project and based on which, the definition in PFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

(v) PFRS 10 (Amendments), Consolidated Financial Statements, and PAS 28 (Amendments), Investments in Associates and Joint Ventures-Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (effective date deferred indefinitely). The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. Management does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

- (vi) Philippine Interpretations, IFRIC 23 Uncertainty Over Income Tax Treatments (effective January 1, 2019). The interpretation clarifies the application of recognition and measurement requirements of PAS 12 when there is uncertainty over income tax treatments. The Interpretation specifically clarify that an entity is required to use judgment to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together on the assumption that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. In making such judgment, an entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filling. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. Management does not anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods.
- (vii) Annual Improvements to PFRS. Annual Improvements to PFRS (2015-2017 Cycle) made minor amendments to a number of PFRS, which are effective for the annual periods beginning on or after January 1, 2019. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:
  - (a) PAS 12 (Amendments), Income Taxes Tax Consequence of Dividends. The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
  - (b) PAS 23 (Amendments), Borrowing Costs Eligibility for Capitalization. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.
  - (c) PFRS 3 (Amendments), Business Combinations and PFRS 11 (Amendments), Joint Arrangements Remeasurement of Previously Held Interests in a Joint Operation. The amendments to clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation. 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 financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1.2, after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

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

#### (a) Investments in Subsidiaries

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

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

Except for acquisitions involving entities under common ownership that are accounted for under the pooling-of-interest method, 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.

All subsequent changes to the Group's share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within Share in Net Loss of an Associate account in the consolidated statement of profit or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

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).

# (d) Transactions with Non-Controlling Interests (NCI)

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

# 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 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.

#### (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 shortterm 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 financial statement of profit or loss.

Interest earned on these investments is included in the net fair value gains (losses) on these assets and is presented as part of Finance Income in the consolidated statement of profit or loss.

#### (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 Company'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.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statement of profit or loss as part of Finance Income.

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 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, under rare circumstances, 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 consolidated statement of profit or loss.

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

From January 1, 2018, the Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables, advances to related parties, and other financial assets at amortized costs. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Group uses its historical experience, external indicators, forward-looking information, and other qualitative factors (including possible offsetting) to calculate the ECL using a provision matrix. The Group also assesses impairment of trade and other receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due. For advances to related parties which all are repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date taking into consideration historical defaults of the related parties. Management considers if the related party has sufficient accessible highly liquid assets in order to repay the loan if demanded at the reporting date.

Prior to 2018, the impairment of trade and other receivables 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.

# (d) Derecognition of Financial Assets

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

#### 2.6 Inventories

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

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

# 2.7 Property and Equipment

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

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

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

Revalued amounts represent fair values determined based on appraisals performed by external professional appraiser every after drydocking, which is done once every two years. In addition, appraisal of vessels is conducted more frequently if market factors indicate a material change in fair value (see Note 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 (see Note 3.2)

Building

Office furniture, fixtures and equipment

Transportation equipment

2 to 35 years

2 to 10 years

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, presented as part of Vessels and vessel equipment under the Property and Equipment account, are considered major repairs that preserve the life of the vessels. As an industry practice, costs associated with drydocking are capitalized as part of the vessel and amortized on a straight-line basis over two years or until the next drydocking occurs, whichever comes earlier (see Note 2.7). 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 is derecognized upon derecognition of the related vessels. The computed gain or loss arising on derecognition of the vessel takes into consideration the carrying amount of drydocking costs and is included in profit or loss in the year the related vessel is derecognized (see Note 2.7).

#### 2.9 Other Assets

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

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

#### 2.10 Financial Liabilities

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

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

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

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

Obligations under finance lease, included 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 financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize new assets and liabilities.

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

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

Negative goodwill or gain on bargain purchase, 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 under bareboat (BB) agreements 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 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.

To determine whether to recognize revenue, the Group follows a five-step process:

- 1. identifying the contract with a customer;
- 2. identifying the performance obligation;
- 3. determining the transaction price;
- 4. allocating the transaction price to the performance obligations; and,
- 5. recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five rating criteria must be present:

- the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- each party's rights regarding the goods or services to be transferred or performed can be identified;
- 3. the payment terms for the goods or services to be transferred or performed can be identified;
- 4. the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
- 5. collection of the consideration in exchange of the goods and services is probable.

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 Group's performance as the Group 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 entity 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 CVC, time charter (TC) or BB arrangement [see Note 3.1(a)].

Revenues from TC and BB arise from the hiring of vessels for a specified period of time, with the distinction that in a BB, no administration or technical maintenance is included as part of the agreement. These arrangements qualify as lease; hence, revenue is recognized on a straight-line basis over the term of the contract [see Notes 2.17(a)].

On the other hand, revenues from CVC arise from the delivery of liquid cargoes to the customers' premises such as the customers' vessels, oil depots or terminals or fuel tanks, and is recognized over time.

(b) Passage – Revenue, which pertains to the transport of passengers from one port to another within the Philippines, is recognized over time and is based on the published tariff rates per passenger and route of the vessel. The duration of routes generally ranges from two to twelve hours.

The Group incurs incremental commission fees paid to travel agencies for each passenger booked through such intermediary. These amounts are expensed as incurred.

- (c) Freight Revenue from freight services pertains to the transport of cargoes (rolling, bulk or containerized) from one port to another, is recognized over time, 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 assisting domestic and international vessels in docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services, is recognized over time. The duration of such services normally ranges between one to four hours. Fees are based on agreed hourly rates for the use of tugboats.

The Group incurs incremental commission fees paid to intermediaries in connection with the provision of tugboat services. These amounts are expensed as incurred.

- (e) Logistics services Revenue from logistics services generally include performance of ship of ship management and crewing services and warehousing and distribution services. Warehousing revenues is generally based on a fixed rate per pallet position for ambient or fixed rate per hour for cold storage. On the other hand, distribution services are generally recognized at a point in time i.e., when cargoes are received by either the shipper or consignee for delivery transactions.
- (f) Standby charges Revenue is recognized at a point in time i.e., upon failure of the charterer to utilize/dispatch the tanker vessels within the allotted lay-time initially agreed upon with the Group.
- (g) Sale of goods Revenue, which primarily include sale of food and beverage items to the vessels' passengers, is recognized at a point in time i.e., 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.

Revenues from CVC, passage, freight, tugboat fees, and logistic services are recognized over time when the Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

In 2017 and prior periods, the Group recognized revenues based on the provisions of PAS 18 which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Group.

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

#### 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 under Interest-Bearing Loans account in the consolidated statement of financial position.

Leases, which do not transfer to the Group substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments (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.

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

# 2.18 Functional Currency and Foreign Currency Transactions

#### (a) Transactions and Balances

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

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

# (b) Translation of Financial Statements of Foreign Subsidiary

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

- 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 using the reference rates published by Bloomberg through its valuation technology, Bloomberg Valuation (BVAL), 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. BVAL rates provide evaluated prices that are based on market observations from contributed sources.

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 Company'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 statement of profit or loss.

#### 2.25 Earnings Per Share

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

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

# 2.26 Events After the End of the Reporting Period

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

#### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

# 3.1 Critical Management Judgments in Applying Accounting Policies

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

# (a) Determination of Timing of Satisfaction of Performance Obligations

In determining the appropriate method to use in recognizing the Group's revenues from charter agreements and related services, management determines that revenue is recognized over time when the Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

On the other hand, revenues from sale of goods and stand-by charges shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer acknowledged delivery of goods.

# (b) Business Model Assessment

The Group's classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

# (c) Assessment of Control or Significant Influence over an Investee Company

Judgment is exercised in determining whether the Group already has significant influence or control over an entity. In assessing each interest over an entity, the Group considers the power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's return.

Management assessed that the Company only has a significant influence over KGLI-NM even though it holds an 80% economic interest in KGLI-NM as its voting rights equate only to 39.97% (see Notes 1.2 and 10). It has considered the ability of the Group to influence the operating and financial policies of the investee, representation on the board of directors of the investee and routine participation in management decisions in making its judgment.

# (d) 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 non-bank financing institution in 2018 is accounted for as a finance lease. All other leases are accounted for as operating lease.

# (e) 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.

#### (f) 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 Company measures impairment of trade and other receivables and security deposits at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors (including possible offsetting of outstanding liability with the debtor), general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

In relation to advances to related parties, PFRS 9 notes that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. In the case of these advances to related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the sufficiency of the related party's highly liquid assets in order to repay the loan if demanded at the reporting date taking into consideration the historical defaults of the related party.

# (b) Determining Net Realizable Value of Inventories

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the 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

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

The carrying amounts of property and equipment are analyzed in Note 9. In 2018, management changed the estimated useful lives of brand new vessels from 30 to 35 years and container yards from five years to ten years. This change in accounting estimate was applied prospectively, beginning January 1, 2018, and resulted in the decrease in depreciation of certain vessels and container yards totaling P58.4 million during the year and in the succeeding periods.

## (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 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 December 31, 2018 and 2017, will be fully utilized in the coming periods. The carrying value of deferred tax assets as of December 31, 2018 and 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 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 December 31:

	2018	2017
Cash on hand and in banks	P 429,068,769	P 1,426,064,323
Short-term placements	14,427,200	15,639,867
	P 443,495,969	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 December 31, 2018 and 2017 did not include an amount of P1.6 million and of P31.0 million, respectively, which is shown as Restricted cash under the Other Current Assets and Other Non-current Assets accounts, respectively, in the consolidated statements of financial position (see Notes 8 and 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 December 31:

	Notes	2018	28	2017
Trade receivables	20.1, 20.3	P 1,288,836,808	Р	802,786,761
Due from agencies		65,397,867		54,229,144
Advances to officers and employees		60,134,374		19,001,031
Claims receivables		16,332,854		15,794,361
Others		16,945,367		2,210,859
		1,447,647,270		894,022,156
Allowance for doubtful accounts		( <u>17,601,775</u> )	(	17,601,775)
		P 1,430,045,495	<u>P</u>	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 using the provisional matrix as determined by the management; hence, adequate amount of allowance for impairment has been provided (see Note 26.2).

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

	2	018	92	2017
Balance at beginning of year Impairment losses during	P 1	7,601,775	P	14,566,313
the year		<b>18</b> 35	80 <u>6</u>	3,035,462
Balance at end of year	<u>P 1</u>	7,601,775	<u>P</u>	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 goods and/or cargoes. 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 P479.7 million and P27.5 million as of December 31, 2018 and 2017, respectively, were used as collateral to secure the payment of the Group's interest-bearing loans (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 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).

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

## 7. INVENTORIES

This account includes the following:

	Note	_	2018	<u> </u>	2017
Fuel and lubricants	20.2	P	216,726,685	Р	49,034,701
Spare parts			164,896,119		87,620,499
Shipping supplies			122,627,585		39,829,380
Food, beverage and other supplies			20,745,196		5,350,929
Electrical parts		-	909,193		3,028,474
		<u>P</u>	525,904,778	<u>P</u>	184,863,983

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

Spare parts include inventory items such as bearings, cylinders, fuel injectors and other items used for the repair or replacement of vessel that does not meet the definition of property and equipment in accordance with PAS 16.

## 8. OTHER CURRENT ASSETS

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

	Notes		2018	- 55	2017 As restated – ee Note 2.2(d)]
Input VAT		P	470,121,365	Р	69,644,935
Creditable withholding taxes			175,798,416		96,556,752
Deferred input VAT			155,837,184		185,770,148
Prepayments			88,413,417		31,937,943
Deferred charges			52,091,850		29,780,327
Security deposits	20.3, 23.3		11,462,687		5,122,339
Advances to suppliers			9,625,658		15,447,867
Restricted cash	4		ě		29,406,231
Others		-	170,110	E-	590,814
		<u>P</u>	963,520,687	<u>P</u>	464,257,356

Prepayments primarily include prepaid taxes and licenses, rentals, insurance and supplies.

# 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 2018 and 2017 are shown below.

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	GP	Total
December 31, 2018							
Cost or revalued amounts Accumulated depreciation	P 1,383,120,059	P 17,474,604,261	P 159,722,803	P 101,709,707	P 168,388,806	P 1,332,056,903	P 20,619,602,539
and amortization	950	( 3,119,163,120)	( 56,951,215)	( 36,449,898)	( 100,926,529)		( 3,313,490,762)
Accumulated Impairment loss	528	(					(2,214,620)
Net carrying amount	P 1,383,120,059	P 14,353,226,521	P 102,771,588	P 65,259,809	P 67,462,277	P 1,332,056,903	P 17,303,897,157
December 31, 2017							
Cost or revalued amounts	P 211,673,989	P 13,379,162,304	P 114,549,466	P 51,089,515	P 128,551,325	P 588,837,757	P 14,473,864,356
Accumulated depreciation							
and amortization	130	( 3,004,776,365)	( 46,095,605)	( 30,714,077)	( 86,958,008)	*5	( 3,168,544,055)
Accumulated impairment loss		(	·		5 0		(2,214,620)
Net carrying amount	P 211,673,989	P 10,372,171,319	P 68,453,861	P 20,375,438	P 41,593,317	P 588,837,757	P 11,303,105,681
January 1, 2017							
Cost or revalued amounts	P 104,250,013	P 9,697,197,070	P 58,950,480	P 44,644,547	P 57,993,472	P 335,657,251	P 10,298,692,833
Accumulated depreciation							
and amortization	(30)	( 2,214,725,126)	( 23,075,954)	( 26,555,834)	( 44,427,026)	73	( 2,308,783,940)
Accumulated impairment loss	( + )	2,214,621)		A CONTRACTOR			(2,214,621)
Net carrying amount	P 104,250,013	P 7,480,257,323	P 35,874,526	P 18,088,713	P 13,566,446	P 335,657,251	P 7,987,694,272

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2018 and 2017 is shown below.

	Lend	۷	Vessels and Vessel Equipment	1	ransportation Equipment	<u>ln</u>	Leasehold provements		Fixture and Equipment	9	CP		Total
Balance at January 1, 2018, net of accumulated depreciation and amortization and impairment losses	P 211,673,989	P	10,372,171,319	P	68,453,861	P	20,375,438	P	41.593.317	-	P 588,837,757	P	11,303,105,681
Balance from acquired subsidiaries at October 30, 2018, net of accumulated depreciation							10500000000000000000000000000000000000					- 28	5.5455514.535145.535
and amortization	- 9		450,283,483		1,016,992		4		642,426		542,325,953		994,268,854
Additions	1,171,446,070		3,324,476,313		55,611,885		42,531,110		46,791,835		1,265,736,331		5,906,593,544
Revaluation increment	#E		167,829,312		1 1 To		TOTAL STATE OF THE		#6		#1 2000000000000000000000000000000000000		167,829,312
Reclassification	<b>8</b> 0		1,056,486,156		0000		8,356,982			1	1,064,843,138)		822 (0) to 45 (4) (1) (1)
Disposals - net Depreciation and amortization	59	(	194,240,296)	C	2,247,690 )		9 =	t	3,354,174)		ntangantasak	t	199,842,160)
charges for the year		(	823,779,766)	(_	20,063,460)	(	6,003,721)	1_	18,211,127)	1 8		(	868,058,074)
Balance at December 31, 2018, net of accumulated depreciation and amortization and								20					***
Impairment losses	P 1,383,120,059	P	14,353,226,521	<u>P</u>	102,771,588	<u>P</u>	65,259,809	<u>P</u>	67,462,277		1,332,056,903	2	17,303,897,157
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment losses	P 104,250,013	P	7,480,257,323	P	35.874.526		18,088,713	p	13.566.446	100	P 335,657,251	P	
Balance from acquired subsidiaries at January 1, 2017, net of accumulated depreciation	1 104,130,013	<b>5</b> 0				1.5	16,066,713			33	335,657,251	,	7,987,694,272
and amortization	#1 80/38/28/28/28/28		1,847,173,361		14,089,612		0.00 PARTIES AND PROCESSO		12,377,408		AND		1,873,640,381
Additions	107,423,976		1,593,826,475		44,002,428		3,682,827		30,191,753		433,531,471		2,212,658,930
Revaluation increment	*2		67,317,920		A18		18		<b>5</b>				67,317,920
Reclassification	*		180,118,385		9.20		18		232,580	1	180,350,965)		
Disposals - net Depreciation and amortization	<u>N</u>	C	9,335,148)	(	8,507,385 )		S.	l	1,606,112)		*	ť	19,448,645)
charges for the year	<del></del>	(	787,186,997 )	(_	17,005,320 )	<b>-</b>	1,396,102)	ι_	13,168,758 )	199		(_	818,757,177)
Balance at December 31, 2017, net of accumulated depreciation and amortization and													
impairment losses	P 211,673,989	P	10,372,171,319	P	68,453,861	P	20,375,438	P	41,593,317		588,837,757	P	11,303,105,681

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

Name of Vessel	Date of Report	8 11	Net Appraised Values
M/Tug Fortis I	December 14, 2018	Р	82,000,000
M/Tug Fortis II	December 14, 2018		80,000,000
MV Trans-Asia 3	October 23, 2018		192,785,000
MV Trans-Asia 8	October 23, 2018		174,655,000
MV Trans-Asia 10	October 23, 2018		157,378,000
MT Chelsea Intrepid	September 20, 2018		120,000,000
MV Starlite Tamaraw	August 1, 2018		24,289,000
MV Starlite Archer	July 30, 2018		468,126,000
MV Starlite Saturn	July 28, 2018		451,146,000
MV Starlite Eagle	July 28, 2018		466,130,000
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 Polaris	July 26, 2018		9,287,000
MV Starlite Ferry	July 26, 2018		18,504,000
MV Starlite Pioneer	July 25, 2018		431,161,000
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
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 Asia Pacific	April 27, 2016		71,000,000
MV Trans-Asia 9	April 25, 2016		86,000,000
MV Starlite Annapolis	April 4, 2016		34,869,000
MT Chelsea Enterprise	March 4, 2016		135,000,000
MT Chelsea Denise II	December 23, 2015		487,000,000
MT Great Diamond	August 5, 2015		1,021,886,700
MT Chelsea Cherylyn	December 29, 2014		880,000,000

Management believes that there is no significant change in the fair values of the Group's vessels since the dates of their last appraisals.

In 2018, the Group acquired new vessels namely, MT Chelsea Providence, MV Trans-Asia 15, MV Trans-Asia 16, MV Trans-Asia 17, MV Trans-Asia 18 and MTug Fortis VIII, MTug Fortis IX, MTug Fortis X and MTug Fortis XI. 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. No appraisal reports were obtained for these vessels as 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 December 31, 2018 and 2017 are as follows:

	2018	2017
Cost	P12,836,950,468	P10,096,699,931
Accumulated depreciation	( <u>1,836,702,037</u> )	(1,768,872,688)
Net carrying amount	P 11,000,248,431	P 8,327,827,243

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

	Notes		2018 (One year)	-	2017 (One year)	_(	2016 Four months)
Cost of sales and services Other operating expenses	15	P	835,719,005 32,339,069	P 	796,422,076 22,335,101	P —	450,405,966 7,313,125
	16	P	868,058,074	<u>P</u>	818,757,177	<u>P</u>	457,719,091

Certain vessels of the Group with a total net carrying amount of P12,059.6 million and P8,755.6 million as of December 31, 2018 and 2017, respectively, were used to secure the payment of certain interest-bearing loans and borrowings (see Note 12).

As of December 31, 2018 and 2017, the carrying amounts of idle property and equipment due to breakdown in the vessel's main engine gearbox and the delay in the manufacturing and importation of the replacement gearbox amounted to P1,305.8 million and P1,305.6 million, respectively. Meanwhile, management has assessed that the cost of fully depreciated property and equipment that are still in use in operations is deemed insignificant.

## 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:

	2018	2017
Associate – KGLI-NM		
Cost	P 2,104,212,29	6 P 2,104,212,296
Accumulated equity share in the		980 HTG 1994 A
total other comprehensive income		
from previous year	106,087,39	3 -
Equity share in net loss	( 453,048,18	8) ( 1,962,214)
Equity share in other comprehensive		NO. 10 1/10 D. T
income during the year	•	108,049,607
	1,757,251,50	2,210,299,689
Jointly controlled entity –		
Meridian Maritime		
Training Center (Meridian)	63,917,33	58,635,925
	P 1,821,168,83	P 2,268,935,614

On March 27, 2017, the Company acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to the Company 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 December 31, 2018 and 2017.

	2018	2017
Total Current Assets	P 8,469,249,696	P 8,785,779,373
Total Non-Current Assets	8,812,080,144	9,419,765,000
Total Current Liabilities	9,699,007,864	11,529,526,190
Total Non-Current Liabilities	9,336,877,584	4,165,111,975
Total Revenues	21,060,201,462	21,591,089,000
Net Profit (Loss)	( 1,421,373,372)	276,244,000

No dividends were received from KGLI-NM during the year 2018 and 2017.

KGLI-NM is a private company; therefore, no quoted market prices are available for its shares.

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 will be financed by CSC and any profits will be distributed 70% to CSC and 30% to Meridian until such time that CSC achieves 100% return on investment, after which, profit sharing will be 50% both to CSC and Meridian.

In 2018 and 2017, CSC made additional investment in the Meridian amounting to P5.3 million and P13.1 million, respectively.

No share in profit or loss was recognized from the investment in joint venture as the facility is still under construction and expenses recognized are not significant as of December 31, 2018 and 2017.

The Group does not have any capital commitments nor does it have any restriction on the ability to access or use assets, and settle liabilities of the associate and the joint venture.

As of December 31, 2018 and 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	·	2018	2017 [As restated – see Note 2.2(d)]
Advances to suppliers		Р	694,861,356	P 1,462,079,554
Security deposits	20.3, 23.3		29,066,341	12,730,611
Other investments			8,773,862	8,272,236
Restricted cash	4		1,637,081	1,637,081
Software - net			(A)	1,600,000
Others			300,000	
		P	734,638,640	P 1,486,319,482

Advances to suppliers include down payments made to suppliers for the acquisition of long-term assets which include vessels and parcels of land.

Other investments pertain to investments in insurance security fund.

## 12. INTEREST-BEARING LOANS

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

	<u>Notes</u>	2018	2017
Current:			
Bank loans	12.2	P 4,894,210,434	P 2,445,380,253
Term loans	12.1	1,595,629,564	968,128,892
Mortgage loans	12.3	41,506,393	20,981,833
Obligations under finance lease	12.4	24,207,330	5 <u>2</u>
		6,555,553,721	3,434,490,978
Non-current:			
Term loans	12.1	8,889,862,811	6,746,237,521
Mortgage loans	12.3	138,771,409	140,997,812
Obligations under finance lease	12.4	35,673,912	18
Bank loans	12.2		10,434,324
		9,064,308,132	6,897,669,657
		P15,619,861,853	P10,332,160,635

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

	- 13	Term loans (see Note 12.1)	ال.	Bank loans (see Note 12.2)	Mortgage loans (see Note 12.3)		fi	gations under nance lease se Note 12.4)	2 —	Total
Balance as of January 1, 2018	<u>P</u>	7,714,366,413	<u>P</u>	2,455,814,577	<u>P</u>	161,979,645	<u>P</u>		<u>P</u>	10,332,160,635
Cash flows from financing activities:										
Additions		2,975,255,891		2,723,117,984		Nasi		9.4		5,698,373,875
Repayments	(	958,215,288)		284,722,127)(		21,885,206) (		16,924,358)	1	1,281,746,979)
	9000-0	2,017,040,603	-	2,438,395,857 (		21,885,206) (		16,924,358)	=	4,416,626,896
Non-cash financing activities:										
Balance from acquired subsidiaries		777,327,956		•				10 <b>7</b> 71		777,327,956
Additions						40,183,363		76,805,600		116,988,963
Restatement of foreign currency										
denominated loans	(	23,242,597)	200		_				<b>!</b>	23,242,597)
	4809	754,085,359			_	40,183,363	_	76,805,600	\ <del>-</del>	871,074,322
Balance at December 31, 2018	<u>P</u>	10,485,492,375	P	4,894,210,434	<u>P</u>	180,277,802	<u>P</u>	59,881,242	<u>P</u>	15,619,861,853
Balance as of January 1, 2017	<u>P</u> _	2,596,979,367	P	4,576,345,754	<u>P</u>	199,457,057	P		P	7,372,782,178
Cash flows from financing activities:										
Additions		1,404,093,151		1,184,823,399				18		2,588,916,550
Repayments	(	559,970,152)(		1,512,915,688) (		78,213,314)			1	2,151,099,154)
	81850 80	844,122,999	_	328,092,289) (		78,213,314)	_	- 4	7	437,817,396
Non-cash financing activities:										
Balance from acquired subsidiaries		2,446,689,650		7.561.112		2001		59		2,454,250,762
Additions				1000		40,735,902		38		40,735,902
Reclassification		1,800,000,000	1	1,800,000,000)		55 No. 10		38		18 IS
Conversion from USD to PHP		20,298,400		(A)		(3%)		108		20,298,400
Restatement of foreign currency										
denominated loans	17.	6,275,997			_		_	•		6,275,997
	100	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	Р	-14	<u>P</u>	10,332,160,635

## 12.1 Term Loans

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

			Interest	Outstand	Balance	
	Security	Terms	Rates	2018	2017	
China Banking Corporation (CBC)	CSC shares of stocks/					
	<b>Continuing Suretyship</b>	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%	976,884,263	1,037,444,85	
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%	581.880.000	606,000,00	
DBP	MV San Pedro Calungsod	KENNERGEN VENE		5-55-57# 5-58#S-E-2	1070.78.70.708.70.	
	MV San Lorenzo Ruis Uno					
	MV St. Nicholas of Myra	15 years	6.50%	557,526,997		
BDO Unibank, Inc. (BDO)	Trans - Asia 8, Trans - Asia 9,	5555000				
	Trans - Asia 10	10 years	4.25%	494,370,980	567,439,50	
PBB	MV Salve Regina	15 years	7.00%	460,000,000		
PBB	MV Stella Del Mar	15 years	7.00%	346,699,500	74	
CBC	MT Cheisea Chariize	7 years	3.25%	316,344,000	366,102,00	
PBB	MT Chelsea Dominance	7 years	6.06%	308,137,725	373,008,82	
Mega International Commercial Bank Co. (MICBC)	Continuing Suretyship	5 years	6.10%	281,250,000	296,250,00	
Robinsons Bank Corporation (RBC)	Continuing Suretyship	5 years	6.10%	281,250,000	296,250,00	
CTBC Bank (Phils) Inc. (CTBC)	Continuing Suretyship	5 years	4.09%	281,250,000	296,250,00	
PBB	MT Chelsea Endurance	7 years	6.06%	261,356,875	316,379,37	
CBC	Unsecured	10 years	7.00%	200,000,000		
First Commercial Bank, Ltd. (FCB)	Continuing Suretyship	5 years	6.10%	187,500,000	197,500,00	
BDO	MT Chelsea Denise II	5 years	6.46%	149,980,000	196,140.00	
Asia United Bank (AUB)	Mtug Fortis VI, Mtug Fortis VII	3 10013	0.40%	243,300,000	130,140,00	
10 €7.5	and Mtug Fortis VIII	7 years	5.56%	70,357,350		
AUB	Mtug Fortis III and Mtug		3.30%	70,337,330		
	Fortis V	7 years	5.56%	56,789,496	67,114,85	
United Coconut Planters Bank (UCPB) and	Mtug Pindasan, Mtug Samal	7 10013	6.00% to	30,783,430	07,114,63	
Philippine Bank of Communications (PBComm)	Mtug Sigaboy	5 years	6.50%	2,321,621	25 505 04	
AUB	Mtug Fortis I and Mtug	Syears	0.30%	2,321,621	25,696,84	
50 <del>00</del> 00	Fortis II	5 years	7.00%			
BDO	MT Great Princess	5 years	5.25%	<b>6</b> 9	22,222,22	
BDO	MT Great Diamond	7 years	And the second s	•	335,482,56	
en e	Mi Great Diamond	/ years	One year LIBOR		19/2004/2014/20	
BDO	Trans - Asia 10	9.38 years	plus 3.50% 4.25%		134,052,50 39,58	
				10,531,898,807	7,733,373,12	
Discount on loans payable			(0)	( 46,406,432 )		

(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\$14.0 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\$4.0 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 quarterly principal installments and any unpaid balance at maturity date, with two quarter grace period, commencing after the date of availment of the second tranche. The loan bears effective interest rate of 5.25% per annum and does not include any covenant. This loan has been fully settled as of December 31, 2018.

In 2014, PNX-Chelsea entered into a MOA with CSEC for the importation of one unit of oil tank vessel (MT Chelsea Denise II) from China for a total cost of US\$7,300,000. In connection with the MOA, PNX-Chelsea entered into 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.

Debt issuance costs amounted to P0.8 million (first tranche) and P2.2 million (second tranche), of which P0.7 million, P1.3 million and P1.4 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 statements of profit or loss (see Note 18.1). Unamortized debt issuance costs are deducted against the current and non-current portion of the related interest-bearing loans.

The outstanding loan is secured by a chattel mortgage on MT Chelsea Denise II with net carrying amount of P462.5 million as of December 31, 2018 and 2017 (see Note 9). In addition, the OLSA provides that PNX-Chelsea should maintain a debt-to-equity ratio of not more than 2.00:1.00 and a debt service coverage ratio of at least 1.00. As of December 31, 2018 and 2017, PNX-Chelsea is in compliance with the loan agreement.

### (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 and does not have a related covenant. The loan is secured by a chattel mortgage on MT Chelsea Great Diamond with net carrying amount of P914.0 million in December 31, 2017. This loan has been fully settled as of December 31, 2018.

Related debt issuance costs amounted to P8.2 million, of which P0.1 million, P0.6 million and P0.9 million was amortized in 2018, 2017 and 2016, respectively, using the effective interest rate of 4.65%. Amortized debt issuance costs were recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account of the consolidated statement of profit or loss (see Note 18.1).

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

On May 23, 2016, PNX-Chelsea entered into a 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. The loan does not include any covenant.

Debt issuance costs amounted to P13.5 million, of which P2.3 million was amortized in 2018 using the effective interest rates of 5.50%. Amortized debt issuance costs was recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account in the 2018 consolidated statements of profit or loss (see Note 18.1). Unamortized debt issuance costs are deducted against the current and non-current portion of the related interest-bearing loans.

The loan is secured by a chattel mortgage on MT Chelsea Charlize with net carrying amount of P429.3 million and P445.1 million as of December 31, 2018 and 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. The loans do not include any covenant.

The loans are secured by a chattel mortgage on MT Chelsea Endurance and MT Chelsea Dominance with net carrying amounts totaling P707.8 million and P731.2 million, as of December 31, 2018 and 2017, respectively (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 was settled 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 quarterly installments.

On October 5, 2018, FTC obtained additional interest-bearing loans amounting to P70.4 million from the same bank to partially refinance the acquisition of MTug Fortis VI, MTug Fortis VII, and MTug Fortis VIII and for working capital requirements. The loan bears fixed interest rate of 5.56% and the principal is payable in 28 quarterly installments.

Certain trade receivables amounting to P43.4 million and P27.5 million as of December 31, 2018 and 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 P270.0 million and P247.0 million as of December 31, 2018 and 2017, respectively, were used as collateral to secure the payment of these loans (see Note 9). The loans do not include any covenant.

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

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. Further, 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. These loans do not include any covenant.

## (g) TLA with CBC - Trans-Asia

Trans-Asia 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. The loans do not include any covenant and were fully settled as of December 31, 2017.

## (h) TLA with UCPB and PBComm - DGMSI

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

Certain vessels of DGMSI with net carrying amounts of P89.8 million and P103.3 million as of December 31, 2018 and 2017, respectively, were used as collateral to secure the payment of these loans (see Note 9). These loans have no existing covenants.

## (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.

The agreement requires CSC to maintain debt-to-equity ratio of not more than 3.50:1.00, current ratio of 1.00:1.00 and DSCR of at least 1.00. As of December 31, 2018 and 2017, CSC has complied with these covenants.

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

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

The loan is secured by Trans-Asia shares with a carrying value of P525.0 million, a corporate guarantee by Udenna and individual surety of the Company's Chairman of the BOD [see Note 20.8(a)]. The loan requires Trans-Asia to maintain a debt-to-equity ratio of not more than 3.50:1.00 and debt service coverage ratio of at least 1.5. As of December 31, 2018 and 2017, Trans-Asia is in compliance with these covenants.

### (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, MV Navigator 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.

Certain vessels of Starlite with net carrying amounts of P1,203.7 million and P1,283.4 million as of December 31, 2018 and 2017, respectively, were used as collateral to secure the payment of these loans (see Note 9).

### (I) TLA with DBP - Starlite

In 2016 and 2015, Starlite entered into 15-year term loan agreements 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.

Certain vessels of Starlite with net carrying amounts of P753.6 million and P735.9 million as of December 31, 2018 and 2017, respectively, were 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 December 31, 2018 and 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.

Certain trade receivables amounting to P38.3 million as of December 31, 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 P565.7 million of December 31, 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 December 31, 2018, 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.

Certain vessels of Trans-Asia with net carrying amounts of P840.5 million as of December 31, 2018 were used as collateral to secure the payment of these loans (see Note 9).

The agreement requires Trans-Asia to maintain debt-to-equity ratio of not more than 3.50:1.00, current ratio of 1.00:1.00 and DSCR of at least 1.00. As of December 31, 2018, Trans-Asia has complied with these covenants.

#### (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 one second-hand oil/chemical tanker and one second-hand floating dock. 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. This loan does not have an existing covenant.

Related debt issuance costs amounted to P11.3 million, or which P0.1 million was amortized in 2018 using the effective interest rate of 6.50%. Amortized debt issuance costs were recognized as part of Interest expense on Interest-bearing loans under the Finance Costs account of the consolidated statement of profit or loss (see Note 18.1).

A certain vessel of CSC with net carrying amount of P1,620.1 million as of December 31, 2018 was used as collateral to secure the payment of these loans (see Note 9).

## (p) TLA with PBB - SPFI

In 2017, SPFI entered into a loan agreement with PBB amounting to P368.1 million to finance the acquisition of MV Stella Del Mar. The loan is subject to annual interest rate of 7.50% and is payable quarterly in arrears up to 10 years from the initial drawdown. Principal repayments shall commence after the grace period of six quarters.

The vessel of SPFI with net carrying amounts of P449.7 million as of December 31, 2018 was used as a collateral to secure the payment of this loan (see Note 9).

### (q) TLA with PBB - SGFI

In 2018, SGFI entered into a loan agreement with PBB amounting to P460.0 million to finance the acquisition of MV Salve Regina. The loan is subject to annual interest rate of 6.50% and is payable quarterly in arrears up to 10 years from the initial drawdown, inclusive of one-year grace period from the date of signing.

The vessel of SGFI with net carrying amounts of P814.6 million as of December 31, 2018 was used as a collateral to secure the payment of this loan (see Note 9).

Interest incurred on these loans totaling P524.9 million, P364.0 million and P90.4 million in 2018, 2017 and 2016, respectively, is included as part of Finance costs under the Other Income (Charges) – net section of the consolidated statements of profit or loss (see Note 18.1) while the related unpaid interest as of December 31, 2018 and 2017 amounting to P44.3 million and P1.3 million, respectively, is presented as part of Accrued expenses under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

Capitalized borrowing costs amounted to P71.7 million recognized using a capitalization rate of 7.74% in 2018 (see Note 9). No borrowing costs were capitalized in 2017.

### 12.2 Bank Loans

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

			Interest	Outstanding Balance				
	Security	Terms	Rates	2018		3	2017	
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 5.375%	P	2,013,768,437	Р	923,290,258	
UCPB	MT Chelsea Intrepid						313,133,133	
	MT BMI Patricia	90 days	5.00% to 5.75%		920,200,000		890,502,192	
CBC	Unsecured	60 days	6.00%		480,000,000		(0)	
Pentacapital	Unsecured	360 days	6.00%		400,000,000		•	
DBP	MT Chelsea Cherylyn	180 days	4.00 to 4.25%		300,000,000		300,000,000	
Landbank of the Philippines		90 days	9.00%		300,000,000			
Union Bank of the Philippines	Unsecured	360 days	4.50%		200,000,000			
PVB	Unsecured	180 days	11.04%		167,341,997			
Robinsons Bank Corporation	MT Chelsea Denise	180 days	5.50%		79,400,000		57,300,000	
BDO Unibank Inc	Trans-Asia 1	180 days	6.50%		33,500,000			
Unicapital	Unsecured	90 days	5.50%		2		140,000,000	
PBCom	MT Ernesto Uno	180 to 270 days	4.75%				130,765,000	
Chinabank Savings	Unsecured	48 days	0.71%		· ·		1,086,678	
BPI	Unsecured	48 days	9.47% to 10.28%				2,436,125	
Security Bank Corporation (SBC)	Chattel Mortgage	5 years	6.50%		*** ***	20	10,434,324	
				P	4,894,210,434	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 P1,759.6 million and P1,637.4 million as of December 31, 2018 and 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 statements of profit or loss (see Note 18.1). The related unpaid interest as of December 31, 2018 and 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

			Interest		Outstanding Balance				
	Security	Terms	Rates	2018		_	2017		
BDO	Real Estate Mortgage	10 years	6.50%	P	109,997,080	Р	120,000,000		
Chinabank Savings	Chattel Mortgage on						500000000000000000000000000000000000000		
	Transportation Equipment	3 years	11.00% to 17.00%		38,503,117				
AUB	Chattel Mortgage on								
BDO	Transportation Equipment Chattel Mortgage on	3 to 5 years	7.00% to 8.50%		19,991,031		27,411,954		
	Transportation Equipment	3 years	7.32%		3,045,821		3,129,183		
PNB	Chattel Mortgage on						53 2		
	Transportation Equipment	1 year	7.30%		2,648,275		2,358,952		
RCBC	Chattel Mortgage on								
	Transportation Equipment	3 years	7.00%		2,410,776		3,996,246		
CBC	Chattel Mortgage on								
ВРІ	Transportation Equipment Chattel Mortgage on	3 years	7.00%		1,986,724		3,839,567		
	Transportation Equipment	3 years	10.28%		1,390,922		<b>a</b>		
BDO	Chattel Mortgage on		1910/1910						
	Transportation Equipment	3 years	6.90% to 7.53%		304,056	8-8	1,243,743		
				P	180,277,802	<u>P</u>	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 6.50% 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) section of the consolidated statements of profit or loss (see Note 18.1).

These loans are secured by certain properties and transportation equipment with total carrying amount of P311.1 million and P269.6 million as of December 31, 2018 and 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 ranging from 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. The carrying value of certain machinery and equipment under finance lease amounted to P112.5 million as of December 31, 2018. Total interest expense incurred amounted to P3.3 million for the year ended December 31, 2018 and is shown as part of Finance Costs under Other Income (Charges) 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:

	<u>Notes</u>	2018	2017
Trade payables	20.2, 20.6	P 2,645,692,295	P 1,053,282,818
Accrued expenses	12	404,482,927	168,041,389
Government-related obligations		196,937,914	34,420,765
Deferred output VAT		124,808,576	69,258,421
Output VAT		28,895,294	19,601,544
Deposits payable		1,409,371	885,112
Provisions	23.5	458,450	801,086
Others		93,977,210	34,558,271
		P 3,496,662,037	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.

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.

#### 14. DEPOSITS FOR FUTURE STOCK SUBSCRIPTION

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

	Note	2018			2017				
Balance at beginning of year		P	180,000,000	Р	50,000,000				
Reclassification to									
non-controlling interest		(	180,000,000)		#				
Addition during the year					180,000,000				
Reversal to advances	20.4	4	¥	(	50,000,000)				
Balance at end of year		<u>P</u>		<u>P</u>	180,000,000				

The balance as at December 31, 2017 represents preferred shares subscription of certain individuals in Trans-Asia. These shares are non-voting, redeemable at the option of Trans-Asia, and are presented as non-current liability in the 2017 consolidated statement of financial position as the requirements of the SEC for classifying such as equity has not been complied with as of December 31, 2017 (see Note 2.11). This was subsequently reclassified to Non-controlling interest following the SEC's approval for the increase in Trans-Asia's authorized capital stock and creation of preferred shares in May 2018.

# 15. COST OF SALES AND SERVICES

The details of this account for each of the three periods ended December 31 are shown below.

	Notes	2018 (One year)			2017 (One year)	2016 (Four months)		
Bunkering	20.2	P	1,243,088,820	Р	866,546,176	Р	111,014,486	
Depreciation and amortization	9		835,719,005		796,422,076		450,405,966	
Salaries and employee benefits	17.1		589,964,580		363,097,068		245,574,960	
Charter hire fees			240,372,627		98,368,503		225,917,157	
Port expenses			148,475,361		150,630,581		74,970,543	
Insurance			145,620,167		129,593,972		43,711,854	
Repairs and maintenance			120,867,972		134,730,583		41,885,766	
Delivery			97,693,109		68,572,958			
Supplies			97,260,280		44,880,251		20,647,275	
Rentals	23.3		41,043,389		12,070,650		:::::::::::::::::::::::::::::::::::::	
Outside services			40,914,395		58,332,810		2,516,058	
Commissions			40,772,086		30,922,895		The special control of the state of the stat	
Taxes and licenses			30,009,605		19,945,187		7,510,533	
Transportation and travel			19,191,855		13,977,232		20,687,554	
Utilities and communication			22,801,863		9,075,640		4,293,925	
Cost of inventories sold			11,217,099		37,614,552		*	
Professional fees			1,829,283		1,678,765		6,134,546	
Representation and entertainment			242,596		445,624			
Miscellaneous		8-	27,657,433	-	25,241,841		5,932,488	
		<u>P</u>	3,754,741,525	P	2,862,147,364	Р	1,261,203,111	

## 16. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature for the periods ended December 31, 2018, 2017 and 2016 are presented below.

	Notes	<del>-</del>	2018 (One year)		2017 (One year)	2016 (Four months)		
Bunkering	20.2	P	1,243,088,820	Р	867,597,634	Р	111,014,486	
Salaries and employee benefits	17.1		915,416,994		556,278,918		289,168,164	
Depreciation and amortization	9		868,058,074		818,757,177		457,719,091	
Charter hire fees			240,372,627		98,368,503		225,917,157	
Outside services			160,752,710		87,737,674		6,251,615	
Insurance			149,914,746		131,132,352		44,367,683	
Port expenses			148,475,361		150,630,581		74,970,543	
Taxes and licenses			135,759,607		83,877,950		53,911,811	
Repairs and maintenance			135,305,059		143,485,999		43,492,411	
Supplies			118,923,474		58,233,572		22,975,037	
Delivery			97,693,109		68,572,958		9555 - 3550 - 10 33	
Rentals	20.3, 23.3		78,560,530		42,592,958		13,763,342	
Commissions			53,176,152		37,080,468			
Transportation and travel			50,245,939		35,995,891		25,059,162	
Utilities and communication			39,975,613		29,305,379		7,846,000	
Professional fees			33,573,889		53,393,537		14,460,709	
Representation and entertainment			22,085,995		15,438,646		11,321,465	
Cost of inventories sold			11,217,099		37,614,552		554 (35) 5	
Advertising and promotions			6,205,400		8,151,043			
Technology			4,064,218		4,778,362			
Miscellaneous	20.8(b)		142,386,312		62,796,121	_	14,417,097	
		<u>P</u>	4,655,251,728	P	3,391,820,275	P	1,416,655,773	

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

	Note		2018 (One year)	O <del>t</del>	2017 (One year)		2016 (Four months)
Cost of sales and services Other operating expenses	15	P —	3,754,741,525 900,510,203	P 	2,862,147,364 529,672,911	P —	1,261,203,111 155,452,662
		P	4,655,251,728	P	3,391,820,275	P	1,416,655,773

### 17. SALARIES AND EMPLOYEE BENEFITS

## 17.1 Salaries and Employee Benefits

The details of salaries and employee benefits for the periods ended December 31, 2018, 2017 and 2016 are presented below.

	Notes	Notes (One		-	2017 (One year)			
Short-term employee benefits		P	781,712,606	Р	456,034,336	P	267,623,922	
Other employee benefits			86,363,247		46,867,344		15,112,102	
Bonus and incentives			22,562,320		37,365,878		4,687,313	
Post-employment benefits	17.2(b)		24,778,821	25	16,011,360	8	1,744,827	
	16	P	915,416,994	P	556,278,918	P	289,168,164	

Other benefits include profit sharing, compensated absences, and other allowances. These expenses are classified in the consolidated statements of profit or loss as follows:

	Notes	7-	2018 (One year)	-	2017 (One year)	_(	2016 Four months)
Cost of sales and services	15	P	589,964,580	Р	363,097,068	P	245,574,960
Other operating expense		81-1	325,452,414	6	193,181,850	4	43,593,204
	16	<u>P</u>	915,416,994	Р	556,278,918	P	289,168,164

## 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 10 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 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 independent professional actuaries covering the year ended December 31, 2018 and 2017.

# (i) Post-employment Benefit Asset

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

	<del>25  </del>	2018	2017		
Fair value of plan assets	P	48,867,276	Р	41,456,400	
Present value of the obligation	(	36,566,566)	(	32,885,129)	
		12,300,710		8,571,271	
Effect of the asset ceiling		33-	(	<u>381,217</u> )	
	<u>P</u>	12,300,710	<u>P</u>	8,190,054	

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

	2018			2017		
Balance at beginning of year	Р	32,885,129	Р	34,820,143		
Reclassifications		8,472,010		=		
Current service cost		6,956,458		6,856,642		
Interest cost		2,357,357		1,848,950		
Actuarial loss (gains) due to changes in	ո։			STRANDLIS MADES - TA		
Financial assumptions	(	8,660,432)	(	357,387)		
Experience assumptions	(	3,524,533)	(	9,649,665)		
Demographic assumptions	(	702,855)				
Benefits paid	(	1,216,568)	(	633,554)		
Balance at end of year	P	36,566,566	<u>P</u>	32,885,129		

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

	-	2018		2017
Balance at beginning of year		41,456,400	Р	39,693,662
Reclassifications		4,179,665		1,502,033
Contributions		3,834,532		
Interest income		2,515,640		2,090,913
Return on plan assets (excluding				
amounts included in net interest)	(	1,902,393)	(	1,196,654)
Benefits paid	(	1,216,568)	(	633,554)
Balance at end of year	<u>P</u>	48,867,276	<u>P</u>	41,456,400

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

		2018	2017		
Cash and cash equivalents	P	5,319,102	Р	22,866,053	
Debt securities:					
Philippine government bonds		24,185,040		11,373,808	
Corporate bonds		10,237,375		6,140,132	
Unit investment trust funds (UITF)		6,063,965		743,292	
Equity securities		2,354,103		332,850	
Others	-	707,691	12	265	
	<u>P</u>	48,867,276	<u>P</u>	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:

	-	2018	2017		
Present value of the obligation Fair value of plan assets	P 	35,162,375	P (	42,261,263 5,672,383)	
	<u>P</u>	35,162,375	P	36,588,880	

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

	112	2018	/	2017
Balance at beginning of year	P	42,261,263	Р	11,078,452
Actuarial loss (gains) due to changes in:				
Demographic assumptions	(	10,373,729)		=
Experience assumptions	(	3,212,270)		16,121,152
Financial assumptions	(	2,787,177)	(	5,911,894)
Current service cost		17,822,363		9,154,718
Reclassifications	(	9,922,505)		52
Interest cost		1,374,430		1,234,567
Balance from acquired subsidiaries		**************************************		15,709,900
Benefits paid	1		(	5,125,632)
Balance at end of year	<u>P</u>	35,162,375	<u>P</u>	42,261,263

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

	-	2018	2017		
Balance at beginning of year	P	5,672,383	Р	7,031,908	
Reclassifications	(	5,672,383)	(	1,502,033)	
Interest income		20 20 1020 -	0553	296,954	
Return on plan assets (excluding amounts included in net interest)	_	-	(	154,446)	
Balance at end of year	<u>P</u>		<u>P</u>	5,672,383	

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

Cash	P 9,9:	23
Equity securities	1,689,3	78
Debt securities	1,956,79	95
UITFs	2,011,2	78
Others	5,00	09
	P 5,672,3	83

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

The plan assets earned a return of P0.6 million and P1.0 million in 2018 and 2017, respectively.

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

	Notes		2018		2017		2016
Recognized in profit or loss:		***					
Current service cost	17.2(a)	P	24,778,821	P	16,011,360	Р	1,744,827
Net interest expense	18.1	3	1,216,147	579	695,650		309,297
	16	P	25,994,968	<u>P</u>	16,707,010	Р	2,054,124
Recognized in other comprehensive los	ss:						
Return on plan assets (excluding a	imounts						
included in net interest expens	se)	P	1,902,393	P	1,351,100	P	47,994
Net actuarial gains		(	29,260,996)	(	33,236)		
		( <u>P</u>	27,358,603)	Р	1,317,864	Р	47,994

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

	Notes	<del>)</del>	2018 (One year)	_	2017 (One year)	_(	2016 Four months)
Cost of sales and services	15	P	589,964,580	P	363,097,068	P	245,574,960
Other operating expenses			325,452,414		193,181,850	50-	43,593,204
	16	P	915,416,994	Р	556,278,918	Р	289,168,164

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 consolidated statements of profit or loss (see Note 18.1).

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

In determining the retirement benefit obligation as at December 31, 2018 and 2017, the following actuarial assumptions were used:

	2018	2017		
Discount rates	5.70%	5.70%		
Expected rate of salary increase	7.40%	5.00 - 8.00%		

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

## (c) Risks Associated with the Retirement Plan

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

## (i) Investment and Interest Risks

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

## (ii) Longevity and Salary Risks

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

## (d) Other Information

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

### (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, 2018 and 2017.

	Impact on Post-employment Benefit Obligation										
	Change in Assumption		Increase in Assumption	Decrease in Assumption							
December 31, 2018											
Discount rate	+/- 1.0%	( P	5,607,191)	P	6,275,243						
Salary growth rate	+/- 1.0%	92	6,477,769	(	5,569,717)						
December 31, 2017											
Discount rate	+/- 1.0%	( P	7,316,857)	Р	8,852,349						
Salary growth rate	+/- 1.0%	88	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 December 31, 2018 and 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 December 31, 2018, the plan is underfunded by P22.9 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, 2018 follows:

	-	2018	_	2017
One to five years	P	42,489,272	Р	35,719,426
More than five years but not more than ten years	-	74,866,629	* <del></del>	40,137,840
	<u>P</u>	117,355,901	<u>P</u>	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, 2018 and 2017.

## 18. OTHER INCOME (CHARGES) - Net

### 18.1 Finance Costs

The details of this account for the periods ended December 31, 2018, 2017 and 2016 are shown below.

	Notes		2018 (One year)		2017 (One year)	2016 (Four months)		
Interest expense on:								
Interest-bearing loans	12	P	761,501,452	P	507,291,749	P	162,081,934	
Deficiency taxes			14,216,262		in the second se		1,196,935	
Post-employment benefits	17.2(b)		1,216,147		695,650		309,297	
			776,933,861		507,987,399		163,588,166	
Foreign currency exchange								
losses – net			56,198,815				85,419,316	
Bank charges			2,255,468		5,956,372		2,271,549	
Impairment loss			2		3,035,462		2	
Others		-			*		9,575,739	
		Р	835,388,144	Р	516,979,233	Р	260,854,770	

## 18.2 Finance Income

The breakdown of this account for the periods ended December 31, 2018, 2017 and 2016 are shown below.

		2018 One year)		2017 (One year)	2016 (Four months)		
Interest income	P	3,626,087	Р	4,875,196	P	393,954	
Gain on sale and leaseback		2,927,596		<b>⊞</b>		5 <del>*</del> 5	
Foreign currency exchange gains	<del>5</del>		-	5,526,564		336,847	
	P	6,553,683	Р	10,401,760	Р	730,801	

## 18.3 Other Income

Presented below are the details of other income for the periods ended December 31, 2018, 2017 and 2016.

	Notes	2018 es (One year)			2017 (One year)	2016 (Four months)		
Handling and trucking		P	71,878,889	P	34,729,429	Р		
Rental income	20.3, 23.2		16,524,911		7,422,943		9,273,407	
Rebates			11,000,086		14,828,417		- 15 17	
Gain on sale of asset			1,326,971		Y 🗳		1	
Insurance claims					62,784,384		12	
Miscellaneous		_	37,871,559		24,156,358	is.	6,217,147	
		P	138,602,416	<u>P</u>	143,921,531	<u>P</u>	15,490,554	

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 (income) as reported in the consolidated statements of profit and loss and other comprehensive income are shown below.

	<u>176</u>	2018 (One year)	_	2017 (One year)	2016 (Four months)		
Recognized in profit or loss:							
Regular corporate income tax	P	142,356,824	P	154,047,913	P	17,240,934	
Minimum corporate income tax (MCIT)		136,292		806,885		3,904,564	
Final tax at 20% and 7.5%		362,177		763,600		77,532	
Deferred tax income relating to origination and reversal of		142,855,293		155,618,398		21,223,030	
temporary differences	(	214,451,915 ) (		269,484,924)	(	17,578,510	
	( <u>P</u>	71,596,622 ) (	<u>P</u>	113,866,526)	P	3,644,520	
Recognized in other comprehensive income —							
Deferred tax expense (income)							
relating to origination and reversal							
of temporary differences	( <u>P</u>	58,556,375 ) (	<u>P</u>	3,139,645)	Р	23,690,669	

The reconciliation of tax on pretax profit (loss) computed at the applicable statutory rate to tax expense (income) reported in the consolidated statements of profit or loss is as follows:

	-	2018 (One year)	(c	2017 One year)	(F	2016 Four months)
Tax on pretax profit (loss) at 30%	( P	186,638,873)	Р	14,205,959	Р	40,597,298
Adjustments for income subjected						
to lower tax rates	(	121,908) (		549,211)	(	39,792)
Tax effects of:		S) US 33		250 30	61	
Nondeductible expenses		173,996,511		30,684,374		9,701,934
Net profit on BOI-registered activities	(	57,360,493) (		36,538,741)	(	5,844,379)
Benefit from previously unrecognized		27 (6)		\$ %	8	150 MM M
deferred tax assets (DTA)	(	3,518,372)			(	2,812,324)
Derecognition of unutilized DTA		3,357,615		9,918,118	•	4,595,154
Gain on bargain purchase	(	1,311,102)		2	(	47,468,447)
Pre-acquisition income		12		31,612,733		**
Deductible expenses charged to APIC		- (		169,579,640)		12
Unrecognized DTA on Net Operating						
Loss Carry Over (NOLCO)		*		3,782,582		3,191,646
Excess of optional standard deduction				2,597,300		***************************************
MCIT	89		-			1,723,430
	( <u>P</u>	71,596,622) (	P	113,866,526)	Р	3,644,520

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

	N-1	2018	7 <u>-</u>	2017
NOLCO	Р	393,628,519	Р	205,236,419
Revaluation reserves on property				
and equipment	(	123,064,147)	(	559,367)
Capitalized borrowing costs	(	7,069,055)		17
MCIT		5,883,572		482,989
Post-employment benefit obligation		5,451,771		7,826,009
Unrealized foreign currency exchange				
gains – net		4,948,745		50K
Impairment losses on trade and				
other receivables		2,507,974		1,829,076
Impairment losses on property				
and equipment		611,054		611,054
Accrued expenses		72,000		90,000
Others	12 m	375,132	10	
	Р	283,345,565	Р	215,516,180

The net deferred tax liabilities of certain subsidiaries as of December 31 are as follows:

	_	2018	87-	2017
Revaluation reserves on property				
and equipment	(P	100,009,056)	(P	250,001,452)
NOLCO		14,197,287	ST.	73,383,371
Revaluation surplus on disposed vessel Impairment losses on long-term	(	3,036,983)	(	3,036,983)
financial assets		2,721,268		2,721,268
Accrued expenses		2,057,831		2,057,831
Post-employment benefit obligation		1,857,339		1,975,112
MCIT		224,834		8,040,124
Provisions		137,535		2,659,620
Impairment losses on trade and				
other receivables		51,291		730,189
Unrealized foreign currency exchange			201	
gains – net		4,490	(	403,390)
Capitalized borrowing costs		<b>3</b> 7	(	7,165,158)
Others	(	<u>677,264</u> )	(	1,498,116)
	(P	82,471,428)	(P	170,537,584)

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

	-		)18 year	).	_	20 (One	ir)	2016 (Four months)				
	-	Profit or Loss	Com	Other prehensive income		Profit or Loss	Co	Other emprehensive income	8 5	Profit or Loss	c	Other comprehensive income
Deferred tax expense (income):												
NOLCO	P	129,206,015	P	W#8	P	262,600,813	P	12	( F	3,630,009)	P	H H
Revaluation reserves of vessels		77,836,409	1	50,348,793)		8,528,446	1	3,549,887	11	14,488,398)		23,705,067
Post-employment benefit obligation		5,715,571	(	8,207,582)		4,940,882		395,360		646,915	1	14,398)
Unrealized foreign currency loss - net		5,356,625		0.58	(	6,636,437)			(	1,410,986)		e <del>x</del> W 8
MCIT	4	2,414,707)				189,554		100	(	2,341,804)	ř.	
Impairment loss on receivables Impairment loss on property and		Ki		E163		910,639		1964	500	4,595,155	58	Ž.
Capitalized borrowing costs												
Others	3	1,247,998)	3		١_	995,641)	-	14,882	1_	949,383)	ġ,	
	P	214,451,915	( P	58,556,375)	P	269,538,256	( F	3,139,645	1 ( F	17,578,510)	ı	P 23,690,669

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

Year	-0 0-	Original Amount		Applied In vious Perlods	Applied In Current Period		Expired Balance		-	Remaining Balance	Valid Until
NOLCO:											
2018	Р	452,967,583	P	•8	Р	æ	P	<b>1</b> €1	P	452,967,583	2021
2017		906,451,769		*8		<b>⊛</b>		5.6%		906,451,769	2020
2016		10,638,820		€6		10,638,820		1 <b>3</b> 1			2019
2015	-	11,642,046	-		-		_	11,642,046	_	¥	2018
	<u>P</u>	1,381,700,218	P		<u>P</u>	10,638,820	<u>P</u>	11,642,046	P	1,359,419,352	
MCIT:											
2018	P	942,908	P	3	P	*	P	9573	P	942,908	2021
2017		772,955						3.53		772,955	2020
2016		4,392,543		51				9. <b>0</b> 00		4,392,543	2019
2015	-	3,357,615		•	1270-00			3,357,615	-		2018
	P	9,466,021	Р		P		Р	3,357,615	р	6,108,406	

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.

In 2018, the Group opted to claim itemized deductions in computing for its income tax due. 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.

#### 20. RELATED PARTY TRANSACTIONS

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

A summary of the Group's transactions with its related parties for the years ended December 31, 2018, 2017 and for the period August 26 to December 31, 2016 and the related outstanding balances as of December 31, 2018 and 2017 is presented below.

		0200	А	mou	unts of Transactio	0	Outstanding Balances				
Related Party Category	Notes	,	2018 (One year)		2017 (One year)		2016 (Four months)		2018	2017	
Parent —											
Cash advances granted	20.4	P	518,714,995	P	2,428,234,009	P	10,000,000	P	2,946,949,004 P	2,428,234,009	
Associate —											
Chartering of services rendered	20.1		376,645,369		69,405,000		•		38,277,400	77,733,600	
Related parties under common ownership:											
Chartering of services rendered	20.1		680,403,799		531,535,742		954,615,182		185,639,320	271,054,727	
Fuel purchases	20.2		1,504,293,849		363,571,237		132,524,625	(	67,824,287) (	77,121,463)	
Acquisition of CSC's shares	20.6		SE		3 <del>1</del> 3		2,000,000,000	i	500,000,000) (	500,000,000)	
Rental income	20.3		5,072,938		5,044,967		9,273,407	18	571,219	1,131,385	
Rental expense	20.3		2,825,746		2,295,681		2,356,626	C	408,341) (	378,191)	
Donation	20.8(b)		360,000		360,000		360,000	i	210,000) (	90,000)	
Cash advances granted	20.4		120,405,421	(	194,446,078)		8	355	180,606,205	60,200,784	
Cash advances obtained	20.4	(	1,004,673,484)		955,012,897	(	290,681,863)	l	36,098,668) (	1,040,772,152)	

In 2018, the Group's outstanding receivables with related parties were subjected to impairment testing using PFRS 9's ECL model (see Note 26.2).

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 P-H-O-E-N-I-X Petroleum Philippines, Inc. (PPPI), a related party under common ownership, and 2GO, an associate, which are made on the same terms as those transactions with third parties. The amounts of revenue recognized are presented as part of Charter fees and Standby charges under the Revenues section of the consolidated statements of profit or loss. The related outstanding receivable as of December 31, 2018 and 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 as the credit terms range from 30 to 45 days. Further, no impairment loss was recognized on the outstanding receivables from related parties as of December 31, 2018 and 2017 based on management's assessment.

#### 20.2 Fuel Purchases

The Group purchases fuel and lubes from PPPI, a related party under common control. Fuel consumed is included as part of Bunkering under the Cost of Sales and Services account in the consolidated statements of profit and loss (see Note 15) while the remaining fuel and lubricants inventory amounting to P216.7 million and P49.0 million as of December 31, 2018 and 2017, respectively, are included as part of the Inventories account in the consolidated statements of financial position (see Note 7). The outstanding liability, which are unsecured, and do not bear any interest as the credit terms range from 30 to 90 days, arising from these transactions as of December 31, 2018 and 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 statements of profit or loss (see Note 16). The outstanding security deposits 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 23.3).

Furthermore, the Group bills a related party 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) section of the consolidated statements of profit or loss (see Note 18.3). The related receivable as of December 31, 2018 and 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 and are normally due within 30 days. 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 to bridge financing of vessel acquisitions pending draw down of related loans. As of December 31, 2018 and 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 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:

	2018	2017
Balance at beginning of year	P 2,488,434,793	P 194,446,078
Net advances	639,120,416	2,293,988,715
Balance at end of year	P 3,127,555,209	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 (see Note 26.2).

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

	Note	2018	2017			
Balance at beginning of year		P 1,040,772,152	P 85,759,255			
Net advances (payments)		( 1,004,673,484)	905,012,897			
Reversal from deposits for future	A MARINA C	2. Valuational states de la State de la Participa de la Valuation de la Valuat				
stock subscription	14	*	50,000,000			
Balance at end of year		P 36,098,668	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 P48.9 million and P47.1 million as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the Group's retirement fund do not include any investments in any debt or equity securities issued by the Group or any of its related parties.

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 December 31, 2018 and 2017, the outstanding liability to PPPI arising from this transaction amounting to P500.0 million is payable upon demand and 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 benefits and are included as part of Salaries and employee benefits under the Other Operating Expenses account in the consolidated statements of profit or loss (see Note 16).

#### 20.8 Others

- (a) Certain interest-bearing loans of the Group were secured by a corporate guarantee of Udenna and by certain stockholders through a continuing surety agreement with the respective banks (see Note 12).
- (b) The Group granted donations amounting to P0.4 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:

	Sha	ares	Amount				
	2018	2017	2018	2017			
Authorized - P1 par value	2,000,000,000	_2,000,000,000	P2,000,000,000	P 2,000,000,000			
Issued and outstanding							
Balance at beginning of period	1,821,977,615	500,000,000	P1,821,977,615	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	P1,821,977,615	P1,821,977,615			

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 December 31, 2018, the Company's listed shares closed at P6.46 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 in the succeeding page.

	25	Property and Equipment (see Note 9)	9 <u>14</u>	AFS	Financial Asset		Benefit Obligation (see Note 17.2)	A	nvestment in ssociate 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		167,829,312			ta .		53		558		3.63		167,829,312
Remeasurements of post-employment benefit obligation							27,358,603						122723272327
Fair value gain					23		27,358,603						27,358,603
Currency exchange differences on translating													-
financial statements of foreign operations											1,466,209		1,466,209
Depreciation transferred to retained											32.50		
earnings - revalued tankers	١	100,207,283 )	12			-		_		1300		(	100,207,283)
Other comprehensive income before tax		67,622,029			<b>2</b> 2		27,358,603		0.00		1,466,209		96,446,841
Tax income	1_	20,286,609)	-			( <u>_</u>	8,207,581)	1		20	11.00	1_	28,494,190)
Other comprehensive income after tax	100	47,335,420	-		•	120	19,151,022		•	2	1,466,209	2	67,952,651
Balance at December 31, 2018	P	1,334,617,413	P	8		<u>P</u>	53,959,943	<u>P</u>	108,049,607	P	1,242,692	<u>P</u>	1,497,869,655
Balance as of January 1, 2017	P	1,335,232,117	P		34,725	P	35,731,425	P	10.40	р	199	P	1,370,998,267
Remeasurements of post-employment													
benefit obligation		8			<b>.</b>	(	1,317,864)		- <del></del> -		MAR.	1	1,317,864)
Disposal of AFS financial assets			(		49,607	<u> </u>						1	49,607)
Gain on revaluation of tankers		67,317,920			**		200		108,049,607		5545		175,367,527
Pre-acquisition other comprehensive income	4	55,484,964)			***		•				23 <b>4</b> 37	(	55,484,964)
Currency exchange differences on translating financial statements of foreign operations										121	1010101010101	2	980000000
Depreciation transferred to retained		*			56		88		7.5	t	223,517)	C.	223,517)
earnings - revalued tankers	10	65,518,941 )			22		Si		723		020	ř	65,518,941 )
Other comprehensive income before tax	i -	53,685,985 )	-		49,607	, -	1,317,864)	-	108,049,607	, -	223,517)	-	52,772,634
Tax income (expense)	85	5,735,861			14,882		395,360			18) 	192		6,146,103
Other comprehensive income after tax	( _	47,950,124)	(_		34,725	ι =	922,504)		108,049,607	(_	223,517)	8	58,918,737
Balance at December 31, 2017	P	1,287,281,993	P	6	88	P	34,808,921	P	108,049,607	1 0	223,517 )	P	1,429,917,004
505 9 M.C. 3 M.C. 3 M.C. 3 M.C. 3 M. 150 S. M.	_	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	- 2			-	21,000,322	-	,0-13,007		643,347 }		4,743,317,004

## 21.3 Other Reserves

Other reserves amounting to P1.0 billion pertain to the excess of the net identifiable assets of CSC amounting to totaling P3.0 billion over the Company's acquisition price of P2.0 billion. The business combination entered was 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:

	\$7 <del>-11</del>	2018 (One year)	<u> </u>	2017 (One year)	(	2016 Four months)
Net profit (loss) Divided by weighted average shares outstanding	( P	550,532,956) 1,821,977,615	P —	161,219,723 1,309,830,939	P	131,679,808 500,000,000
Earnings per share – basic and diluted	( <u>P</u>	0.302)	Р	0.123	<u>P</u>	0.263

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 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, which ranges from two to five years, 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%.

	H <del>.</del>	2018		2017
Within one year	P	635,685	Р	919,465
More than one year but not				-278
more than five years	-			635,685
	<u>P</u>	635,685	<u>P</u>	1,555,150

Rent income amounted to P16.5 million, P7.4 million and P9.3 million in 2018, 2017 and 2016, respectively, and is presented as part of Other income account under Other Income (Charges) – net section of the consolidated statements 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 the usage of vessels, container yards, certain office and warehouse spaces. The leases have terms ranging from five to ten years, with renewal options, and includes annual escalation rate of 3.0% to 10.0%. The future minimum lease payables under this operating lease are as follows as of:

		2018	<del>10</del>	2017
Within one year	P	25,211,899	Р	29,593,121
More than one year but not		8 5		258 N 3583 238
more than five years		97,802,296		92,655,245
More than five years	-	34,929,111	_	48,176,068
	<u>P</u>	157,943,306	<u>P</u>	170,424,434

Total rentals from these operating leases amounted to P78.6 million, P42.6 million and P13.8 million in 2018, 2017 and 2016, respectively, and is included as Rentals under the Cost of Sales and Services and Other Operating Expenses account in the consolidated statements of profit or loss (see Notes 15 and 16).

The related security deposit on this operating lease amounted to P11.5 million and P5.1 million as of December 31, 2018 and 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 December 31, 2018 (nil as of December 31, 2017) follows:

	-	MLP	F	V of NMLP
Within one year	Р	29,808,914	Р	24,207,330
After one year but not more than five years	_	39,414,096		35,673,912
		69,223,010		59,881,242
Amounts representing finance charges	(	9,341,768)	BA-C-E-	
	<u>P</u>	59,881,242	<u>P</u>	59,881,242

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

In 2016, Trans-Asia was a defendant of a litigation related to the sinking of MV Asia South Korea. The Regional Trial Court had provided a decision to award the plaintiffs of the case a total of P8.9 million for four casualties and 11 survivors. The Group's legal counsel has advised that it is probable that Trans-Asia will be found liable; hence, a provision for the claim has been made in the consolidated financial statements. On August 9, 2017, Trans-asia and the plaintiffs signed a compromise agreement whereby Trans-Asia paid P8.8 million.

In October 2017, three other complainants of the similar litigation that was filed against the Company related to a dispute with passengers for the sinking of M/V Asia South Korea signed a compromise agreement with the Company to which Trans-asia paid P0.5 million. A provision for the claim with probable settlement amount of P0.8 million has been made in the consolidated financial statements. On June 1, 2018, Trans-asia and the two plaintiffs signed a compromise agreement whereby Trans-asia paid P0.2 million. The outstanding liability is presented as part of Provisions under the Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

### 23.6 Unused Lines of Credit

As of December 31, 2018 and 2017, the Group has unused lines of credit amounting to P409.6 million and P236.0 million, respectively.

### 23.7 Mergers and Acquisitions

On June 28, 2018, the Company received the Philippine Competition Commission's (PCC) Decision which declared void the Company's acquisition of Trans-Asia in 2016 for failure to comply with the notification requirements of the PCC. A penalty of P22.8 Million was imposed by PCC against the Company and Udenna. On the same date, in its Decision regarding the Company's acquisition of additional direct shareholdings in KGLI-NM and consequent consolidation of ownership over 2GO, the PCC upheld said acquisition on account that the Trans-Asia acquisition had been declared void.

On July 13, 2018, the Company filed its Motion for Reconsideration of the June 28, 2018 Decision of the PCC on the Trans-Asia acquisition, and on July 18, 2018, it filed its Motion for Partial Reconsideration of the PCC Decision on the KGLI-NM acquisition wherein it 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, the Company's Chairman, Dennis A. Uy, confirmed that the Company intends to proceed with the acquisition of Trans-Asia and that it agrees to be bound by the PCC's conditions and remedies to address the competition concerns arising from the Trans- Asia acquisition.

On September 21, 2018, the Company and Trans-Asia filed their separate Notification Forms on the Trans-Asia acquisition. Subsequently, in its October 4, 2018 Resolution, the PCC ruled that the Company's Motion for Reconsideration of the June 28, 2018 Decision is denied for being moot. In the same Resolution, the PCC reduced the penalty earlier imposed on Udenna and the Company to 1% of the Trans-Asia transaction or P 11.4 million.

On October 9, 2018, the Notice of Sufficiency from the PCC regarding the Notification Forms for the Trans-Asia acquisition was received and the Company paid the imposed penalty on October 10, 2018.

On October 19, 2018, the Company filed its Voluntary Commitments for the Trans-Asia acquisition and on January 11, 2019, the PCC resolved that it will not take further action on the said acquisition on the basis of the conditions provided in the Voluntary Commitments submitted by the Company. The Voluntary Commitments submitted by the Company include among others, price monitoring of passenger and cargo rates, submission of semi-annual reports on all trips of passenger and cargo services in the critical routes, explanation of all extraordinary rates increases in the critical routes, and maintenance of service quality of passenger and cargo routes based on customer satisfaction index developed by a third party monitor.

### 23.8 Shipbuilding Agreements

On April 25, 2018, the Group signed two shipbuilding contracts for the delivery of two 98-meter bed/seat Ro-Ro type passenger ferry ships presently identified as Builder's Nos. S-1190 and S-1191. These ferry ships will be built at Kegoya Dock's shipyard in Hiroshima Prefecture, Japan and will be delivered in October 2019 and April 2020, respectively. As part of these shipbuilding agreements, the Group has initially paid an amount equivalent to P180.6 million and is presented as part of Advances to suppliers under the Other Non-Current Assets account of the 2018 consolidated statement of financial position (see Note 11). Total capital commitments as of December 31, 2018 amounted to P1,886 million.

### 23.9 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 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 financial statements.

### 24. GOODWILL

In 2018, the Company acquired 100% ownership interest in SPFI and SGFI for a total consideration amounting to P90.6 million, and P14.2 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:

	93 <del>6</del>	SFPI		SGFI	400	Total
Cash and cash equivalents	P	12,731,674	P	2,603,783	Р	15,335,457
Trade and other receivables		25,930,140		910,938		26,841,078
Inventories		3,151,286		128,334		3,279,620
Property and equipment		451,942,901		542,325,953		994,268,854
Other non-current assets		986,754		122,850		1,109,604
Trade and other payables	(	82,476,819)	(	75,366,829)	(	157,843,648)
Interest-bearing loans	(	317,249,752)	(	460,078,204)	(	777,327,956)
Net Assets	<u>P</u>	95,016,184	P	10,646,825	P	105,663,009

The excess of acquisition costs over the net assets of SGFI amounting to P3.5 million is presented as part of Goodwill account in the 2018 consolidated statement of financial position. The goodwill recognized comprises the value of expected synergies from the acquisition of the subsidiaries.

In addition, the fair values of the identifiable assets and liabilities assumed from SPFI as at the date of acquisition were determined to be higher than the total cost; hence, the Group recognized a gain amounting to P4.4 million and is presented as Gain on bargain purchase under Other Income (Charges) section of the 2018 consolidated statement of profit or loss.

In 2017, the Company acquired 100% ownership interest in UIBV, WSI and Starlite for a total consideration 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	2	WSI	2	Starlite	·	Total
Cash and cash equivalents	P	25,508,842	P	65,588,642	P	88,983,637	Р	180,081,121
Trade and other receivables		765,659		63,365,673		844,057,036		908, 188, 368
Prepayments and other current assets		2 <b>=</b> 33		4,936,396		89,270,689		94,207,085
Property and equipment		( <del>-</del> 0)		13,864,952		2,301,692,380		2,315,557,332
Investment in associate		2,104,212,296		30				2,104,212,296
Other non-current assets		55 93 6542 # <b>#</b> 37		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		<b>=</b> //	(	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	<u>P</u>	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:

Revenues  Net Profit	2	UIBV	_	WSI		Starlite	Total			
Revenues	Р		Р	192,467,905	<u>P</u>	786,745,751	<u>P</u>	979,213,656		
Net Profit	P		_ P	45,611,439	P	59,764,337	P	105,375,776		

In prior years, the Company acquired 100% ownership interest in BMI and MI. 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.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. Management used different approaches in determining the recoverable amount of the recorded Goodwill.

Management's impairment analysis for Starlite and WSI were based on discounted cash flows based on each cash generating unit's 10-year financial projections using each entity's weighted average cost of capital as the discount rate. The weighted average cost of capital of SFI and WSI were computed based on the capital asset pricing model. Further, the impairment analysis generally assumes inflation rate of 6.00% and terminal growth rate of 3.74%, which was based on the forecasted Philippine long-term growth rate. Revenue projections were based on the capacities of existing and projected capital expenditures within the ten-year period. Management also assess the entities will continue as a going concern entity and will have sufficient financial resources to finance its working capital requirements to achieve its projected forecast and to support its business needs.

On the other hand, the Company engaged a third party consultant to perform an independent impairment testing of goodwill for UIBV. The third party consultant performed a relative valuation analysis based on comparable shipping and logistics companies that are publicly-listed within the Association of Southeast Asian Nations. The third party consultant's valuation report was dated October 31, 2018 and management has assessed that there is no significant change since the date of the report.

Based on these analyses, management has assessed that 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 in 2018, 2017 and 2016.

### 25.4 Analysis of Segment Information

The tables below present revenue and profit information regarding business segments for the periods ended December 31, 2018 and 2017 and 2016 and certain asset and liability information regarding segments as at December 31, 2018 and 2017.

		nvesting and ther Activities	_	Tankering		Tugboats	Rol	Roll-on/ I-off Passenger		Distribution and Warehousing	Sh	ip Management and Crewing	_	Elimination	_1	Consolidated
2018																
SEGMENT RESULTS																
Sales to external customers intersegment sales	P	270,600,136	P	1,757,891,739	•	333,938,349 27,561,495	P	2,718,512,313	•	286,904,889	•	74,784,753 343,386,758	, ( _	641,548,389 )	P	5,172,032,043
Total revenues		270,600,136		1,757,891,739		361,499,844		2,718,512,313		286,904,889		418,171,511	(	641,548,389 )		5,172,032,043
Cost of sales and services Other operating expenses		213,688,403		1,280,255,117 303,991,393		236,836,409 66,622,200		2,108,489,121 467,902,115		156,265,142 63,339,429		343,843,989 59,400,047	(	370,948,253 ) 274,433,385 )		3,754,741,525 900,510,203
Operating profit		56,911,733		173,645,228		30,479,740		142,121,077		67,500,318		14,927,475		3,833,249		516,780,315
Finance costs Share in net income of an associate	ţ	67,150,802 ) 453,048,188 )	(	472,419,797 )	t	5,063,296 ) (		287,529,810) (		1,708,695)	(	1,535,744)		:		835,388,144 ) 453,048,188 )
Finance income Gain on bargain purchase		4,370,340		551,970		120,186		4,787,732		822,973		10,495		9		6,553,683 4,370,340
Other Income	100	2,422,448	-	13,497,623	110	126,180		125,223,180	-	•		1,166,233	1_	3,833,249 )	_	138,602,416
Profit (loss) before tax	t	456,214,142 )	1	284,724,975]		25,662,810 (		15,397,821 ]		66,414,596		14,568,459		94		622,129,578 )
Tex expense (income)		8,087,094	(_	107,518,851 ]	_	16,698,734	_	14,857,071 )	2	20,138,887		5,854,585	_		_	71,596,622 ]
Net profit (loss)	1 •	464,901,236)	( <u>P</u>	177,206,124]	<u>P.</u>	8,964,076	P	540,750)	<u>•</u>	46,275,709	•	8,713,874			<u> </u>	550,532,956)
SEGMENT ASSETS AND LABILITIES																
Total assets	•	19,079,431,497	•	14,365,262,097	•	1,116,384,381	•	9,796,950,150	•	288,718,724	•	134,641,845	( <u>*</u>	12,494,153,390)	•	32,291,255,325
Total Rabilities	•	4,949,434,237	,	9,708,083,288	•	383,364,648	,	8,065,917,881	•	115,344,703	Ŀ	118,707,818	( !	4,179,950,458)	,	19,366,902,118

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
2017								
SEGMENT RESULTS								
Sales to external customers intersegment sales	P . 203,293,982	P 1,227,036,207	P 261,321,170 12,473,814	P 2,180,760,492	P 240,049,535	P . 204,735,092	P . (420,502,888 )	P 3,909,167,404
Total revenues	203,293,982	1,227,036,207	273,794,984	2,180,760,492	240,049,535	204,735,092	( 420,502,888 )	3,909,167,404
Cost of sales and services	54	1.053,472,689	147,451,363	1,569,346,286	125,538,141	183,547,791	( 217,208,906)	2,862,147,364
Other operating expenses	60,674,201	189,548,416	50,077,935	247,416,585	34,357,486		92,349,729)	529,672,911
Operating profit (loss)	142,619,781	( 15,984,898)	76,265,686	363,997,621	80,153,908			517,347,129
Other income (charges) - net	(54,433,571)	209,382,650)	(11,591,672)	(84,700,326)	(1,181,265	) ()	3,055,747)	364,618,156
Profit (loss) before pre-acquisition								
Income and tax	88,186,210	( 225,367,548)	64,674,014	279,297,295	78,972,643	( 19,033,641)	( 114,000,000)	152,728,973
Pre-acquisition income				59,764,337)	45,611,439	)		105,375,776)
Profit (loss) before tax	88,186,210	225,367,548)	64,674,014	219,532,958	33,361,204	( 19,033,641)	114,000,000)	47,353,197
Tax expense (income)	(196,012,113)	(43,543,308)	21,622,850	84,176,814	23,963,290	(4,074,059)		113,866,526)
Net profit (loss)	P 284,198,323	( P 181,824,240)	P 43,051,164	P 135,356,144	P 9,397,914	( P 14,959,582)	( P 114,000,000)	P 161,219,723
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
2015								
SEGMENT RESULTS								
Sales to external customers	ρ.	P 1,520,184,843	P 118,200,515	<b>P</b> 22	F <b>D</b> (0 18	ρ.	D 20	0 1 (20 20) 20
Intersegment sales		82,708,009	15,825,995			104,191,190	202,725,194)	P 1,638,385,358
Total revenues	886	1,602,892,852	134,026,510	*	34	104,191,190	( 202,725,194)	1,638,385,358
Cost of sales and services	<b>55</b>	1,234,433,037	71,571,705			84,548,888		1,261,203,111
Other operating expenses		169,148,430	16,369,358			22,604,713	(52,669,839)	155,452,662
Operating profit (loss)	115	199,311,385	46,085,447			( 2,962,411)	( 20,704,836)	221,729,585
Other income (charges) - net	158,228,158	220,444,185)	(13,133,944)			(	(10,795,164)	86,405,257
Profit (loss) before tax	158,228,158	( 21,132,800)	32,951,503		: <b>:</b>	( 3,222,533)	( 31,500,000)	135,324,328
Tax expense (income)		(5,960,942)	10,006,233	<u> </u>		(		3,644,520
Net profit (loss)	P 158,228,158	( P 15,171,858)	P 22,945,270	P .	<u> </u>	( P 2,821,762)	( <u>P 31,500,000</u> )	P 131,679,808

### 25.5 Disaggregation of Revenues from Contracts with Customers

When the entity prepares its investor presentations and when the Group's Executive Committee evaluates the financial performance of the operating segments, it disaggregates revenue similar to its segment reporting as presented in Note 25.4. The Group determines that the categories used in the investor presentations and financial reports used by the Group's Executive Committee can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Shipping services segment mainly pertains to revenues from charter fees and standby charges, while tugboats services segment refers to revenues from tugboat fees. Roll-on/roll of passenger shipping services segment includes revenues from passage and freight, while distribution and warehousing, and ship management and crewing services segments pertain to revenues from rendering of services. All revenues presented in the segment information are recognized over time, except for those arising from standby services amounting to P24.0 million, and sale of goods amounting to P36.6 million, which are recognized at point in time and those arising from TC and BB agreements amounting to P274.7 million, which qualifies as a lease (see Note 2.16).

### 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 below.

### 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 December 31, 2018 and 2017 closing rates follow:

Financial assets Financial liabilities Net exposure	<del>30</del>	2018	8	2017
Financial assets	Р	10,647,346	Р	191,301,896
Financial liabilities	(	316,344,000)	(	834,908,373)
Net exposure	( <u>P</u>	305,696,654)	( <u>P</u>	643,606,477)

If the Philippine peso had strengthened against the U.S. dollar, loss before tax in 2018 would have decreased by P39.6 million and profit before tax in 2017 would have increased by P69.3 million. If the Philippine peso had weakened against the U.S. dollar, then this would have increased loss and decreased profit before tax in 2018 and 2017, respectively, by the same amount. This sensitivity of the net result for the period assumes a +/- 12.95% and +/-10.77% change of the Philippine peso/U.S. dollar exchange rate for the periods ended December 31, 2018 and 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 December 31, 2018 and 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 +/- 0.76% 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 +/- 0.43% 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 +/- P1.9 million and +/-P18.6 million for the periods ended December 31, 2018 and 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	8 Y <del></del>	2018	2017
Cash and cash equivalents	4	P	443,495,969	P 1,441,704,190
Trade and other receivables – net (excluding advances to officers				
and employees)	5		1,369,911,121	857,419,350
Restricted cash	8, 11		1,637,081	31,043,312
Security deposits	8, 11		40,529,028	17,852,950
Advances to related parties	20.4	·	<u>3,127,555,209</u>	2,488,434,793
		<u>P</u>	4,983,128,408	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 ECL, which uses a lifetime expected loss allowance for all trade receivables and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 24 months before December 31, 2018, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at December 31, 2018 and January 1, 2018 (upon adoption of PFRS 9) was determined based on months past due, as follows for both trade and other receivables.

December 31, 2018 Expected loss rate	Current	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year	Total
Gross carrying amount - trade and	0.00%	0.00%	1.00%	100.00%	
other receivables	910,679,168	338,655,838	22,121,239	17,380,563	1,288,836,808
Loss allowance			221,212	17,380,563	17,601,775
January 1, 2018					
Expected loss rate					
Gross carrying amount - trade and	0.00%	0.00%	1.00%	100.00%	
other receivables	335,199,633	373,403,693	77,355,212	16,828,223	802,786,761
Loss allowance			773,552	16,828,223	17,601,775

No additional impairment was recognized in relation to the Group's trade and other receivables as the historical loss rates from existing customers are low and deemed insignificant. The Group also considers to the existence of financial liabilities, which these financial assets may be offset against the outstanding trade receivable with the same counterparty. 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 outstanding 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.

Furthermore, the Group's advances to related parties are repayable on demand and the contractual period is the very short period needed to transfer the cash once demanded. Management determines possible impairment based on the related party's ability to repay the advances upon demand at the reporting date taking into consideration historical defaults from the related parties. Management assessed that the outstanding advances from related parties as of December 31, 2018 and 2017 are recoverable since these the related parties were assessed to have a capacity to pay the advances upon demand and there were no historical defaults. Hence, no impairment is necessary.

### 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 December 31, 2018, the Group's financial liabilities have contractual maturities which are presented below.

		_	Cur	rent			Non-c	current			
	Notes	-	Within Six Months		Six to 12 Months	is a	One to Five Years		More than Five Years		
Interest-bearing loans Trade and other payables (except for	12	P	5,673,981,385	P	1,130,501,732	P	9,740,720,792	P	2,408,802,755		
government-related obligations)	13		3,146,020,255		( <b>*</b> )		20		82 °		
Advances from related parties	20.4	_	18,049,334	_	18,049,333	3514					
		P	8,838,050,974	P	1,148,551,065	P	9,740,720,792	P	2,408,802,755		

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

			Cur	rent		22	Non-c	urrent	
	Notes		Within Six Months	U.S.	Six to 12 Months		One to Five Years		More than Five Years
Interest-bearing loans Trade and other payables (except for	12	P	2,852,209,328	P	1,626,989,697	P	6,652,104,772	P	805,378,747
government-related obligations) Advances from related parties	13 20.4		1,222,209,318 520,386,076		520,386,07 <u>6</u>		9 <del>1</del> 8	_	<u>.</u>
		P	4,594,804,722	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.

			20	18			20	017	
	Notes		Carrying Amounts		Fair Values		Carrying Amounts		Fair Values
Financial Assets:									
Loans and Receivables:									
Cash and cash equivalents	4	P	443,495,969	P	443,495,969	P	1,441,704,190	P	1,441,704,190
Trade and other receivables - net	5		1,369,911,121		1,369,911,121		857,419,350		857,419,350
Restricted cash	8, 11		1,637,081		1,637,081		31,043,312		31,043,312
Security deposits	8, 11		40,529,028		40,529,028		17,852,950		17,852,950
Advances to related parties Financial Assets at FVTPL —	20.4		3,127,555,209		3,127,555,209		2,488,434,793		2,488,434,793
Equity securities	6	_	3,947,736	-	3,947,736		3,947,736		3,947,736
		<u>P</u>	4,987,076,144	P	4,987,076,144	Р	4,840,402,331	Р	4,840,402,331
Financial Liabilities —									
At amortized cost:									
Trade and other payables	13	P	3,146,020,255	P	3,146,020,255	Р	1,257,568,676	Р	1,257,568,676
Interest-bearing loans	12		15,619,861,853		15,619,861,853		10,332,160,635	85	10,332,160,635
Advances from related parties	20	(i)—	36,098,668	2011	36,098,668		1,040,772,152		1,040,772,152
		P	18,801,980,776	Р	18,801,980,776	Р	12,630,501,463	P	12.630.501.463

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.

The outstanding balances of trade and other receivables and cash advances granted to related parties totaling P3,352.0 million and P2,838.4 million as of December 31, 2018 and 2017, respectively, may be offset against the outstanding balances of trade and other payables and cash advances obtained from related parties totaling P604.5 million and P1,618.4 million as of December 31, 2018 and 2017, respectively.

### 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 PSE at the end of each reporting period.

The Group has no financial liabilities measured at fair value as of December 31, 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 December 31, 2018 and 2017, which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

						2018			
	Notes	\$150	Level 1	PERE	Level 2		Level 3		Total
Financial Assets:		0.00		10					
Loans and Receivables:									
Cash and cash equivalents	4	P	443,495,969	Р	(4)	Р		Р	443,495,969
Trade and other receivables - net	5		**************************************	-0		***	1,369,911,121		1,369,911,12
Restricted cash	8, 11		1,637,081		55 <b>4</b> 05		50 MA		1,637,08
Security deposits	8, 11		- State of the State of Con-		11 <del>.5</del> 5		40,529,028		40,529,02
Advances to related parties	20.4	511	*	8		-	3,127,555,209	-	3,127,555,20
		<u>P</u>	445,133,050	<u>P</u>	W\$	<u> P</u>	4,537,995,358	<u>P</u>	4,983,128,40
Financial Liabilities —									
At amortized cost:									
Trade and other payables	13	Р	**	Р		Р	3,146,020,255	P	3,146,020,255
Interest-bearing loans	12		*		5 <b>3</b>		15,619,861,853		15,619,861,853
Advances from related parties	20.4	100		H	18		36,098,668	-	36,098,668
		Р		<u>P</u>	•	<u> P</u>	18,801,980,776	<u>P</u>	18,801,980,776
		05.00-0	with the same of t			2017			
		-	Level 1	0	Level 2	4 (-	Level 3	88	Total
Financial Assets:									
Loans and Receivables:									
Cash and cash equivalents	4	P	1,441,704,190	P	1000	P	E₩3	P	1,441,704,19
Trade and other receivables - net	5		2		•		857,419,350		857,419,350
Restricted cash	8, 11		31,043,312		1175		net Alexandra		31,043,312
Security deposits	8, 11		<b>*</b>		100-6		17,852,950		17,852,950
Advances to related parties	20.4					-	2,488,434,793	-	2,488,434,793
		Р	1,472,747,502	P	87.	<u> P</u>	3,363,707,093	<u>P</u>	4,836,454,595
Financial Liabilities:									
At amortized cost:									
Trade and other payables	13	P	₩:	Р	1120	Р	1,257,568,676	Р	1,257,568,670
Interest-bearing loans	12		ž.	58		(1)360	10,332,160,635	50000	10,332,160,63
Advances from related parties	20.4	8			5. <b>+</b> 3		1,040,772,152	-	1,040,772,15

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:

	2018	2017
Total liabilities	P 19,366,302,118	P13,222,225,907
Total equity	<u>12,924,953,205</u>	13,157,388,412
Debt-to-equity ratio	1.50 :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.

### 30. EVENTS AFTER THE END OF THE REPORTING PERIOD

As discussed in Note 23.7, the PCC issued a decision on January 11, 2019 not to take further action on the acquisition by the Company of 2,000,000 common shares of Trans-Asia on the basis of the conditions provided in the Voluntary Commitments submitted by the Company.



An instinct for growth

Report of Independent
Certified Public Accountants
to Accompany Supplementary
Information Required by the
Securities and Exchange Commission
Filed Separately from the Basic
Consolidated Financial Statements

T +63 2 988 2288

1200 Makati City Philippines

Punongbayan & Araullo 20th Floor, Tower 1

The Enterprise Center 6766 Ayala Avenue

The Board of Directors and Stockholders
Chelsea Logistics Holdings Corp. and Subsidiaries
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
Stella Hizon Reyes Road
Bo. Pampanga, Davao City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Chelsea Logistics Holdings Corp. and Subsidiaries (the Group) for the year ended December 31, 2018, on which we have rendered our report dated February 13, 2019. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) are presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68 (as amended), and are not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information are the responsibility of the Group's management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

### **PUNONGBAYAN & ARAULLO**

By: Ramilito L. Nañola

Parther

CPA Reg. No. 0090741 TIN 109-228-427

PTR No. 7333698, January 3, 2019, Makati City

SEC Group A Accreditation

Partner - No. 0395-AR-3 (until May 19, 2019) Firm - No. 0002-FR-5 (until Mar. 26, 2021)

BIR AN 08-002511-19-2018 (until Jan. 25, 2021)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jun. 24, 2021)

February 13, 2019

(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018

### **Financial Statements**

Statement of Management's Responsibility for Financial Statements Independent Auditors' Report

Consolidated Statements of Financial Position as at December 31, 2018 (with Comparative Figures as at December 31, 2017)

Consolidated Statements of Comprehensive Income for the year ended December 31, 2018 (with Comparative Figures for the periods ended December 31, 2017 and 2016)

Consolidated Statements of Changes in Capital Deficiency for the year ended December 31, 2018 (with Comparative Figures for the periods ended December 31, 2017 and 2016)

Consolidated Statements of Cash Flows for the year ended December 31, 2017

(with Comparative Figures for the periods ended December 31, 2017 and 2016)

Notes to Consolidated Financial Statements

### **Supplementary Schedules**

Report of Independent Auditors on Supplementary Schedules Filed Separately from the Basic Financial Statements

Schedule	Description	*	
Α	Financial Assets	100	
В	Amounts Receivable from Directors, Officers, Employee and Principal Stockholders (Other than Related Parties)		
C	Amounts Receivable from Related Parties which are Elin during the Consolidation of Financial Statements	minated	
D	Intangible Assets - Other Assets		
E	Long-Term Debt	* *	
F	Indebtedness to Related Parties	*	
G	Guarantees of Securities of Other Issuers		
Н	Capital Stock	1	

Reconciliation of Retained Earnings Available for Dividend Declaration

Map Showing the Relationship Between and Among Related Entities

Annual Progress Report on the Application of IPO Proceeds For the Year Ended December 31, 2018

List of Standards and Interpretations under Philippine Financial Reporting Standards Adopted by the Securities and Exchange Commission and the Financial Reporting Standars Council as of December 31, 2018

Financial Soundness Indicators

# CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (Formerly Chelsea Logistics Corp.) (A Subsidiary of Udenna Corporation) SCHEDULE A - FINANCIAL ASSETS

DECEMBER 31, 2018 (Amounts in Philippine Pesos)

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds or notes	Amount shown on the balance sheet	the	Valued based on the market quotation at end of reporting period	end d	Income received and accrued
San Miguel Corporation	38,200	Р 3,94	3,947,736	Р 3,947,736	736	-

(Formerly Chelsea Logistics Corp.)

(A Subsidiary of Udenna Corporation)
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES
AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2018

(Amounts in Philippine Pesos)

			Dedi	Meductions	Ending	Belance	
	Rolenco at honinaina				Cumin	panance	
Name and designation of debtor	of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of
							period
Advances to Related Parties							
Stockholders	P 58,179,774		P 58,179,774			,	

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
[Formerly Cheeked Logistics Corp.]
[A Subsidiary of Udenna Corporation]
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2018
[Amounts in Philippine Pesos]

Additions					Deductions	ctions	Ending Balance	plance	
Trade freewides   11660,000   100,773,154   136,460,000   156,231,954   136,460,000   156,231,954   136,460,000   156,231,954   136,460,000   156,231,954   136,460,000   156,231,954   136,460,000   156,231,954   136,472,231	Name and designation of debtor	Affected Accounts	Balonce at beginning of period	Additions	Amounts collected	Amounts written off		Not current	Balance at end of period
Track Papalate   1,640,000   1,640,000   1,540,000	Chelsea Logistics Holdings Com	Trade December	240 047 44						
Trade traplets	Trans-Asia Shipping Lines Inc.	Toda Samela	2000000	303,072,154	158,460,200		156,251,954	40	156,251,954
Trade Population   151,1547,734   47,755,514   13,109,1541   13,109,15	DNV Chalcon Chinains Com	Irade Payables	11,640,000	106,789,919	35,213,736		83,216,183		83,216,183
Truck Payables   19,119,342   20,135,501   13,139,941	The Corp.	Trade Payables		63,353,753	42,936,534	,	20,417,219		20,417,219
Truck Payables   9,287.46   29,387.77   13,013.73	Worklinks Services Inc.	Trade Payables		19,119,342	5,725,501	·	13,393,841		13.393.841
Truck Payables   4,245,40   1,545,738   5,300,056     Truck Payables   4,471,40   1,000,279   3,300,056     Truck Payables   5,005,79   2,545,777   2,759,280     Truck Payables   5,005,79   1,543,91   2,759,280     Truck Payables   7,245,40   2,545,777   2,525,70   1,543,91     Truck Payables   7,245,40   2,545,777   2,525,70   1,543,91     Truck Payables   7,245,40   1,224,77   2,759,280   1,543,91     Truck Payables   7,245,40   1,224,77   2,759,280   1,543,91     Truck Payables   7,245,40   1,224,77   1,225,40   1,543,91     Truck Payables   7,245,40   1,224,20   1,224,20   1,524,20     Truck Payables   7,245,40   1,224,20   1,224,20   1,524,20     Truck Payables   7,245,40   1,224,20   1,224,20   1,224,20     Truck Payables   7,245,40   1,224,20   1,224,20   1,224,20     Truck Payables   7,245,40   1,224,20   1,224,20   1,224,20     Truck Payables   7,245,40   1,224,20   1,22,20   1,22,20     Truck Payables   7,245,40   1,224,20   1,22,20   1,22,20     Truck Payables   7,245,40   1,22,20   1,22,20   1,22,20   1,22,20     Truck Payables   7,245,40   1,22,20   1,22,20   1,22,20   1,22,20     Truck Payables   2,245,40   1,22,20   1,22,20   1,22,20   1,22,20     Truck Payables   2,245,40   1,245,40   1,22,20   1,22,20   1,22,20     Truck Payables   2,222,40   1,22,20   1,22,20   1,22,20   1,22,20     Truck Payables   2,222,40   1,22,20   1,22,20   1,22,20   1,22,20   1,22,20     Truck Payables   2,222,40   1,22,20   1,22,20   1,22,20   1,22,20   1,22,20     Truck Payables   2,222,40   1,22,20   1,22	Cheisea Shipping Corp.	Trade Payables	ř.	42,937,461	727,818,727		13,018,734		13.018.734
Column   Track Payolist   4,272,615   5,003,200   2,444,41   2,003,200   1,447,100   1,447,110   1,000,212   1,443,110   1,447,110   1,000,212   1,443,110   1,447,110   1,4	Davao Guif Marine Services Inc.	Trade Payables		9,368,710	1,254,738		8,113,972		8.113.972
Track Payables   4,472,460   2,445,47   3,435,45   3,447,45   3,447,45   4,472,45   4,	Chelsea Ship Management & Marine Services Corp.	Trade Payables	•	6,126,615	820,529		5,306,086		5 306 086
Trade Payables   5,003,300   1,004,444   1,005,079	Fortis Tugs Corporation	Trade Payables	,	14,721,640	10,902,579		3,819,061		3 819 061
Trade Payables   3,173,505   5,567,777   2,002,779	Quality Metal & Shipworks, Inc.	Trade Payables	4	5,203,330	2,443,441	*	2,759,889		2 759 889
Trade Payables   1,556,024   1,562,280   1,563,92   1	Michael, Inc.	Trade Payables		8,173,506	5,967,727		2 205 779		2 205 270
Trade Payables   1,556,094   1,564,712   5,949,712	Dynamic Culsine, Inc.	Trade Payables		3,286,717	1,922,800		1 363 917		1 363 017
Trade Payables   1,235,750   1,364,712   1,364,712   1,064,713	Chelsea Marine Manpower Resources, Inc.	Trade Payables	*	1,450,422	518.538		931 884		1,363,917
Trade Pepaleis   1,293,377   779,877   445,515   445,515   170	Bunkers Manila, Inc.	Trade Payables		2,756,094	1946.712	,	400,155 C95 009		931,884
Orb.         Trade Payables         2,288,247         2,001,586         786,521           Corp.         Trade Payables         6,657,680         102,988,220         1,04,246,698         155,831           Corp.         Trade Payables         5,61,839         1,02,988,220         1,04,246,698         5,579,505           Trade Payables         2,61,839         6,037,800         1,02,988,220         1,04,246,698         5,579,500           Trade Payables         2,61,839         6,013,500         4,51,250         1,232,000         1,232,000           Trade Payables         2,80,2381         1,232,000         2,437,339         1,523,000         1,522,400           Trade Payables         2,80,2381         2,2175,000         2,437,339         1,232,000         1,282,400           Trade Payables         3,46,117         40,113,500         24,576,331         1,242,400         2,437,331           Trade Payables         3,737,335         1,237,000         24,500,331         2,437,331         1,232,400           Trade Payables         2,737,532         2,443,331         2,443,331         2,443,331         2,443,331           Trade Payables         2,777,532         2,443,331         2,443,331         2,443,331         2,443,331           Trade	Starsy Shoppe, Inc.	Trade Payables		1 223 372	779 857	. ,	443 545		809,382
Orb.         Tracke Payables         139,328         1,4,697         1,5,631           Cest Corp.         Tracke Payables         6,857,830         140,284,635         1,5,632         1,5,631           Cest Corp.         Tracke Payables         6,857,830         140,246,635         5,579,505         5,579,505           Tracke Payables         280,128         4,132,400         4,517,830         1,344,000         2,820,203         1,904,000           Tracke Payables         2,800,331         2,134,000         4,517,830         1,324,000         1,320,003         1,321,000           Orb.         Tracke Payables         2,800,331         2,400,037         4,326,037         1,331,105           Tracke Payables         1,4286,520         1738,000         54,000         54,000         2,827,400           Tracke Payables         1,4286,520         1738,000         54,000         54,000         2,827,400           Tracke Payables         1,4286,520         1738,045         2,897,333         1,238,240         2,232,400           Tracke Payables         1,286,520         1738,045         2,897,333         2,232,400         2,232,240           Tracke Payables         1,286,520         2,230,450         2,237,759         3,488,384         1,237,118	Oceanstar Shipping Corp.	Trade Payables		2,298,247	2.001 586		206,664		443,515
Trade Payables   16,085,098   16,095,098   15,095,098   15,095,098   15,095,098   15,095,098   15,005,098   15,005,098   15,005,098   15,005,098   15,005,008	CD Ship Management & Marine Services Corp.	Trade Payables		179 928	24 097		199'967		296,661
cost Orp.         Trade Payables         6,857,680         102,988,200         104,246,485         5,579,005           Trade Payables         56,183         20,12,080         4,517,889         1,904,000         2,827,400           Trade Payables         36,105         4,517,889         1,234,000         3,573,000         1,904,000           Trade Payables         36,105         1,244,000         1,232,000         1,232,000         1,242,000           Trade Payables         2,800,281         2,134,000         2,400,331         1,242,000         1,322,000           Trade Payables         1,246,000         3,406,317         3,207,400         2,400         2,822,400           Trade Payables         1,4286,520         278,600,850         24,430,317         48,577,133         11,284,200           Trade Payables         2,875,335         10,372,235         3,437,300         3,443,117         48,577,138         11,284,200           Trade Payables         2,273,588         2,273,589         2,273,738         3,437,118         11,284,118         11,284,118         11,284,118           Trade Payables         1,789,267         6,696,51         7,031,469         11,284,118         11,284,118         11,284,118         11,284,118           Trade Payables	Starlite Ferries, Inc.	Trade Pavables	,	15.003.000	000 000 21		168/001		155,831
COSTON.         Trade Receivables         6,857,680         102,368,30         104,246,403         5,579,505           Trade Payables         261,839         6,140,000         4,517,839         1,904,000           Trade Payables         263,228         4,132,000         4,547,839         1,904,000           Trade Payables         2,302,281         1,244,000         1,232,000         1,512,000           Trade Payables         2,466,117         40,113,200         44,590,031         1,520,000           Trade Payables         2,466,117         40,132,000         54,000         2,822,400           Trade Payables         2,250,331         22,176,000         54,000         2,822,400           Trade Payables         2,302,300         2,483,032         2,483,032         3,224,000           Trade Payables         2,302,300         2,483,032         2,483,032         3,232,400           Trade Payables         2,304,500         2,382,213         11,456,93         3,243,000           Trade Payables         2,304,500         2,437,769         2,437,789         3,236,900           Trade Payables         1,382,139         2,282,213         1,545,988           Trade Payables         1,382,139         1,567,489         1,382,113 <t< td=""><td></td><td></td><td></td><td>BCO'CBO'OT</td><td>15,003,036</td><td></td><td></td><td></td><td></td></t<>				BCO'CBO'OT	15,003,036				
Trade Payables   28,143.00   26,30,000   2,322,400   2,522,400	Chelsea Ship Management & Marine Services Corp.	Trade Receivables	6,857,680	102,968,320	104.246.495		202 678 5		and other a
Trade Payables   26,1839   6,180,000   4,517,389   1,504,000   1	Starlite Ferries, Inc.	Trade Payables		29,142,400	26,320,000	- 1	2 822 400	9] 9	5,575,503
Trade Payables   289,228   4,032,000   3,640,228   672,000     Trade Payables   2,800,391   22,176,000   24,976,391   1,232,000   181,105     Trade Payables   2,800,391   22,176,000   24,976,391   22,176,000   24,976,391   1,282,400     Trade Payables   1,4286,520   2,873,383   103,772,22   39,489,894   1,382,400   1,382,400     Trade Payables   2,873,383   103,772,22   39,489,894   1,382,893   1,382,893   1,382,894   1,382,893   1,382,894   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,199   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,893   1,382,199   1,382,893   1,382,199   1,382,893   1,382,199   1,382,893   1,382,199   1,382,893   1,382,199   1,382,893   1,382,199   1,382,893   1,382,199   1,382,893   1,382,199   1,382,893   1,382,199   1,	Fortis Tugs Corporation	Trade Payables	261,839	6,160,000	4.517.839		1 904 000		1,004,000
Trade Payables         66,105         1,344,000         1,232,000         181,105           Trade Payables         2,800,381         2,176,000         24,560,037         181,105           Trade Payables         1,246,520         24,560,037         24,000         24,200           Trade Payables         1,4286,520         278,600,850         244,310,317         485,771,232         282,400           Trade Payables         2,875,335         103,777,222         39,489,034         11,145,63         11,145,63           Trade Payables         2,875,335         103,777,222         39,489,039         12,485,636         12,485,648           Trade Payables         2,477,588         2,477,588         2,230,740         2,892,213         11,455,718           Trade Payables         1,789,567         24,65,399         20,522,233         2,786,516         4,971,18           Trade Payables         1,789,567         4,688,631         7,031,658         1,457,718         1,575           Trade Payables         1,789,567         2,68,611         1,607,459         1,675         1,575           Trade Payables         1,03,130,024         1,618,211         1,607,459         1,242,131         1,789,718           Trade Payables         1,03,130,024         1,5	Michael, Inc.	Trade Payables	280,228	4,032,000	3,640,228		672.000		000,406,1
Trade Payables         3.446,117         40,113,920         43,560,037           Trade Payables         2,800,381         22,175,000         24,076,391           Trade Payables         3,024,000         54,000         2,822,400           Trade Payables         14,286,820         278,600,850         244,310,317         46,577,153           Trade Payables         2,875,335         103,727,268         24,820,884         11,245,486           Trade Payables         2,730,450         24,876,389         12,337,769         46,577,153           Trade Payables         2,723,458         2,486,501         24,876,389         12,386,389           Trade Payables         2,730,450         2,107,989         2,237,769         4,577,18           Trade Payables         2,730,450         2,107,989         2,237,769         4,577,18           Trade Payables         1,789,267         6,699,616         7,06,685         1,487,718           Trade Payables         1,539,548         1,618,211         1,607,489         2,244,121           Trade Payables         1,539,548         2,537,817         2,244,121           Trade Payables         1,435,781         1,609,927         2,244,121           Trade Payables         7,909,927         7,090,927	Bunkers Manila, Inc.	Trade Payables	69,105	1,344,000	1,232,000		181 105	6 (9	101 105
Trade Receivables   2,800,391   22,176,000   24,976,391   24,27400   24,976,391   24,27400   24,976,391   24,27400   24,976,391   24,27400   24,976,391   24,27400   24,971,392   24,000   2,422,400   24,274,310,317   24,026,310,317   24,026,310   2	Chelsea Shipping Corp.	Trade Payables	3,446,117	40,113,920	43,560,037		CONTRACT		CUL, LAI
Trade Receivables   3,024,000   54,000   2,822,431   2,822,431   2,822,431   2,822,431   2,822,431   2,822,400	PNX-Chelsea Shipping Corp.	Trade Payables	2,800,391	22,176,000	24,976,391		1		
Trade Payables   3,024,000   54,000   2,822,400     Trade Payables   14,286,520   2785,335   103,722,92   93,489,984   13,122,643     Trade Payables   2,875,335   103,722,92   93,489,984   13,122,643     Trade Payables   2,875,335   103,722,92   93,489,984   12,398,339     Trade Payables   2,472,588   2,4876,359   22,4377,789   4,971,178     Trade Payables   1,789,267   6,699,616   7,031,165   1,457,718     Trade Payables   103,130,024   1,607,459   1,457,718     Trade Payables   103,130,024   1,607,459   1,532,19     Trade Payables   1,789,548   1,539,548   1,500,927   1,500,927     Trade Payables   1,439,548   1,435,718   1,607,459   1,500,927     Trade Payables   1,439,548   1,435,781   1,607,459   1,500,927     Trade Payables   1,435,781   1,435,781   1,435,781   1,435,781     Trade Payables   1,435,781	CD Ship Management & Marine Services Corn	Treed Description							
Trade Revelvables	DAIV Chalesa Chambar Casa	ilade Necelyables		3,024,000	24,000		2,822,400		2,822,400
Trade Payables         14,286,520         278,500,850         244,310,317         48,577,153           Trade Payables         2,875,335         103,727,292         93,489,984         13,112,643           Trade Payables         4,116,427         96,485,311         88,682,039         12,486,984           Trade Payables         2,437,588         24,96,531         88,682,099         4,971,178           Trade Payables         2,230,450         21,079,399         20,522,933         1,786,916           Trade Payables         1,789,267         6,698,616         7,031,158         1,487,718           Trade Payables         1,789,267         6,698,616         7,031,165         1,487,718           Trade Payables         16,3130,024         1,618,211         1,607,459         1,5382,159           Trade Payables         4,271,338         7,486,372         2,027,817         2,244,121           Trade Payables         7,496,927         7,486,027         2,027,817         2,244,121           Trade Payables         7,496,927         7,486,027         2,244,121           Trade Payables         7,496,927         7,486,027         2,244,121           Trade Payables         7,496,927         7,486,027         2,244,121           Trade Payables <td>riva-Lintised Stripping Lorp.</td> <td>Trade Payables</td> <td></td> <td>3,024,000</td> <td>54,000</td> <td></td> <td>2,822,400</td> <td></td> <td>2,822,400</td>	riva-Lintised Stripping Lorp.	Trade Payables		3,024,000	54,000		2,822,400		2,822,400
Trade Payables         2,875,335         103,727,292         93,489,984         13,112,643           Trade Payables         4,116,427         96,964,511         88,682,039         12,456,948           Trade Payables         2,472,588         24,876,339         2,2377,769         12,358,339           Trade Payables         1,789,267         6,696,161         7,031,165         2,230,778           Trade Payables         1,789,267         6,699,616         7,031,165         1,457,718           Trade Payables         103,130,024         1,618,211         1,607,459         1,457,718           Trade Payables         16,399,548         7,468,021         8,931,527         10,752           Trade Payables         16,399,548         7,468,021         8,931,527         2,244,121           Trade Payables         7,090,927         7,090,927         2,244,121         4,435,781	Chelsea Marine Manpower Resources, Inc.	Trade Receivables	14,286,620	278,600,850	244,310,317		48.577.153	,	48 577 153
Trade Payables         4,116,427         96,946,151         2,892,213         12,496,948         12,498,839         12,498,839         12,398,839         12,398,839         12,398,839         12,398,839         12,398,839         12,398,839         12,398,839         12,398,839         12,398,839         12,398,839         12,398,839         12,398,839         12,337,769         4,971,178         4,971,178         4,971,178         4,971,178         4,971,178         4,971,178         4,971,178         4,971,178         4,971,178         4,377,718         4,387,718         4,387,718         1,075,721         1,075,718         1,075,718         1,075,718         1,075,718         1,075,718         1,075,718         1,075,718         1,075,718         1,075,718         1,075,718         1,075,718         1,0	PNX-Chelsea Shipping Corp.	Trade Payables	2,875,335	103,727,292	93,489,984		13,112,643		13 112 643
Trade Payables 2,472,588 24,876,359 22,377,769 4,971,178 Trade Payables 2,220,450 21,079,389 20,522,933 2,7766,916 Trade Payables 1,789,527 6,699,616 7,031,165 1,497,118 Trade Payables 802,553 8,286,301 7,706,695 1,587,118 Trade Payables 103,130,024 1,618,711 1,607,459 10,752 10,752 Trade Payables 7,421,938 2,027,817 2,244,121 Trade Payables 7,090,927 7,090,927 7,090,927 1,495,781 4,435,781 4,435,781 4,435,781	starlite Ferries, Inc.	Trade Payables		15,349,161	2,892,213		12,456,948		12 456 948
Trade Payables         2,472,588         24,876,359         22,377,769         4,971,778           Trade Payables         2,220,450         21,079,399         20,522,933         2,786,916           Trade Payables         1,789,267         6,699,616         7,031,165         1,487,718           Trade Payables         802,553         8,286,301         7,706,695         1,382,159           Trade Payables         16,3130,024         1,618,211         1,607,459         10,752           Trade Payables         4,271,938         2,027,817         2,244,121           Trade Payables         7,030,927         7,030,927         2,244,121           Trade Payables         7,030,927         7,030,927         2,244,121           Trade Payables         7,030,927         7,030,927         2,044,121           Trade Payables         4,435,781         4,435,781         4,435,781	Chelsea Shipping Corp.	<ul> <li>Trade Payables</li> </ul>	4,116,427	96,964,511	88,682,099		12.398.839	- 29	12 398 839
Trade Payables         2,230,450         21,079,399         20,522,933         2,786,916           Trade Payables         1,789,267         6,699,616         7,031,165         1,457,718           Trade Payables         802,553         8,286,301         7,706,695         1,382,159           Trade Payables         16,3130,024         1,618,211         1,607,459         10,752           Trade Payables         16,39,548         7,468,021         8,931,527           Trade Payables         7,426,1972         7,244,121           Trade Payables         7,426,1972         7,244,121           Trade Payables         7,800,927         7,090,927           Trade Payables         658,040         658,040           Trade Payables         447,599           Trade Payables         4,435,781	ortis Tugs Corporation	Trade Payables	2,472,588	24,876,359	22,377,769		4 971 178		4 671 179
Trade Payables         1,789,267         6,699,616         7,011,165         1,457,718           Trade Payables         802,553         8,286,301         7,706,695         1,382,159           Trade Payables         103,130,024         1,618,211         1,677,22           Trade Payables         16,399,548         7,468,021         8,931,527           Trade Payables         74,261,972         74,261,972         2,244,121           Trade Payables         7,090,927         7,090,927         2,244,121           Trade Payables         658,040         658,040         658,040           Trade Payables         447,599         447,599         447,599	Michael, Inc.	Trade Payables	2,230,450	21,079,399	20,522,933		2,786,916	6 *	785 915
Trade Payables         802,553         8,286,301         7,706,695         1,382,159           Trade Payables         1,618,211         1,618,211         1,6752         10,752           Trade Receivables         103,130,024         103,130,024         107,752           Trade Payables         4,771,938         2,027,177         2,244,121           Trade Payables         7,090,927         7,090,927         2,244,121           Trade Payables         658,040         658,040         658,040           Trade Payables         447,599         447,599         447,599           Trade Payables         4,435,781         4,435,781         4,435,781	Javao Gulf Marine Services, Inc.	Trade Payables	1,789,267	6,699,616	7,031,165		1,457,718		1 457 718
Trade Receivables 103,130,024 1,618,211 1,607,459 10,752 10,752  Trade Receivables 16,399,548 103,130,024 1,748,021 2,244,121 1,244,121	Sunkers Manila, Inc.	Trade Payables	802,553	8,286,301	7,706,695		1,382,159	2 290	1 382 159
Trade Receivables         103,130,024         103,130,024         8,931,527           Trade Payables         4,771,938         2,027,177         2,244,121           Trade Payables         7,090,927         74,561,972         7,090,927           Trade Payables         658,040         658,040         658,040           Trade Payables         447,599         447,599           Trade Payables         4,435,781         4,435,781	rans-Asia Shipping Lines Inc.	Trade Payables	*);	1,618,211	1,607,459	i.	10,752		10,752
es Corp. Trade Payables 10.3,130,024 1.0,244,121 1.0,244,121 1.0,245,221 1.0,244,121 1.0,244,121 1.0,245,221 1.0,244,124,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124,124 1.0,244,124,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1.0,244,124 1	Theisea Shipping Corp.	Trade Receivables	103 130 034	a	100 001 001				
trade Payables 4,721,938 2,027,817 2,244,121 2,244,121	ortis Tugs Corporation	Trade Pavehlee	16 300 640		7 450 024	1		¥	*
Trade Payables 74,261,972 7,061,972 7,061,972 7,060,977	heisea Ship Management & Marine Services Corn	Trade Danships	040,000,01	*);	7,468,021	,	8,931,527	•	8,931,527
Trade Payables 74,651,972 - 74, Trade Payables 7,090,927 - 7, Trade Payables 658,040 - 7 Trade Payables 447,599 - 7 Trade Payables 4,435,781 - 7	ONX-Chalcas Chinains Corn	Trade Payables	4,2/1,938	631	2,027,817		2,244,121		2,244,121
Trade Payables (586,040 - 17 Trade Payables 447,599 - 17 Trade Payables 4,435,781 - 17 (4,435,	Michael Inc	Trade Payables	74,261,972		74,261,972		100	•	r
Trade Payables 447,599	Sunkers Manila Inc.	Trade Description	7,090,927	ATT IS	7,090,927			1:	e e
Trade Payables 4,435,781	theisea Marine Manbower Recourses Inc.	Trade Descriptor	040,040		658,040		,	,	
11dde rayables 4,435,781	Javao Gulf Marine Services Inc	Trade Possibles	200 / PP		447,599	ě		k	
	the state of the s	lieue reydules	TO/'CCb'b	.1.	4,435,781		2	24	

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Corp.)

(A Subsidiary of Udenna Corporation)
SCHEDULE D - INTANGIBLE ASSETS
DECEMBER 31, 2018
(Amounts in Philippine Pesos)

Ending balance	5,641,434,544
Other changes additions (deductions)	١
Charged to other accounts	
Charged to cost and expenses	
Additions at cost	P 3,515,675
Beginning balance	P 5,637,918,869
Description	
	Goodwill

-1-

# CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (Formerly Chelsea Logistics Corp.) (A Subsidiary of Udenna Corporation) SCHEDULE E - LONG-TERM DEBT DECEMBER 31, 2018

(Amounts in Philippine Pesos)

Title of issue and type of obligation	Amo	Amount authorized by indenture	Amo captic of lo	Amount shown under caption"Current portion of long-term debt" in related balance sheet	Amo caption relat	Amount shown under caption"Long-Term Debt" in related balance sheet
Term loans	۵	11,337,400,258	Д	1,595,629,564	Ь	8,889,862,811
Bank loans		5,503,768,437		4,894,210,434		
Mortgage loans		210,277,802		41,506,393		138,771,409
Obligations under finance lease		108,633,811		24,207,330		35,673,912

9,064,308,132

6,555,553,721

۵

17,160,080,308

۵

# CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (Formerly Chelsea Logistics Corp.)

(A Subsidiary of Udenna Corporation)

SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES) **DECEMBER 31, 2018** 

(Amounts in Philippine Pesos)

Balance at end of period
Balance at beginning of period
Name of related party

- Nothing to report -

SCHEDULE G - GUARANTEE OF SECURITIES OF OTHER ISSUERS CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (A Subsidiary of Udenna Corporation) (Formerly Chelsea Logistics Corp.) **DECEMBER 31, 2018** 

(Amounts in Philippine Pesos)

Name of issuing entity of securities guaranteed by the company for which this statement is filed

Title of issue of each class of securities guaranteed

Total amount of guaranteed and outstanding

Amount owned by statement is filed person for which

Nature of guarantee

- Nothing to report -

## CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (Formerly Chelsea Logistics Corp.) (A Subsidiary of Udenna Corporation) SCHEDULE H - CAPITAL STOCK

**DECEMBER 31, 2018** 

		Number of Shares	Number of Shares.		Number or Shares Held By	
	Number of Shares	Issued and Outstanding	utstanding Reserved for Options,	Related Parties	Directors, Officers and	
Title of Issue	Authorized	under Related Balance	d Balance Warrants, Conversions	(Parent, Affiliates)	Employees	Others

544,200,698

2,392,308

1,275,384,609

Not Applicable

1,821,977,615

2,000,000,000

Common Shares

### CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (Formerly Chelsea Logistics Corp.) (A Subsidiary of Udenna Corporation) Stella Hizon Reyes Road, Bo. Pampanga, Davao City

### Reconciliation of Retained Earnings Available for Dividend Declaration For the Year Ended December 31, 2018

RETAINED EARNINGS AT BEGINNING OF YEAR (As Presented in the				
2017 Audited Financial Statements)			P	212,275,580
Less: Deferred tax income			(	199,941,431)
DEFICIT AT BEGINNING OF YEAR (As Adjusted)				12,334,149
Net Profit Actually Realized during the Year		,		
Net loss for the year	(	18,185,664)		
Less: Deferred tax income	(	2,713,851)	(	20,899,515)
DEFICIT AT END OF YEAR			( P	8,565,366)

Map Showing the Relationship Between and Among Related Entities CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (A Subsidiary of Udenna Corporation) (Formerly Chelsea Logistics Corp.) December 31, 2018

### UDENNA CORPORATION AND ITS SUBSIDIARIES **UDENNA MAPPING**

AS OF DECEMBER 31, 2018

Laputapu Cultural Heritage Foundation, Inc. Corp. (DPRC) Udenna Foundation, Inc. FOUNDATION Phoenix Foundation, Inc. Sikiab Atleta Pilipinas Sports Foundation UDENNA CORPORATION \*\*KGLI-NM owns 39,85% of NENACO NENACO owns 88.31% of 260 \*UIBV owns 28.15% of 260 TA AND 44.00 TOUR

### CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES (Formerly Chelsea Logistics Corp.) (A Subsidiary of Udenna Corporation) Stella Hizon Reyes Road, Bo. Pampanga, Davao City

### Annual Progress Report on the Application of IPO Proceeds For the Year Ended December 31, 2018

Total proceeds (546,593,000 shares at P10.68 per share)		P	5,837,613,240
Less: IPO-related expenses			
Underwriting and selling commission fees	239,801,737		
Advisory fees	175,128,397		
IPO taxes	116,752,265		
PSE listing application fees	19,296,884		
Professional fees – legal and audit	10,403,897		
Documentary stamp taxes	2,732,965		
Miscellaneous expenses	1,149,323		565,265,468
Net proceeds after IPO expenses			5,272,347,772
The state of the s			
Less: Disbursements			
Costs incurred in 2017			
Acquistion of other shipping and logistics companies	2,186,600,000		
Acquisition of a tanker	1,265,504,500		
Prepayment of Bank of China loan	1,013,400,000		
Acquisition of 3 cargo vessels	477,504,430		
Acquisition of container vans	136,787,000		
Acquisition of floating dock	42,278,192		
Acquisition of a tugboat	39,991,070		
Payment of Chinabank interest	32,662,425		
Payments for container yard improvements	14,676,000		
Acquisition of a forklift	12,880,000		
Payment of professional fees	8,960,000		
Payment of fuel expenses	2,725,347		5,233,968,964
The state of the s			
Costs incurred in 2018			
Acquisitions of forklift trucks	32,863,750		
Payments for container yard improvements	5,515,058		38,378,808
Total expenditures	*	_	5,272,347,772
11.			
Balance of IPO proceeds as of December 31, 2018	, J.		

(Formerly Chelsea Logistics Corp.) (A Subsidiary of Udenna Corporation)

Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2018

	FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS of or the Preparation and Presentation of Financial Statements	Adopted	Not Adopted	Not Applicabl
Concentual	Framework Phase A: Objectives and Qualitative Characteristics	1		
Practice Sta	atement Management Commentary	1		
Philippine I	Financial Reporting Standards (PFRS)		1	
	First-time Adoption of Philippine Financial Reporting Standards			
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	/		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for	1		
PFRS 1	First-time Adopters			
(Revised)	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for	1		
	First-time Adopters			
	Amendments to PFRS 1: Government Loans	· ·		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	1		
	Share-based Payment	-		
PFRS 2	Amendments to PFRS 2: Vesting Conditions and Cancellations		-	- /
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			-
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			1
PFRS 3	business combinations	1		1
(Revised)	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation*			
	(e)jective January 1, 2019)	1		
	Insurance Contracts			1
PFRS 4	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			-
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments , with PFRS 4, Insurance			-
PFRS 5	Contracts			1
PFRS 6	Non-current Assets Held for Sale and Discontinued Operations			-
TRS 6	Exploration for and Evaluation of Mineral Resources			1
	Financial Instruments: Disclosures	1		
	Amendments to PFRS 7: Transition	1		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	1		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			
FRS 7	A STATE OF THE STA	1		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	1		
		1	94	
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	50		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	<b>✓</b>		
FRS 8	Operating Segments	1		
	Financial Instruments (2014)	/		
FRS 9	Amendments to PFRS 9: Prepayment Features with Negative Compensation*	1		
	(effective January 1, 2019)	*	4	- 0
	Consolidated Financial Statements	1		
	Amendments to PFRS 10: Transition Guidance	1		
FRS 10	Amendments to PFRS 10: Investment Entities	1		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or			
	Joint Venture" (effective date deferred indefinitely)			
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	1		·
	Joint Arrangements	1		
nc	Amendments to PFRS 11: Transition Guidance	1	4-	-
RS 11	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1	£ 4	
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a loint Operation			
	(effective January 1, 2019)	7		1
	Disclosure of Interests in Other Entitles	1		
RS 12	Amendments to PFRS 12: Transition Guidance	1		
	Amendments to PFRS 12: Investment Entities	1		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception Fair Value Measurement	1		
PS 13	Regulatory Deferral Accounts	1		
	Regulatory Deferral Accounts			1
RS 14	Revenue from Contracts with Customers			
RS 14 RS 15	Revenue from Contracts with Customers	1		
RS 14 RS 15 RS 16	Leases* (effective January 1, 2019)	1		<b>V</b>
RS 14 RS 15 RS 16 RS 17	Leases* (effective January 1, 2019) Insurance Contracts* (effective January 1, 2021)	/		1
RS 14 RS 15 RS 16 RS 17 illppine Acc	Leases* (effective January 1, 2019) Insurance Contracts* (effective January 1, 2021) ounting Standards (PAS)	1		
RS 14 RS 15 RS 16 RS 17 illppine Acc	Leases* (effective January 1, 2019) Insurance Contracts* (effective January 1, 2021) ounting Standards (PAS) Presentation of Financial Statements	· ·		
RS 14 RS 15 RS 16 RS 17 illippine Acc	Leases* (effective January 1, 2019) Insurance Contracts* (effective January 1, 2021) ounting Standards (PAS) Presentation of Financial Statements Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arielance			
RS 16 RS 17 illippine Acc	Leases* (effective January 1, 2019) Insurance Contracts* (effective January 1, 2021) ounting Standards (PAS) Presentation of Financial Statements Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	<i>y</i>		
RS 14 RS 15 RS 16 RS 17 illippine Acc	Leases* (effective January 1, 2019) Insurance Contracts* (effective January 1, 2021) ounting Standards (PAS) Presentation of Financial Statements Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arielance	·		

### (Formerly Cheisea Logistics Corp.)

(A Subsidiary of Udenna Corporation)

### Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2018

PAS 7	Statement of Cash Flows	1		
N3 /	Amendments to PAS 7: Disclosure Initiative	1		
AS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1		
AS 10	Events After the Reporting Period	1		
	Income Taxes	1		
AS 12	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	1		
A3 12	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	<b>V</b>		
	Amendment to PAS 12 - Tax Consequences of Dividends* (effective January 1, 2019)			1
	Property, Plant and Equipment	1		
200-00	Amendments to PAS 16: Bearer Plants	1		
AS 16	V = 50 30 NO 20 30 SOMEON AND A SERVICIO AND A SERV			
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	1		
AS 17	Leases	1		
AS 19	Employee Benefits	1		
Revised)	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	1		
AS 20		· ·		
A3 20	Accounting for Government Grants and Disclosure of Government Assistance			1
AS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	1		
AS 23	Borrowing Costs	✓		
Revised)	Amendment to PAS 23: Eligibility for Capitalization			1
AS 24	Related Party Disclosures			
Revised)	THE MANUAL CONTROL OF THE PARTY	1		
AS 26	Accounting and Reporting by Retirement Benefit Plans			1
AS 27	Separate Financial Statements	1		
	Amendments to PAS 27: Investment Entities	1		
Revised)	Amendments to PAS 27: Equity Method in Separate Financial Statements	1		
	Investments in Associates and Joint Ventures	1		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or			
	Joint Venture* (effective date deferred indefinitely)			1
AS 28		1		
Revised)	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception			
venien)	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or	24		
	Loss	✓		
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture* (effective January 1, 2019)			,
AS 29	Financial Reporting in Hyperinflationary Economies			1
NJ 23	Financial Instruments: Presentation	1		- 4
		V		
AS 32	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on	14		
A3 32	Liquidation	1		
	Amendments to PAS 32: Classification of Rights Issues		1	
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	1		
AS 33	Earnings Per Share			
AS 34	Interim Financial Reporting			1
AS 36	Impairment of Assets	✓	-	
n3 30	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	1		
AS 37	Provisions, Contingent Liabilities and Contingent Assets	1		
	Intangible Assets	/		
AS 38				
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	/		
	Investment Property			1
AS 40	Amendment to PAS 40: Reclassification to and from investment Property			- 1
	Agriculture		A111	
AS 41			- 6-	1
hillania a ta	Amendments to PAS 41: Bearer Plants			1
	terpretations - International Financial Reporting Interpretations Committee (IFRIC)	-		
FRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	~		
RIC 2	Members' Share in Co-operative Entities and Similar Instruments			1
FRIC 4	Determining Whether an Arrangement Contains a Lease	1		
RIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation			
MARKE.	Funds**	/		
RIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic			1000
CONTRACTOR	Equipment			1
FRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary			
	Economies			1
	Reassessment of Embedded Derivatives**	/		
FRIC 9	Amandments to Philippine Interpretation IERIC Cond Res 20, Sub-dd-d Davids			
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	-		
RIC 10	Interim Financial Reporting and Impairment			1
	Service Concession Arrangements			

(Formerly Chelsea Logistics Corp.)

(A Subsidiary of Udenna Corporation)

Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2018

IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1	
IFRIC 14	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	1	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation		1
IFRIC 17	Distributions of Non-cash Assets to Owners**	1	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	1	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine**		1
IFRIC 21	Levies	/	
IFRIC 22	Foreign Currency Transactions and Advance Consideration	/	
IFRIC 23	Uncertainty Over Income Tax Treatments (effective January 1, 2019)		1
Philippine I	nterpretations - Standing Interpretations Committee (SIC)		
SIC-7	Introduction of the Euro		1
SIC-10	Government Assistance - No Specific Relation to Operating Activities		1
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers		1
SIC-15	Operating Leases - Incentives	1	
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	1	
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	/	
SIC-29	Service Concession Arrangements: Disclosures		1
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	1	
SIC-32	Intangible Assets - Web Site Costs**	/	

<sup>\*</sup> These standards will be effective for periods subsequent to 2018 and are not early adopted by the Group.

<sup>\*\*</sup> These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Philippine Pesos)

	2018		2017		2016	
Current Ratio						
Current Assets	6,494,469,874		5,459,628,439		2,388,441,961	
Current Liabilities	10,125,567,809	0.64	6,101,444,129	0.89	6,614,400,395	0.36
Debt-to-equity Ratio						
Total Liabilities	19,366,302,118		13,222,225,907		9,199,235,989	
Total Equity	12,924,953,205	1.50	13,157,388,412	1.00	1,560,668,987	5.89
Asset-to-equity Ratio						
Total Assets	32,291,255,323		26,379,614,319	6	10,759,904,976	
Total Equity	12,924,953,205	2.50	13,157,388,412	2.00	1,560,668,987	6.89
Interest Coverage Ratio						
EBITDA	1,615,477,702		1,524,726,721		748,948,591	
Interest Expense	776,933,861	2.08	507,987,399	3.00	163,588,166	4.58
Gross Profit Ratio						
Gross Profit	1,417,290,518		1,047,020,040		377,182,247	
Total Revenues	5,172,032,043	27%	3,909,167,404	27%	1,638,385,358	23%
EBITDA Margin						
EBITDA	1,615,477,702		1,524,726,721		748,948,591	
Total Revenues	5,172,032,043	31%	3,909,167,404	39%	1,638,385,358	46%
Net Profit Ratio						
Net Profit	(550,532,956)		161,219,723		131,679,808	
Total Revenues	5,172,032,043 (	0.11)	3,909,167,404	0.04	1,638,385,358	0.08
Book Value Per Share						
Total Equity	12,924,953,205		13,157,388,412		1,560,668,987	
Number of Shares Outstanding	1,821,977,615	7.09	1,821,977,615	7.22	500,000,000	3.12
arnings Per Share						
Net Profit	(550,532,956)		161,219,723		131,679,808	
Weighted Average No. of Shares	1,821,977,615 (	0.30)	1,309,830,939	0.12	500,000,000	0.26

### CERTIFICATION OF INDEPENDENT DIRECTOR

I, **Jesus S. Guevara II**, Filipino, of legal age and a resident of 122 Stanford Street, Cubao, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

- 1. I am an Independent Director of Chelsea Logistics Holdings Corp. (the "Corporation") and have been its independent director since March 27, 2017.
- 2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service		
Alternative Power Resource Holdings, Inc.	Director	August 2017 to present		
Lipa Bank, Inc.	Independent Director	2009 to the present		
Phividec Industrial Authority	Chairman	July 2017 to present		

- I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
- 4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
- 5. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

		FFR 1	5	2019				nersystatus vous.	
Done,	this	day	of	February	2019,	at TAGUI	G	CITY	

JESUS S. GUEVARA II

Affiant

Subscribed and sworn to before me this FEB 15 200 of February 2019 at TAGUIG CITY, affiant personally appeared before me and exhibited to me his Tax Identification No. 125-805-086.

Doc. No. 332; Page No. 47; Book No.  $\overline{\mathbb{I}}$ : Series of 2019.

JACOU KUMMI MUMIENA

M.L. 12... 1932 IBP tax and your re-re-rest resign City PTA May 7732 rose Concession City

MCLE Exemption No. V-600900

### CERTIFICATION OF INDEPENDENT DIRECTOR

- I, **Gener T. Mendoza**, Filipino, of legal age and a resident of 14D South Tower, Pacific Plaza Towers, Bonifacio Global City, Taguig City, after having been duly sworn to in accordance with law do hereby declare that:
- 1. I am an Independent Director of Chelsea Logistics Holdings Corp. (the "Corporation") and have been its Independent Director since March 27, 2017.
- 2. I am affiliated with the following companies or organizations:

Company/Organization	Position/ Relationship	Period of Service		
GNCA Holdings, Inc.	President	1997 to present		
IPM Holdings, Inc.	Regular Director	2007 to present		
ACM Landholdings, Inc.	Director	2010 to present		
Dualtech Training Center Foundation, Inc.	Director	2012 to present		

- I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
- 4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
- 5. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Done, this 15th day of February 2019, at Taguig City.

GENER T. MENDOZA
Affiant

Subscribed and sworn to before me this FEB 15 2019 of February 2019 at TAGUIG CITY, affiant personally appeared before me and exhibited to me his Tax Identification No. 102-092-109.

Doc. No. <u>333</u>; Page No. <u>U7</u>; Book No. <u>I</u>

Series of 2019.

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M.L. Cry (632

188 - 1890 969 / 12-15-16 / 25sig City P. R. No. 732424 / Quezon City

MCLE Exemption No. V-000900

### CERTIFICATION OF INDEPENDENT DIRECTOR

- I, Miguel Rene A. Dominguez, Filipino, of legal age and a resident of 3 Akasya SACI, Maribulan, Alabel, Sarangani Province, after having been duly sworn to in accordance with law do hereby declare that:
- 1. I am an Independent Director of Chelsea Logistics Holdings Corp. (the "Corporation") and have been its Independent Director since March 27, 2017.
- 2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Alsons Agribusiness Unit	Vice President	
Sarangani Agricultural Company,Inc.	Director	
Philippine Business for Social Progress	Director	

- 3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
- 4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
- 5. I shall inform the Corporate Secretary of the Corporation of any changes in the abovementioned information within five days from its occurrence.

FEB 1 9 2019 Done, this \_\_ day of February 2019 at \_\_TAGUIG CITY

> MIGUEL RENE A. DOMINGUEZ Affiant

day of February 2019 at Subscribed and sworn to before me this TAGUIG CITY , affiant personally appeared before me and exhibited to me his Tax Identification No. 921-338-194.

Doc. No. Page No. Book No. Series of 2019.

TICIA M. AMON NOTARY PUBLIC FOR TAGUIG CITY APPT, NO. 8 UNTIL DEC. 31, 2019 ROLL OF ATTY, NO. 22180 MOLE COMPLIANCE NO. VI 2004659/12-5-2017 IDE O.R.No. 574702-LIFETIME MEMBER/1-9-2003

PTR No.484257 a. JAN 83, 2019- PASIG CITY

11 PARAISO ST., WI PER BY STAN, TAGUIS CITY

### LOCAL WATER UTILITIES ADMINISTRATION

P.O. BOX 34, U.P. Post Office, Katipunan Avenue, Balara, Quezon City Tel. No.: . 920-5581 to 99, 920-5601 Fax No.: (632)-34-34 Administrator's Direct Line: (02) 929-61-07 LWUA Website: www.lwua.gov.ph

### CERTIFICATION

### To whom it may concern:

This is to certify that **Director Eduardo A. Bangayan** was appointed and qualified as member of the Board of Directors of the Davao City Water District representing the business sector (Section 8 of PD 198, as amended).

This is to further certify that the various business engagements of Director Bangayan do not necessarily hamper his functions as board member because his function as such is limited to policy making only; to establish policy and he does not engage in the detailed management of the District (Section 18 of PD 198, as amended). He performs the functions as policy maker during board meetings only.

As the regulatory authority of the local water districts, the Administration does not see any impediment nor interpose any objection to the appointment of Director Bangayan as board of director to Chelsea Logistics Holding Corporation or to any other corporation for that matter.

This certification is issued for whatever legal purpose this may serve.

Quezon City, Philippines, February 15, 2019.

Engr. Rogelio B. Luy Chairman, LWUA Board of Trustees



### Republic of the Philippines

### PHIVIDEC INDUSTRIAL AUTHORITY PHIVIDEC INDUSTRIAL ESTATE – MISAMIS ORIENTAL

Tagoloan, Misamis Oriental

February 15, 2019

JUSTICE ELPIDIO J. VEGA

Government Corporate Counsel
Office of the Government Corporate Counsel
3<sup>rd</sup> Floor, MWSS Administration Building,
Katipunan Road, Balara, Quezon City

O.G.C.C.
Receiving Section

Received By: \_

Date: 2 . 18 . 19

### Dear Justice Vega:

The undersigned was appointed by President Rodrigo R. Duterte last June 14, 2017 as Chairman of the board of directors of Phividec Industrial Authority (PIA). Since I'm coming from the private sector, I immediately resigned my position as CEO of an energy company and kept my two independent directorships with two other private corporations. My CEO position is full time and therefore might run in conflict with my new appointment. However, as chairman or directors of PIA, we are only limited to policy and direction setting of the company. The maximum days spent for these matters are two board meetings and two committee meetings a month. The day to day operations of PIA is handled and entrusted to the Administrator appointed also by President Duterte.

In view of this, may I formally seek the legal opinion of OGCC on this matter of directorship. Specifically, is there a law or ruling that prohibits me as Chairman of PIA to be elected as independent director of private corporations such as Chelsea Logistics Holdings Corporation, a private and listed corporation?

Your immediate reply before February 27, 2019 is highly appreciated. This is the date of our next PIA board meeting.

Thank you very much.

Very truly yours,

Jesus S. Gilevara II
Chairman of the Board