CHELSEA
LOGISTICS HOLDINGS CORP.
A UDENNA Company

SHIPPING

TRANSPORTATION

CHARTING THE COURSE

2018 ANNUAL REPORT

CHELSEA
LOGISTICS HOLDINGS CORP.
A UDENNA Company

SHIPPING

TRANSPORTATION

LOGISTICS

CHARTING THE COURSE

2018 ANNUAL REPORT

ABOUT THE REPORT

"There is no map, and charting a path ahead will not be easy. We will need to invent, which means we will need to experiment." – Jeff Bezos

Chelsea Logistics Holdings Corp. has a proven track record of being a challenger. We dare to take the path least taken, and where there is no path, to create our own. We are driven to serve, to excel, to dream.

The 3 rings symbolize our resolve to work together to become the finest shipping and logistics company known for our unrivalled customer service. And the 3 rings epitomize our commitment, despite the difficult market conditions, to people, to planet and to prosperity.

We continue to chart new courses. And in time, we will prevail.

INSIDE THE REPORT

VALUES

INTEGRITY
We adhere to the highest ethical and professional standards. Our reputation defines who we are.

EXCELLENCE
We deliver unsurpassed performance in all our endeavours.

PASSION
We are motivated and driven in what we do.

ENTERPRISE
We seize opportunities to enhance our growth.

TEAMWORK
We work as one to deliver on our commitments.

STEWARDSHIP
We utilize our assets responsibly.

To be the finest shipping and logistics company known for its unrivalled customer service.

VISION

MISSION

- We transport passengers, cargoes, petroleum, oil, chemicals and other bulk products.
- We satisfy our customers' needs through reliable, punctual, efficient and safe service.
- We constantly challenge ourselves to do better and to perform beyond what is expected.
- We care for the community and the environment by applying the best practices in ship management, adhering to global standards.
- We deliver superior returns to our stakeholders through prudent stewardship of our resources.

MESSAGE FROM THE CHAIRMAN & FOUNDER

A YEAR'S HIGHLIGHTS

Dear Fellow Shareholders,

2018 was an arduous year for the Company, which directly challenged our move towards the modernization of our fleet. But as Mahatma Gandhi once said, *"Be the change that you wish to see in the world"* and so we persevered, pursued our goals, and we are still moving forward despite the challenges that this course presents to our Company.

INTO OPEN SEAS

In December 2017, Fitch Ratings said that its outlook for the global shipping industry would remain negative for 2018, predominantly because of the prolonged overcapacity. Further, according to Fearnley Securities' research, several conditions suggested a better product market rate in 2018 however the realized spot rates globally were significantly lower than in 2017. This was primarily due to the largely upset crude market coupled with the volatile demands for coals and other minerals.

On the container shipping segment, the increasing supply of large-capacity container vessels puts extreme pressure on freight rates. As of August 2018, the shipyards worldwide have delivered newbuilt containerships with an aggregate capacity of 947,000 TEUs, while demolishing only 36,833 TEUs of the existing capacity. This general trend in 2018 kept the freight rates at bay. Though it may have been a critical low period for the container shipping market, the on-going structural changes in the shipping industry would ultimately benefit its stakeholders with the use of advanced technologies, which not only improve efficiency and profitability but also reduce carbon footprint of the new vessels.

These global factors gravely affected the overall Philippine shipping industry while the Philippine Maritime Industry Authority (MARINA) has just started implementing its domestic shipping modernization program. In addition, the country's fragmented shipping industry fostered tighter passenger and freight rate competitions at the expense of the safety of the passengers and cargos. Throwing its full support behind the MARINA's shipping modernization program, CLC continued with its own program to provide safe and efficient maritime transport to its passengers and cargo partners.

So, while the Company shoulders the heavy costs of improving and upgrading its assets and practices in order to be at par with international standards, we are looking forward to brighter years ahead as we welcome and operate our younger and more efficient fleet on the domestic and international seas.

INTO BIGGER SPACES

In 2017, CLC commenced its investment into the logistics industry through its acquisition of 100% of the shares of Worklink Services, Inc. (WSI) and by making a significant equity investment with 2Go Group. In 2018, to supplement the Group's growing shipping operations, WSI aggressively pursued available warehousing lots and spaces in the country, and this resulted in the doubling of its warehouse capacity to 6,022 square meters by the end of the year, including an expected additional 2.5-hectare warehouse complex located in Taguig City which will be completed in 2019.

CLC has also been aggressive in expanding its container yards through Trans-Asia Shipping Lines (Trans-Asia). In 2018, Trans-Asia developed new container yard facilities in Manila, Cagayan de Oro, and Davao with an aggregate capacity of over 14,000 square meters.

INTO NEW VENTURES

As part of our continuous desire to serve the Filipino people and contribute to the development of the Philippine economy, CLC participated in the bidding for the development of several infrastructure projects in the country. In October 2018, CLC was granted the Original Proponent Status by the Civil Aviation Authority of the Philippines for our proposal to operate and expand the Davao International Airport.

In November 2018, together with our majority shareholder – Udenna Corporation, and China Telecommunications Corporation and Mindanao Islamic Telephone Company, Inc., CLC submitted its bid as MISLATEL consortium for the New Major Player in the Philippines' telecommunications market. After the review process, the National Telecommunications Commission named MISLATEL as the third telecommunications player in the Philippines.

We believe that the expansion of our shipping and logistics operations and our venture into infrastructure projects will strongly benefit our Company in the long-term and subsequently, increase the Company's values to its stakeholders.

As part of our continuous desire to serve the Filipino people and contribute to the development of the Philippine economy, CLC participated in the bidding for the development of several infrastructure projects in the country.

All these endeavors would not have been possible without your trust and confidence in our capability. On behalf of our Board of Directors, Officers and employees, *Salamat sa inyong patuloy na pagtitiwala.*

Sincerely,

DENNIS A. UY
Chairman and Founder

PRESIDENT AND CEO'S REVIEW

A YEAR'S HIGHLIGHTS

"In the face of these challenges in the industry which tested the momentum of our business, we focused on geographical expansion and the programmed vessel modernization."

Chryss Alfonsus V. Damuy
Director, President & CEO

Dear fellow shareholders,

Since its incorporation in 2016, your Company, Chelsea Logistics Holdings Corp. ("CLC" or "Chelsea Logistics") has been steadily strengthening its long-term market position by offering a diversified service portfolio and expanding its national and regional coverage, while staying true to the values of Integrity, Excellence, Passion, Enterprise, Teamwork and Stewardship.

2018 proved to be a tumultuous year for Chelsea Logistics because of volatile market conditions and the steep surge in bunkering costs and dry-docking expenses. CLC reported a full-year net loss of 551 million from a net income of 161 million in 2017. In the face of these challenges in the industry which tested the momentum of our business, we focused on geographical expansion and the programmed vessel modernization.

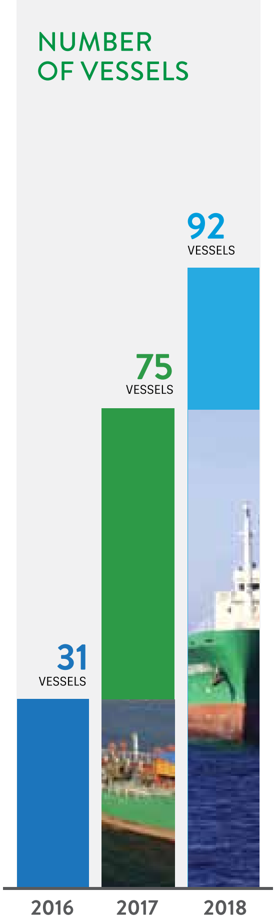
In the effort to expand its footprint, Chelsea Logistics, through its wholly-owned subsidiary, Chelsea Shipping Corp., acquired the country's biggest registered vessel – M/T Chelsea Providence. This acquisition doubled our tanker fleet's collective capacity to 120 million liters compared to 65.7 million liters in 2017, consequently, increasing the geographical availability of our chartering services in international waters, particularly in Southeast Asia. CLC also expanded its domestic coverage as the Company added several routes of operations and commenced service to new ports nationwide. In 2018, CLC, through its wholly-owned subsidiaries and associates, owned a 92-strong fleet which includes 16 tankers, 16 tugboats, 31 RoPax, 16 cargo ships, 11 fastcrafts, and 2 floating docks.

In support of the Government's objective of promoting safety and protection of the sea travelers and the marine environment, the Company has continuously strengthened its ship modernization initiatives by adding younger vessels to the fleet. We signed shipbuilding contracts with Kegoya Dock Co. Ltd, a highly-reputable Japan-based corporation, for the construction of brand-new passenger ferry vessels to be delivered over the next three years. Our roadmap for expansion and modernization was critical to focus on competitiveness and efficiency in a rigid shipping environment.

On the ground, Chelsea Logistics has been actively growing its logistics reach through Worklink Services, Inc., which recently broke ground on its 2.5-hectare property in Taguig City for a warehouse complex development. Similarly, Trans-Asia Shipping Lines, Inc. invested in new container yard facilities in Manila, Cagayan de Oro and Davao which put us in a better position to accommodate the growing cargo movement in the archipelago.

A more stringent regulatory marine environment compelled CLC to redefine its market strategies and enforce industrial and digital innovations to promote the Company's services to a wider market. As the Philippine economy is envisioned to perform solidly in 2019, we see growth opportunities to better serve our customers and stakeholders. Regardless of the challenges, we stay committed to be a financially robust Company which creates value for our shareholders and the communities in which we operate.

I would like to take this opportunity to thank you, my fellow shareholders, for your continued support. Rest assured, we are taking the necessary steps to further develop and strengthen your Company in order to create a significant economic impact in our society while maintaining safety and sustainability at the heart of our business.



CHELSEA AT A GLANCE

CLC is a corporation organized and registered with the Philippines Securities and Exchange Commission (SEC) on August 26, 2016 as Chelsea Shipping Group Corp. primarily to act as a holding company. On December 21, 2016, the Philippine SEC approved its change in corporate name to Chelsea Logistics Corp.

Subsequently, on June 27, 2017, the Philippine SEC again approved the Company's change in corporate name to Chelsea Logistics Holdings Corp.

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

CLC, through its wholly-owned subsidiaries and associate, is engaged in the shipping transport and logistics business, described in detail as follows:

1. **Chelsea Shipping Corp.**, incorporated on July 17, 2006, and which began commercial operations on January 1, 2007, is engaged in the maritime 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 in the Philippines.

2. **Trans-Asia Shipping Lines, Incorporated**, incorporated on March 25, 1974, is engaged in transporting passengers and cargo within Philippine territorial waters and/or in the high seas. The acquisition by the Company of Trans-Asia Shipping and its subsidiaries was completed in the last quarter of 2016.

3. **Worklink Services, Inc.**, established in June 2, 1994, provides domestic logistics solution for various local industries. Its services include courier, trucking, warehousing, and special account management handling. The Company completed its acquisition of Worklink Services in November 2017.

4. **Starlite Ferries, Inc.**, incorporated on August 25, 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. The Company completed its acquisition of Starlite Ferries in November 2017.

5. **2Go Group Inc.**, formed and organized in May 26, 1949, is an integrated transport solutions provider. The Company adopted the brand "2GO" as its flagship brand for its three core business units, namely, 2GO Freight, which handles commercial and personal shipping needs; 2GO Travel, which integrates passenger ships and fast ferries through land and sea multimodal transport linkages; and 2GO Supply Chain, which handles logistics, distribution, warehousing, and inventory management. The Company is engaged in the movement of people for passage business (2GO Travel) and cargo business (2GO Freight). The Company accounts for its investment in 2GO as an investment in an associate, in accordance with PAS 28, Investment in an Associate.

CHELSEA LOGISTICS HOLDINGS CORP.
CHELSEA SHIPPING CORP.
TRANS-ASIA SHIPPING LINES, INCORPORATED
UDENNA INVESTMENTS BV
STARLITE FERRIES, INC.
WORKLINK SERVICES, INC.
Bunkers Manila, Incorporated
Michael Inc.
PNX - Chelsea Shipping Corp.
Chelsea Ship Management & Marine Services Corp.
Chelsea Marine Manpower Resources, Inc.
Chelsea Dockyard Corp.
CD Ship Management & Marine Services Corp.
Fortis Tugs Corporation
Davao Gulf Marine Services Inc.
Oceanstar Shipping Corporation
Quality Metals & Shipworks, Inc.
Dynamic Cuisine, Inc.
Starsy Shoppe, Inc.
Star Maritima Port and Allied Services, Inc.
KGLI - NM Holdings, Inc.
Negros Navigation Co., Inc.
2Go Group Inc.
Starbites Food Services Corp.
Southwest Gallant Ferries, Inc.
Southwest Premiere Ferries, Inc.

CHARTING THE COURSE TO MODERNIZATION

JULY 5
Groundbreaking ceremony of Worklink's new warehouse facility in Taguig City

AUGUST 10
Acquisition of MV Salve Regina through Southwest Gallant Ferries, Inc.

AUGUST 22
Trans-Asia's new route: Manila – Cagayan de oro – Manila route

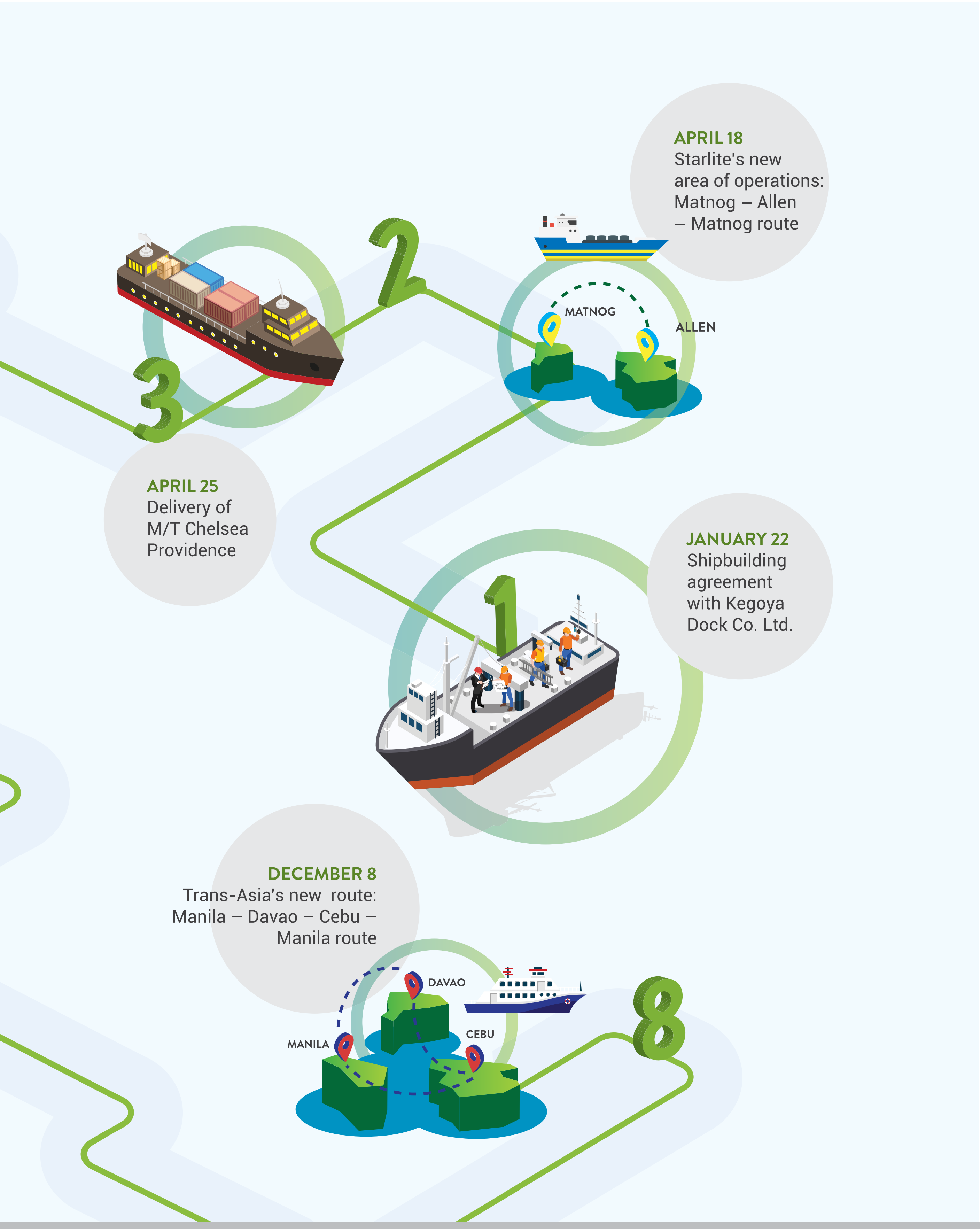
OCTOBER 22
Acquisition of MV Stella del Mar through Southwest Premiere Ferries, Inc.

JANUARY 22
Shipbuilding agreement with Kegoya Dock Co. Ltd.

APRIL 18
Starlite's new area of operations: Matnog – Allen – Matnog route

APRIL 25
Delivery of M/T Chelsea Providence

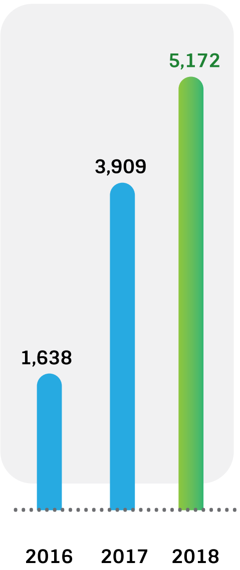
DECEMBER 8
Trans-Asia's new route: Manila – Davao – Cebu – Manila route



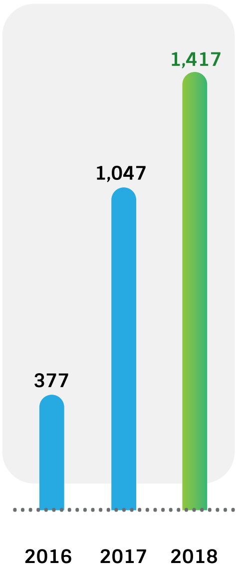
FINANCIAL HIGHLIGHTS

(Amounts in PHP millions)

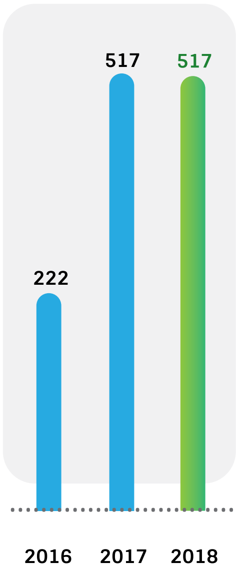
REVENUES



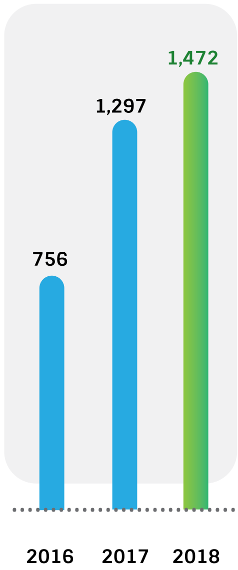
GROSS PROFIT



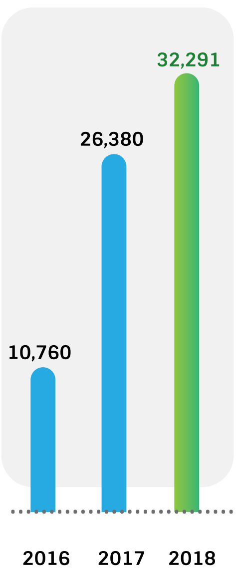
OPERATING PROFIT



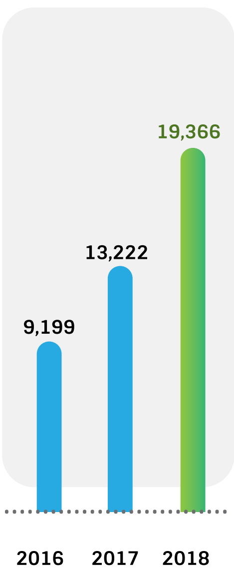
EBITDA



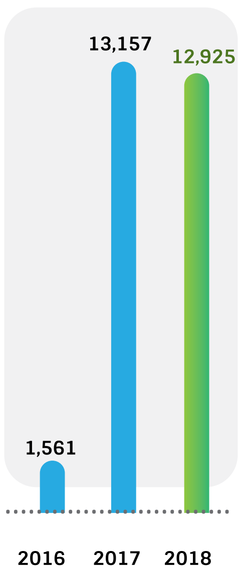
TOTAL ASSETS



TOTAL LIABILITIES

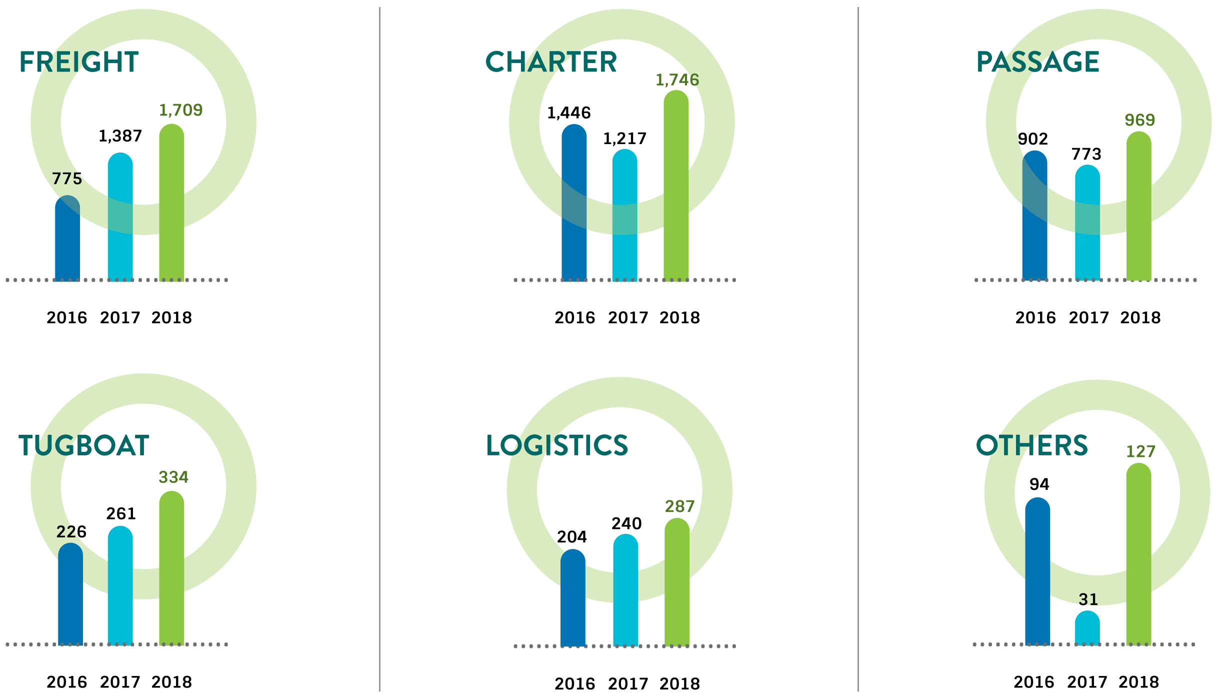


TOTAL EQUITY



Amounts in PHP millions	2016	2017	2018	% Change (2018 vs 2017)
INCOME STATEMENT				
Revenues	1,638	3,909	5,172	32%
Cost of Sales and Services	1,261	2,862	3,755	31%
Gross Profit	377	1,047	1,417	35%
Other Operating Expenses	155	530	901	70%
Operating Profit	222	517	517	0%
Share in Net Income (Loss) of an Associate	-	(2)	(453)	22,989%
Other Income (Charges)	(86)	(36)	(686)	89%
Profit Before Pre-acquisition Income and Tax	136	153	(622)	-507%
Pre-acquisition Income	-	105	-	-100%
Profit (Loss) Before Tax	136	47	(622)	-1,414%
Tax Expense	4	(114)	(72)	-37%
Net Profit (Loss)	132	161	(551)	-441%
EBITDA	**756**	**1,297**	**1,472**	**13%**
FINANCIAL CONDITION				
Total Assets	10,760	26,380	32,291	22%
Total Liabilities	9,199	13,222	19,366	46%
Total Equity	1,561	13,157	12,925	-2%
FINANCIAL RATIOS				
Debt to Equity Ratio	5.89	1.00	1.50	
Current Ratio	0.36	0.89	0.64	
Gross Profit Ratio	23%	27%	27%	
EBITDA Margin	46%	33%	29%	
Earnings per Share	0.26	0.12	(0.30)	
Book Value per Share	3.12	7.22	7.09	

REVENUE CONTRIBUTION PER BUSINESS SEGMENT
(PRO-FORMA)



2,656,828

PASSENGERS FOR 2018
EXCLUDING 2GO

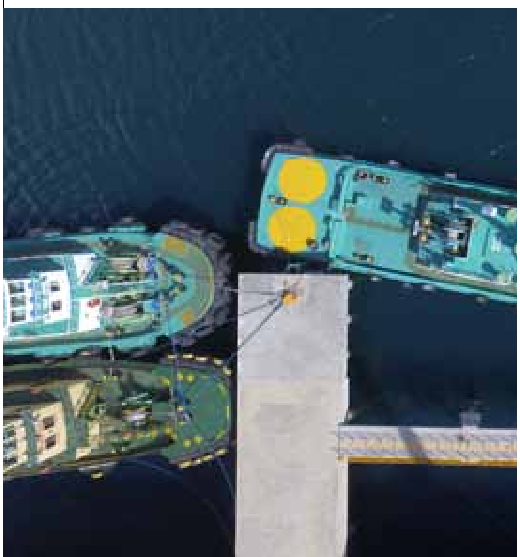
SHIPPING

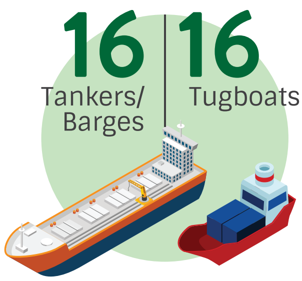
PASSENGER TRIPS FOR 2018
EXCLUDING 2GO

16,348

Starlite has capitalized on its strengthened brand and social media exposure by extending diversified rates and packages for its shipping services.
It welcomed nearly 2 million passengers onboard its vessels for full year 2018.

CHELSEA SHIPPING CORP.
A CHELSEA LOGISTICS HOLDINGS Company





Setting the course to a broader geographical footprint, Chelsea inaugurated the Philippines' biggest registered vessel – MT Chelsea Providence on October 5, 2018 at the Manila North Harbour Port. M/T Chelsea Providence is a 183.3-meter long medium-range oil tanker which can carry up to 54 million liters of petroleum at any given time. The launch of MT Chelsea Providence commenced Chelsea's foray into the regional liquid carrier market. This is also expected to support the local oil companies in the importation of various petroleum products and, consequently, ensure a continuous reliable fuel supply in the country.

With MT Chelsea Providence, Chelsea now dominates almost a quarter of the domestic tanker market. For its initial voyages, MT Chelsea Providence loaded fuel at various disports in the Southeast Asia region particularly in Korea and China and unloaded at various ports in the region and in the Philippines. As of end 2018, Chelsea's tanker fleet has an aggregate gross registered tonnage of 69,239 tons and a collective liquid carrier capacity of 120 million liters. Chelsea safely conveyed 563.1 million liters of petroleum in 2018, 20% higher than 468.3 million liters of petroleum products hauled in 2017.

Locally, Chelsea's tanker fleet calls at the ports of Batangas, Limay Bataan, Subic, Pililia, Rizal, Manila North & South Harbor, Pinamucan, Mindoro, Bicol, Dumaguit Aklan, Bredco Bacolod, Semirara, Ludo Cebu, Tayud Cebu, Talisayan Zamboanga, Misamis Oriental, Cagayan de Oro, Davao and General Santos.

Further, an emerging business segment of Chelsea is its tug assist through Fortis Tugs Corporation and Davao Gulf Marine Services. In 2018, Chelsea purchased an additional seven (7) tugboats, namely; Fortis VIII, Fortis IX, Fortis X, Fortis XI, Fortis XII, Fortis XV, and Steadfast, thereby increasing its tug fleet to sixteen (16) vessels by yearend. Tugboats are mainly used to maneuver tankers and other large vessels in harbors. Chelsea tugs predominantly serve in the Calaca, Batangas and Davao sea ports.

With the growing number of the vessels across the Group, Chelsea acquired two (2) floating docks to service the internal dry-docking and preventive maintenance requirements of the Group. These acquisitions are programmed to optimize the deployment schedule of the vessels as well as ultimately lessen the corresponding dry-docking expenses of the Group. These floating docks are named Chelsea Exuberance and Chelsea Agility.

Part of Chelsea's business activities are ship management and crewing services provided respectively by its wholly-owned subsidiaries, Chelsea Ship Management & Marine Services Corp., and Chelsea Marine Manpower Resources, Inc. CD Ship Management and Marine Services Corp., which is accredited by the Philippine Maritime Industry Authority (MARINA), the Department of Labor and Employment (DOLE), and the Philippine Overseas Employment Administration (POEA), deploys seafarers onboard the Group's vessels plying in the domestic and foreign seas. As of end December 2018, Chelsea's crew count stood at 1,050, 191% higher than in 2017.

Chelsea concluded the year with twelve (12) tankers, four (4) barges, sixteen (16) tugboats, and two (2) floating docks. Chelsea also owns three (3) cargo freighter vessels, which were under a Time Charter Agreement with 2Go Group, Inc. in 2018.

STARLITE FERRIES

280 Rolling Cargo Capacity

6,683 Passenger Capacity

12 RoPax | 2 Cargo Vessels

Setting the course to a safer and more efficient inter-island travel, Starlite acquired two (2) newly-built roll-on/roll-off passenger (RoPax) vessels in 2018. These are MV Stella Del Mar and MV Salve Regina with a capacity of 977 and 525 passengers, respectively. Both vessels can accommodate 26 rolling cargos at any given time. MV Stella Del Mar operates in the Roxas – Mindoro– Caticlan routes, while MV Salve Regina traverses the Batangas – Caticlan– Batangas route.

Beginning first half of the year, Starlite expanded its routes of operations to include the Matnog – Allen – Matnog trade link, where MV Archer, Starlite's 2017-built RoPax vessel, has been initially deployed. The MARINA has granted Starlite the Pioneer Status with respect to this route upon its deployment of MV Archer. Similarly, MARINA has granted the Pioneer Status to Starlite with MV Salve Regina's assignment in the Batangas – Caticlan– Batangas route.

MARINA Circular No. 2015-04 (MC2015-04) concerning Rules and Regulations to Implement Executive Order 909 was issued to encourage the modernization or improvement and upgrading of the existing domestic merchant fleet as well as to introduce the concept of internationally-classed brand-new vessels in the Philippine shipping industry. In accordance with MC2015-04, amongst the incentives for domestic shipowners or operators which have been granted a Pioneer Status is the protection of its investment and/or protection of the applied route for a period of six (6) years, through an imposition of a moratorium on the deployment of additional vessels or prohibition on other vessels plying the identified route.

In 2018, the regular navigation schedules of Starlite fleet covered six (6) domestic trade links: namely, (i) Batangas – Calapan – Batangas, (ii) Batangas – Puerto Galera – Batangas, (iii) Batangas – Caticlan – Batangas, (iv) Roxas – Caticlan – Roxas, (v) Roxas – Odiongan – Roxas, and (vi) Matnog – Allen – Matnog.

In addition to routes expansion and acquisition of vessels, Starlite established a food services business using its own brand – *Starbites*. It also entered into a partnership with *FamilyMart CVS Inc.* during the second half of 2018 with the objective of offering its passengers a more convenient source of meals and refreshments while navigating the Philippine seas. To date, each Starlite RoPax vessel has either *Starbites* or *FamilyMart* branch onboard.

Starlite has capitalized on its strengthened brand and social media exposure by extending diversified rates and packages for its shipping services. It welcomed nearly 2 million passengers onboard its vessels for full year 2018. This represents a 15% year-on-year increase in headcount compared to the same period in 2017. Likewise, the rolling cargos moved by Starlite vessels grew by 25% to 255,762 units in 2018. Consequently, Starlite's utilization rates are 27% for passage and 81% for rolling cargo.

Starlite ended 2018 with twelve (12) RoPax vessels and one (1) LCT and one (1) general cargo ship completing 12,554 voyages for passengers and 14,666 trips for cargos.

Trans-Asia SHIPPING LINES, INC.

8 RoPax | **6** Cargo Vessels

4,939 Passenger Capacity

2,038 TEUs Cargo Capacity

Setting the course to a bigger and bolder shipping experience, Trans-Asia launched its new flagship vessel – MV Trans-Asia 1 on August 3, 2018.Originally built in France, MV Trans-Asia 1 has a gross registered tonnage of 11,457 tons, an overall length of 116.07 meters, a breadth of 21.00 meters, and a depth of 12.90 meters. It can carry around 1,100 passengers and 200 equivalent TEUs at any given time. MV Trans-Asia 1 has been deployed in the Cebu – Cagayan de Oro – Cebu domestic route, where Trans-Asia's market share vis-à-vis passenger carried is strongest at 75%.

With MV Trans-Asia 1's intricate interiors and vast capacity, the passengers can find pleasure with the diverse accommodation options and the luxury of space and privacy it offers. MV Trans-Asia 1 also provides several amenities for entertainment and convenience onboard, such as Spa and Salon, a KTV room, a clinic facility, a Starsy Shoppe convenience store, and a Dynamic Cuisine canteen and self-service restaurant, among others.

Aside from propelling its RoPax services, Trans-Asia equally fortified its freighter segment. During the first half of 2018, Trans-Asia acquired two (2) cargo freighter vessels –MV Trans-Asia 16 and MV Trans-Asia 17. Each vessel can carry about 500 TEUs at any given time. Further, MV Trans-Asia 15, which was delivered in late 2017, has been operational in 2018. These acquisitions quadrupled the existing cargo capacity of Trans-Asia.

Towards the end of 2018, two (2) new routes were added into Trans-Asia's service areas. These are the Manila – Cagayan de Oro – Cebu – Manila and Manila – Davao –

Cebu – Manila domestic trade links. For the year, Trans-Asia operated in six (6) domestic passage routes namely: (i) Cebu – Cagayan de Oro – Cebu, (ii) Cebu – Iloilo – Cebu, (iii) Cebu – Ozamiz – Cebu, (iv) Cebu – Iligan – Cebu, (v) Cebu – Tagbilaran – Cebu, and (vi) Tagbilaran – Cagayan de Oro – Tagbilaran, and in six (6) pure cargo routes; namely, (i) Cebu – Masbate – Cebu, (ii) Cebu – Zamboanga – Cebu, (iii) Cebu – Tacloban – Cebu, (iv) Manila – Cebu – Manila, (v) Manila – Cagayan de Oro – Cebu – Manila, and (vi) Manila – Davao – Cebu – Manila.

To complement its fleet and routes expansion, Trans-Asia developed new container yard facilities in Manila with an area of 8,387 square meters, in Cagayan de Oro with an area of 3,849 square meters, and a temporary container yard in Davao with approximately 2,000 square meters. Moreover, Trans-Asia imported an additional 1,300 units of container vans to support the growth of its cargo freighter segment. As of end 2018, Trans-Asia has a total of 25,291 square meters of container yard spaces.

These developments enabled Trans-Asia to transport more than 700,000 passengers and over 1.8 million tons of cargo to various local destinations in 2018. This is an 18% annual increase in the number of sea travelers and an 11% growth in the conveyance of containerized and loose cargos through Trans-Asia fleet. Consequently, Trans-Asia's utilization rates are 60% for passage and 63% for cargos.

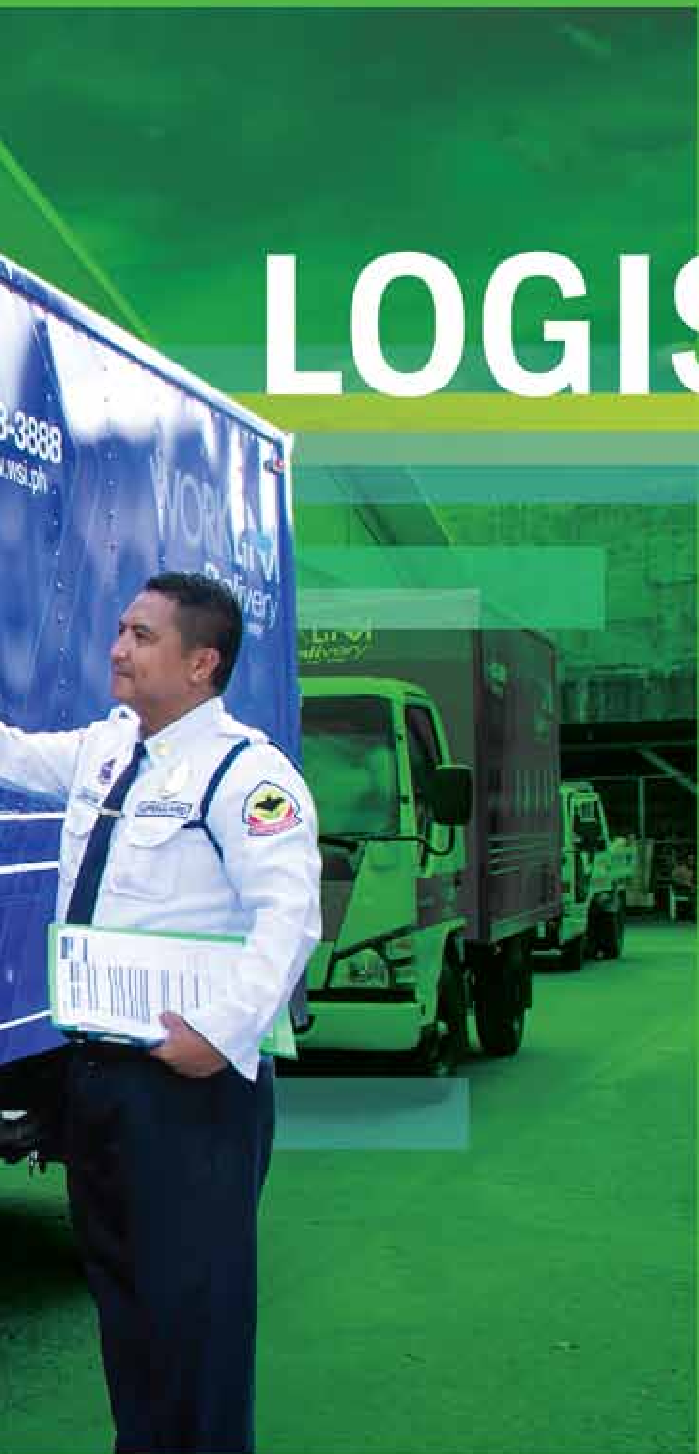
Trans-Asia ended 2018 with eight (8) RoPax vessels and six (6) cargo freighter ships completing 1,682 voyages for passengers and 2,201 trips for freights.

DELIVERY TRANSACTIONS IN 2018

420,440

AREA COVERAGE: 74 PROVINCES

LOGISTICS

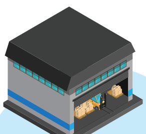


In response to the evolving logistics and distribution landscape in the Philippines, Worklink began to heavily invest in infrastructure facilities and systems that are necessary to increase its presence in the market.

WORKLINK SERVICES, INC.
A CHELSEA LOGISTICS HOLDINGS Company

49 Delivery Trucks

91 TONS Cargo Capacity



6,022 Warehouse Capacity

Setting the course to simple, fast, and easy delivery solutions, WorkLink more than quadrupled its operating fleet size and doubled its warehouse capacity in 2018. In response to the evolving logistics and distribution landscape in the Philippines, Worklink began to heavily invest in infrastructure facilities and systems that are necessary to increase its presence in the market.

On July 5, 2018, Worklink held the groundbreaking ceremony of its 2.5-hectare property located in Brgy. Tipas, Taguig City. This property is being developed into a warehouse complex that can store various types of products and shipments, including temperature-sensitive stocks.

Worklink's prior experience in shortage of available trucks for deliveries prompted it to purchase additional units for its trucking fleet as opposed to the past practice of entering into lease arrangements with other truck owners. Hence, from owning ten (10) trucks in 2017, Worklink amplified its fleet nearly five times to forty-nine (49) delivery vans as of end 2018.

Worklink proved itself to be a reliable professional logistics partner and has evolved to offer a wide range of logistics support solutions through its network of service partners nationwide. As part of its marketing campaign, Worklink originated the by-lines *"DAlivery"*, *"Aksyon Agad"* and *"Extra mile logistics"*. These were registered with the Intellectual Property Office of the Philippines together with Worklink's Company logo in 2018.

In October of the same year, the Group, including Worklink, participated in the Supply Chain Conference hosted by the Supply Chain Management Association of the Philippines (SCMAP) at EDSA Shangri-la, Manila. The annual SCMAP's Supply Chain Conference is a venue to gather different personalities and companies across the supply chain sector of the Philippines and tackle the issues that the sector faces and its continually progressing role in connecting, engaging, and moving lives.

Worklink's strategic and marketing efforts in 2018 translated into a double-digit growth as its delivery transactions increased by 23% to

420,440 compared to 342,031 booked in 2017. About 11% of its full year revenue was attributable to the seventeen (17) newly-contracted clients in 2018. Its operating fleet was practically fully utilized during the year. Meanwhile, during the same period, its warehouses with an aggregate space of 6, 022 sqm. located in Metro Manila and Cebu were 100% occupied most of the time. Its Davao facility still has to perform, however, bringing the average occupancy rate of the warehouse facilities at 83% for 2018.

Worklink ended 2018 with a trucking fleet comprised of sixteen (16) 4-wheeler trucks, two (2) 6-wheeler trucks, seven (7) L300, and twenty-four (24) reefer vans.

2GO group, inc.

2GO Group, Inc. and its subsidiaries (collectively referred to as 2GO Group) is one of the largest premier logistics provider in the Philippines.

The Company offers a wide selection of hotel accommodations and services, tours and events packages, with the ease of land and sea travel. Its shipping group utilizes roll-on/ roll-off cargo and passenger vessels, cargo freighter vessels, and fastcrafts. Its logistics and distribution group, on the other hand, offers domestic and international delivery solutions, wide-range of warehousing options, and other value-added distribution services.

The shares of stock of 2GO Group, Inc. (2GO) are publicly-listed in the Philippine Stock Exchange. As of December 31, 2018, Udenna Investments B.V. (UIBV), a private limited liability company organized under the Dutch Law, owns 80% economic interests in KGLI-NM Holdings, Inc., a domestic investment holding company which holds 39.85% economic interests in Negros Navigation Co., Inc. (NENACO). Thereby, NENACO owns 88.3% of 2GO Group, Inc.

In March 2017, CLC acquired all of the outstanding capital stock of UIBV through a share swap agreement with Udenna Corporation. This acquisition resulted to CLC owning 28.15% indirect economic interests in 2GO Group. The strategic acquisition of the 2GO Group enables CLC to amplify its shipping and logistics network and better serve a larger part of the Philippine archipelago.

In February 2018, 2GO's Board of Directors approved the internal restructuring of the Group via merger of 2GO with its parent company, NENACO, with 2GO as the surviving entity. This was subsequently approved by the Philippine SEC on January 2, 2019. This is envisioned to simplify 2GO Group's corporate structure and consequently, streamline operations, reduce costs and increase shareholder value.

As of December 31, 2018, 2GO Group has a total fleet of twenty-seven (27) operating vessels, eight (8) of which are roll-on/ roll-off passenger vessels, eight (8) cargo vessel and eleven (11) fastcrafts.

27 Operating Vessels

8 RoPax **8** Cargo Vessels **11** Fastcrafts

AREAS OF OPERATIONS – SHIPPING

AREAS OF OPERATIONS – LOGISTICS

SMALL COURSES TOWARDS BIG CHANGES

Chelsea Logistics Holdings Corp. and its Subsidiaries ("CLC Group") are driven to deliver exceptional performance by promoting innovative and integrated shipping and logistics services and diligent stewardship of our resources. We continue to strengthen our partnerships with the local communities to achieve tangible and sustainable Corporate Social Responsibilities (CSR) Program Plans, thereby maximizing favorable impacts on the society and environment.

CLC Group is one with the country and the global community in promotion and realization of sustainable development goals with priority in quality education, climate action and inclusive partnerships.

Brigada Eskwela also known as "Bayanihan Para sa Paaralan (Working together for Schools)" is a nationwide initiative by the Department of Education (DepEd) that promotes collective effort for public schools' maintenance.

In support of this government initiative, CLC, Chelsea Shipping Corp. (Chelsea Shipping), PNX-Chelsea Shipping Corp. (PNX – Chelsea), and Starlite Ferries, Inc. (Starlite) have collaborated in repainting the classroom walls and fences of Tipas Elementary School (TES) in Taguig City and Julian A. Pastor Memorial Elementary School (JAPMES) in Batangas City on May 26, 2018.

Further, in coordination with the teachers and school volunteers, we were able to provide primary school materials including bags, notebooks, pencils, box of crayons, and pad papers to thirty-five (35) Grade 3 pupils of TES. CLC also donated a sack of floor wax, and several children's books for their classroom library project.

The Brigada Eskwela may seem simple, but no effort is too small to make a difference. By getting involved, the Chelsea Group has contributed in promoting an effective learning environment for young children and that small act is a significant step to every child's education.

From A Tiny Seed To A Mighty Trunk

On September 1, 2018, marking its fifth year of partnership with the Municipality of San Nicolas and City Environment and Natural Resources Office – Department of Environment and Natural Resources (CENRO-DENR), CLC Group planted an additional one thousand (1,000) seedlings to carpet the slopes of Taal Volcano in a tree-planting activity held at Brgy. Alas-as San Nicolas, Batangas.

Since its incorporation in 2016, CLC has already planted two thousand two hundred (2,200) seedlings as part of DENR's National Greening Program (NGP). These trees are now in various states of growth – from tiny buds and seedlings to young trees which reminds us why we continue our initiative – that our efforts no matter the scale – are not futile.

On October 27, 2018, another green initiative which aims to protect the marine environment was led by CLC Group together with CENRO-DENR at the Calaca Industrial Seaport in Batangas. In contribution to the global coastal clean-up, fifty-one (51) of our employees jointly collected litter on the coastal bay area. The team amassed 110 sacks of garbage containing plastic residues, plastic bottles, diapers, and other non-biodegradable waste materials.

2,200 Seedlings planted

CLC, with shipping as one of its core businesses, harnessed the power of its people to take an active role in the protection of marine environment from the trash and pollution. By removing garbage from the shore, we lessen the potential of these pollutants in damaging marine life and ecosystems. We also deemed that the short-term benefits of coastal clean-up translate to a long-term value – promoting awareness about environmental challenges that affect us all.

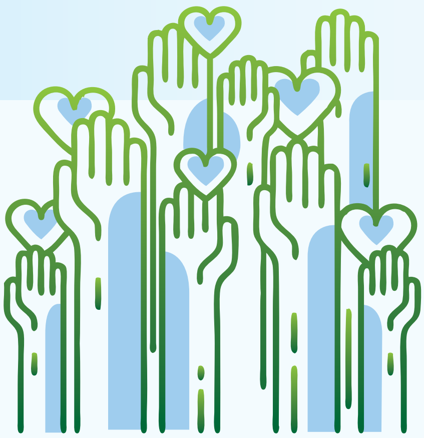
Further, we are taking steps to reduce the environmental footprint of our operations from services to transactions, such as reducing the volume of generated waste and increasing the percentage of recycled waste. Together with local government units and non-government organizations, CLC Group aspires to strengthen our adaptive and preventive capacity to environmental threats and natural calamities.

The Culture of Giving Back

To complement with its key CSR initiatives, CLC also promotes the Christmas spirit of giving back to the community. This is through "Pasko para sa mga Bata" – the Company's gift-giving initiative for the less fortunate children.

On December 14, 2018, CLC chose Brgy. Bambang, Taguig City as its first barangay recipient. Forty-two (42) children were given PhP900 worth of groceries paired with a new toy to play with during the holiday season.

In addition, to keep us abreast with various government CSR initiatives, we have fostered inclusive and meaningful partnerships with the national, regional and local entities who share the same values, visions and goals.



42 Children beneficiaries of groceries and toy donations for the holiday season

With the people and the environment at the center of our initiatives, we will continuously devote our resources in delivering trustworthy and reliable shipping and logistics services and in upholding sustainable CSR programs to help build a better nation.

CORPORATE GOVERNANCE

Chelsea Logistics Holdings Corp. ("CLC" or the "Company") adopted a Manual of Corporate Governance (the "Manual") to ensure its compliance with the leading practices on good corporate governance and related Philippine Securities and Exchange Commission (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 provides 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 shall continue to improve its corporate governance and shall amend the Manual as may be necessary.

A copy of the Manual containing the foregoing provisions was submitted to the Philippine SEC.

THE BOARD OF DIRECTORS

CLC's Board of Directors (the "Board") is primarily responsible for the governance of the Company. Corollary to setting the policies for the accomplishment of the corporate objectives, the Board shall provide an independent check on Management.

The Board of Directors has nine (9) members who shall be elected by the stockholders at a regular or special meeting in accordance with the Amended By-Laws of the Corporation. The Board shall be composed of Directors with a collective working knowledge, experience or expertise that is relevant to the Company's industry/sector. The Amended By-laws require the election of three (3) Independent Directors which shall constitute twenty percent (20%) of the members of the Board, or whichever is lesser, but in no case less than three (3).

In accordance with the Company's Amended By-Laws and Manual of Corporate Governance, the Board in 2018 was comprised of 9 (nine) members elected by the shareholders during the Annual Shareholders' Meeting held on March 19, 2018. The Company has six (6) Non-Executive Directors, three (3) of which are Independent Directors.

Members of the Board of Directors

Non-Executive, Non-Independent Directors	Non-Executive, Independent Directors	Executive Directors
Dennis A. Uy	Miguel Rene A. Dominguez	Chryss Alfonsus V. Damuy
Eduardo A. Bangayan	Jesus S. Guevara II	Cherylyn C. Uy
Efren E. Uy	Gener T. Mendoza	Arthur Kenneth L. Sy

Directorship in Other Listed Companies

The following members of the Board are also Directors of the publicly-listed companies identified below:

Director's Name	Name of Listed Company	Directorship for 2018
Dennis A. Uy	Phoenix Petroleum Philippines, Inc.	Executive Director
	2Go Group, Inc.	Chairman
	PH Resorts Group Holdings, Inc.	Chairman
	ISM Communications, Inc.	Non-Executive Director
	Atok-Big Wedge Co., Inc.	Vice Chairman
	APEX Mining Co., Inc.	Independent Director
	Alphaland Corporation	Director
Cherylyn C. Uy	Phoenix Petroleum Philippines, Inc.	Non-Executive Director
	PH Resorts Group Holdings, Inc.	Executive Director
	ISM Communications, Inc.	Non-Executive Director
Eduardo A. Bangayan	Manila Mining Corporation	Independent Director
Gener T. Mendoza	IPM Holdings, Inc.	Non-Executive Director

Independent Directors

An "Independent Director" is a person who, apart from his fees and shareholdings, which shareholdings does not exceed two percent (2%) of the shares of the Company and/or its related companies or any of its substantial shareholders, is independent of Management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of any independent judgement in carrying out his responsibilities as a Director in the Company.

In compliance with the SEC requirement – that at least 20% of the Board should be independent directors with no material relationship with the Company, three (3) Independent Directors – Gener T. Mendoza, Miguel Rene A. Dominguez and Jesus S. Guevara II – were elected on March 19, 2018.

CORPORATE GOVERNANCE

Criteria for Independence for Independent Directors

The Board of Directors through the Nomination Committee reviews and evaluates the qualifications of all persons nominated to the Board, including the Independent Director(s). The Committee assesses his or her qualifications for independence based on the following criteria:

A person who:

a) Is not or has not been a senior officer of employee of the Company unless there has been a change in the controlling ownership of the Company;

b) Is not and has not been in the three (3) years immediately preceding the election, a Director of the Company; a Director, officer, employee of the Company's subsidiaries, associates, affiliates or related companies; or a Director, officer, employee of the Company's substantial shareholders and its related companies;

c) Has not been appointed in the Company, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus", "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his or her election;

d) Is not an owner of more than two percent (2%) of the outstanding shares of the Company, its subsidiaries, associates, affiliates or related companies;

e) Is not a relative of a Director, officer, or substantial shareholder of the Company or any of its related companies or of any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;

f) Is not acting as nominee or representative of any Director of the Company or any of its related companies;

g) Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;

h) Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the Company, any of its related companies or substantial shareholder, or is otherwise independent of Management and free from any business or other relationship within the three (3) years immediately preceding the date of his election;

i) Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the Company or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment;

j) Is not affiliated with any non-profit that receives significant funding from the Company or any of its related companies or substantial shareholders; and

k) Is not employed as an executive officer of another company where any of the Company's executives serve as Directors.

Attendance of the Board

For the period January 1, 2018 to December 31, 2018, there were five (5) Board Meetings and one (1) Stockholders' Meeting held. The attendance at these meetings is as follows:

COMMITTEES OF THE BOARD OF DIRECTORS

CLC's Board of Directors created and appointed Directors to the five (5) Board committees set forth below. Each member of the respective committees named below holds office as of the date of this report and will serve until his successor is elected and qualified. The five Committees are: (i) the Nomination Committee; (ii) the Audit Committee; (iii) Corporate Governance Committee; (iv) Board Risk Oversight Committee, and the (v) Related Party Transaction Committee.

Directors' Name	Total No. of Board Meetings	No. of Board Meetings Attended	Percentage of Attendance (%)	Attended Annual Stockholders' Meeting? (Y/N)
Dennis A. Uy	5	5	100%	Y
Chryss Alfonsus V. Damuy	5	5	100%	Y
Cherylyn C. Uy	5	4	80%	Y
Arthur Kenneth L. Sy	5	5	100%	Y
Efren E. Uy	5	5	100%	Y
Eduardo A. Bangayan	5	5	100%	Y
Miguel Rene A. Dominguez	5	2	40%	Y
Jesus S. Guevara II	5	5	100%	Y
Gener T. Mendoza	5	5	100%	Y

CORPORATE GOVERNANCE

Nomination Committee

CLC's Nomination Committee is responsible for reviewing and evaluating the qualifications of all persons nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of Directors. The Nomination Committee must comprise at least three (3) Directors, one of whom should be an Independent Director. The Nomination Committee reports directly to CLC's Board of Directors.

Audit Committee

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:

- 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;

- Perform oversight functions over our 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;

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

- 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;

- 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;

- Monitor and evaluate the adequacy and effectiveness of our internal control system including financial reporting control and information technology security;

- Review the reports submitted by the internal and external auditors;

- 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;

- Coordinate, monitor and facilitate compliance with laws, rules and regulations;

- 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,

- Establish and identify the reporting line of our internal auditor to enable him to properly fulfil his duties and responsibilities. It shall functionally report directly to the Audit Committee.

Corporate Governance Committee

The Corporate Governance Committee shall be composed of at least three (3) members, all of whom should be Independent Directors, including the Chairman. The Corporate Governance Committee shall have the following duties and functions, among others:

- Oversee the implementation of the corporate governance framework and periodically review the said framework to ensure that it remains appropriate in light of material changes to the Company's size, complexity and business strategy, as well as its business and regulatory environments;

- Oversee the periodic performance evaluation of the Board and its Committees as well as executive management, and conduct an annual self-evaluation of its performance;

- Ensure that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;

- Recommend continuing education/training programs for Directors, assignment of tasks/ projects to Board Committees, succession plan for the Board members and senior officers, and remuneration packages for corporate and individual performance;

- Adopt corporate governance policies and ensure that these are reviewed and updated regularly, and consistently implemented in form and substance;

- Propose and plan relevant trainings for the members of the Board;

- Determine the nomination and election process for the Company's Directors and has the special duty of defining the general profile of Board members that the Company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and

- Establish a formal and transparent procedure to develop a policy for determining the remuneration of Directors and officers that is consistent with the Company's culture and strategy as well as the business environment in which it operates.

Board Risk Oversight Committee

The Board Risk Oversight Committee shall be composed of at least three (3) members, majority of whom should be Independent Directors, including the Chairman. The Chairman should not be the Chairman of the Board or of

CORPORATE GOVERNANCE

any other committee. At least one member of the Committee must have relevant thorough knowledge and experience on risk and risk management. The Committee has the following duties and responsibilities:

- Develop a formal enterprise risk management plan which contains the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;

- Oversee the implementation of the enterprise risk management plan through a Management Risk Oversight Committee. The Committee conducts regular discussions on the Company's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;

- Evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The Committee revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;

- Advise the Board on its risk appetite levels and risk tolerance limits;

- Review at least annually the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Company;

- Assess the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Company and its stakeholders;

- Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management; and

- Report to the Board on a regular basis, or as deemed necessary, the Company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

Related Party Transaction Committee

The Related Party Transaction Committee shall be composed of at least three (3) non-executive Directors, two (2) of whom should be Independent, including the Chairman. The Committee shall have the following functions:

- Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties (RPTs) are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/ supervisors;

- Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:

    a. The related party's relationship to the Company and interest in the transaction;
    b. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
    c. The benefits to the Company of the proposed RPT;
    d. The availability of other sources of comparable products or services; and
    e. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.

- Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Company's affiliation or transactions with other related parties;

- Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

- Ensure that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and

- Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

CORPORATE GOVERNANCE

Members of the Board Committees

Nomination Committee	**Dennis A. Uy (Chairman)**
	Miguel Rene A. Dominguez
	Efren E. Uy
Audit Committee	**Gener T. Mendoza (Chairman)**
	Dennis A. Uy
	Jesus S. Guevara II
Corporate Governance Committee	**Gener T. Mendoza (Chairman)**
	Jesus S. Guevara II
	Miguel Rene A. Dominguez
Board Risk Oversight Committee	**Jesus S. Guevara II (Chairman)**
	Arthur Kenneth L. Sy
	Miguel Rene A. Dominguez
Related Party Transactions Committee	**Jesus S. Guevara II (Chairman)**
	Eduardo A. Bangayan
	Efren E. Uy

ACCOUNTABILITY AND AUDIT

The Board is primarily accountable to the shareholders and Management is primarily accountable to the Board. The Board provides the shareholders with a fair, balanced and comprehensive assessment of the Company's performance position and prospects on a quarterly basis including interim and other reports that could adversely affect its business as well as reports to SEC and PSE that are required by the law. It is essential that Management provides all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management formulates, under the supervision of the Audit Committee, the rules and procedure on financial reporting and internal control in accordance with the following guidelines:

a. The extent of its responsibility in the preparation of the financial statements of the Company, with corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;

b. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company for the benefit of all stockholders and other stakeholders;

c. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of the controls that cover the Company's financial reporting, governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets and compliance with contracts, laws, rules and regulations;

d. The Company should consistently comply with the financial reporting requirements of the SEC.

e. Present a fair assessment of the Company's financial position and prospects;

f. Explain the responsibility for preparing the accounts, for which there should be statement by the auditors about their reporting responsibilities;

g. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;

h. Maintain a sound system of internal control to safeguard stakeholders' investment and the Company's assets.

SHAREHOLDERS' RIGHTS

Voting Rights

The shareholders have the right to elect, remove and replace Directors and vote on certain corporate acts in accordance with the Corporation Code, and the Company's By-Laws. Cumulative voting shall be allowed in the election of Directors. Although Directors may be removed with or without cause, the Corporation Code prohibits removal without cause if it will deny minority shareholders representation in the Board.

Pre-emptive Rights

All stockholders have pre-emptive rights to subscribe to new shares issued by the Company, except when the Company issues shares (i) to satisfy the conversion rights of convertible promissory notes, bonds, or the other securities which may be issued by the Company with express right of conversion into shares of stock, or (ii) to raise funds to redeem or pay such convertible promissory notes, bonds or other securities of the Company.

Power of Inspection

Shareholders are allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code. They shall be provided with a copy of the annual report, including financial statements, without cost or restrictions in accordance with law.

Right to Information

The Shareholders shall be provided, upon request, with reports which disclose personal and professional information about the Directors and Officers and certain other matters such as their holdings of the Company's shares, dealings with the Company, relationships among Directors and key Officers, and the aggregate compensation of Directors and Officers, as may be required by law and applicable disclosure rules.

The minority shareholders have the same right of information as other shareholders of the Company. They should be granted the right to propose the holding of a meeting, and the right to propose the items in the agenda of the meeting, provided the items are for legitimate business purposes, in accordance with law.

Rights to Dividends

Shareholders have the right to receive dividends subject to the discretion of the Board to declare such dividends. However, the SEC may direct the Company to declare dividends when its retained earnings is in excess of 100% of its paid-up capital stock, except: (i) when justified

CORPORATE GOVERNANCE

by definite corporate expansion projects or programs approved by the Board or (ii) when the Corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or (iii) when it can be clearly shown that such retention is necessary under special circumstances in the Company, such as when there is a need for special reserve for probable contingencies.

Appraisal Right

Section 82 of the Corporation Code allows the exercise of the Shareholder's appraisal rights under the following circumstances:

a) In case any amendment to the Articles of Incorporation has the effect of changing or restricting the right of any stockholders 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;

b) In case of sale, 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

c) In case of merger or consolidation.

Promotion of Shareholders' Rights

The Board shall promote shareholders' rights in accordance with law, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and solution of collective act on problems through appropriate mechanisms in accordance with law. They shall remove excessive costs and other administrative or practical impediments to shareholders' participation in meetings and/or voting in person. The Board shall allow the electronic filing and distribution of shareholder information necessary to make informed decisions as may be allowed by law.

Right to Transparent and Fair Conduct of Stockholders' Meeting

The Board is transparent and fair in the conduct of the annual and special stockholders' meeting of the Company. The stockholders are encouraged to personally attend such meetings. If a shareholder cannot attend, he or she has a right to appoint a proxy. Subject to the requirements of the By-Laws, the exercise of this right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in stockholder's favor.

SEPARATE ROLES OF THE CHAIRMAN AND PRESIDENT & CHIEF EXECUTIVE OFFICER (CEO)

The Company promotes good governance through the separation of the posts of the Chairman and President & CEO. This is to achieve an appropriate balance of power, increase accountability and improve the Board's capacity for decision-making independent of the Management.

The Chairman of the Board is primarily responsible for ensuring that the Board Meeting agenda focuses on strategic matters, including the overall risk appetite of the Company, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect the operations of the

Company. The Chairman is also responsible in ensuring that the Board sufficiently challenges and inquires on reports submitted and representations made by the Management.

On the other hand, the President & CEO is in charge of the management and administration of the business operations, affairs and properties of the Company. He ensures that all resolutions of the Board are carried into effect and see that the business and affairs of the Company are managed in sound and prudent manner. He also ensures the reliability and integrity of the financial and operational information and effectiveness, as well as, the efficiency of operations.

The respective roles of CLC's Chairman and President & CEO were held by Dennis A. Uy and Chryss Alfonsus V. Damuy in 2018.

THE CORPORATE SECRETARY

The Corporate Secretary is an officer of the Company and is expected to observe the highest degree of professionalism, integrity and shall have the qualifications, duties and responsibilities specified in the By-Laws of the Company, or as may further be specified or designated by the Board of Directors. Atty. Ma. Henedina V. San Juan is the Company's Corporate Secretary. She is not a member of the Board and attended the Annual Shareholders' Meeting held on March 19, 2018.

INVESTOR RELATIONS OFFICER

The Investor Relations Office is tasked with the: (i) creation and implementation of an investor relations program that reaches out to all shareholders and informs them of corporate activities; and (ii) formulation of a clear policy for accurately, effectively and sufficiently communicating and relating relevant information to CLC's stakeholders as well as to the broader investor community.

The Investor Relations Officer (IRO) is responsible for ensuring that the CLC's shareholders have timely and uniform access to official announcements, disclosures and market-sensitive information relating to the Company. As CLC's officially designated spokesperson, the IRO will be responsible for receiving and responding to investor and shareholder queries. In addition, the IRO will oversee most aspects of CLC's shareholders meetings, press conferences, investor briefings, management of the investor relations portion of the CLC's website and the preparation of its annual reports. The IRO will also be responsible for conveying information such as the policy on corporate governance and corporate social responsibility, as well as other qualitative aspects of the Company's operations and performance.

Rishamae S. Diaz is the Company's designated Investor Relations Officer.

For any shareholder's concerns, please contact the Investor Relations Office at:

Email: info@chelsealogistics.ph
Tel.: +632 403-4015 local 859

COMPLIANCE OFFICER

The Company has appointed Atty. Leandro E. Abarquez as its Compliance Officer, who is tasked to ensure the Company's observance of corporate governance best practices, disclosures and continuing requirements of the Philippines SEC and the Philippine Stock Exchange.

BOARD OF DIRECTORS

CHERYLYN C. UY
Director, Treasurer

DENNIS A. UY
Chairman

CHRYSS ALFONSUS V. DAMUY
Director, President & CEO

ARTHUR KENNETH L. SY
Director

We believe that the expansion of our shipping and logistics operations and our venture into infrastructure projects will strongly benefit our Company in the long-term and subsequently, increase the Company's values to its stakeholders.

BOARD OF DIRECTORS' PROFILES

DENNIS A. UY
Chairman

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

CHRYSS ALFONSUS V. DAMUY
Director, President & CEO

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

CHERYLYN C. UY
Director, Treasurer

Cherylyn C. Uy, Filipino, 39 years old, is a Director and Treasurer of CLC since February 10, 2017. She also serves as the Treasurer of Chelsea Shipping Corp. and its subsidiaries. She is likewise a Director of Phoenix Petroleum Philippines, Inc. and the Corporate Treasurer of the Udenna Group of Companies and F2 Logistics, Inc. Ms. Uy is a graduate of Ateneo de Davao University with a degree in Business Finance.

ARTHUR KENNETH L. SY
Director

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

EFREN E. UY
Director

Efren E. Uy, Filipino, 57 years old, is a Director of CLC since March 27, 2017. Mr. Uy currently serves as the President and Chief Executive Officer of F2 Logistics Philippines, Inc., F2 Global Logistics, Inc., Agri Farmers, Inc., F8 Prime Transport Services, Inc., Ultimate Yellow

Transport Services, Inc., Fmoves Transport Corp. and Miren Holdings, Inc. He has a degree in Bachelor of Science in Mechanical Engineering from University of San Carlos.

EDUARDO A. BANGAYAN
Director

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

MIGUEL RENE A. DOMINGUEZ
Independent Director

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

JESUS S. GUEVARA II
Independent Director

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

GENER T. MENDOZA
Independent Director

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

MANAGEMENT TEAM

1 **CHRYSS ALFONSUS V. DAMUY**
President & CEO

2 **CHERYLYN C. UY**
Treasurer

3 **ARTHUR KENNETH L. SY**
President
Trans-Asia Shipping

4 **DEXTER SILVA**
President
Worklink Services Inc.

5 **IRWIN M. MONTANO**
Chief Operating Officer
Starlite Ferries, Inc.

6 **IGNACIA S. BRAGA IV**
Chief Financial Officer

7 **LEANDRO E. ABARQUEZ**
Chief Compliance Officer

8 **RODEL V. MARQUESES**
Finance Controller

9 **MA. HENEDINA V. SAN JUAN**
AVP – Legal and Corporate
Affairs / Corporate Secretary

10 **RISHAMAE S. DIAZ**
Investor Relations
Officer

11 **AVEGAIL A. DE LEON**
AVP - Human Resources

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.

Amount in PhP Millions	2018		2017		Change 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 December 31, 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 December 31, 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 January 01, 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. (CSC) for Phoenix Petroleum Philippines, Inc. 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 ₱901 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 Udenna Investment B.V. (UIBV) and 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 ₱762 million, share in net losses of 2Go Group, Inc. amounting to ₱453 million and foreign currency exchange losses of ₱56 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 December 31, 2018 compared to the ₱161 million net profit reported during the year ended December 31, 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 13% from ₱1,297 million in 2017 to ₱1,472 million in 2018.

Financial Condition

December 31, 2018 vs. December 31, 2017

Total resources of the Group grew to ₱32,291 million as of December 31, 2018 from ₱26,380 million as of December 31, 2017. The increase was brought about by the Group's continued expansion programs through the acquisition of various capital asset expenditures.

Cash and cash equivalents declined by 69% from ₱1,442 million as of December 31, 2017 to only ₱443 million as of December 31, 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 63% from ₱876 million as of December 31, 2017 to ₱1,430 million as of December 31, 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 December 31, 2017 to ₱165 million as of December 31, 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 December 31, 2017 to ₱964 million as of December 31, 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 December 31, 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 April 25, 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 December 31, 2017 to ₱1,821 million as of December 31, 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 December 31, 2017 to ₱3,497 million as of December 31, 2018. The increase in Trade and other payables was primarily due to timing of payment of trade payables.

Interest-bearing loans significantly increased by 51% from ₱10,332 million as of December 31, 2017 to ₱15,620 million as of December 31, 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 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 December 31, 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 to bridge financing of vessel acquisitions pending draw down of related loans. These advances have no repayment terms and are payable in cash on demand 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

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 ₱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	1.50	1.00	5.89
Book Value per Share	7.09	7.22	3.12
EBITDA Margin	29%	33%	
Return on Average Equity	-4.26%	2.19%	
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 Y 3,970 million (approximately ₱1.879 million). Total amounts paid as of December 31, 2018 amounted to ₱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.

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 not 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 & Araullo, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards of Auditing, and in their report to 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 13th day of February 2019 at Taguig City, affiants exhibited to me their respective TIN.

Doc. No. 324
Page No. 45
Book No. II
Series of 2019.

P&A Grant Thornton
An instinct for growth™

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

T +63 2 988 2288

Report of Independent Auditors

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 owner's 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 fulfille d 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.

P&A Grant Thornton
An instinct for growth™

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,

P&A Grant Thornton
An instinct for growth™

- 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 obligations;

- 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 revenue 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 the 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 5.6 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.

P&A Grant Thornton
An instinct for growth™

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 ₱14.4 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 dry-docking 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.

P&A Grant Thornton
An instinct for growth™

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 the 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 statement 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 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 and 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.

P&A Grant Thornton
An instinct for growth™

- 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 audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described 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: **Ramilito 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

(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	December 31, 2017 (As restated - see Note 2)	January 1, 2017 (As restated - see Note 2)
A S S E T S				
CURRENT ASSETS				
Cash and cash equivalents	4	**₱ 443,495,969**	₱ 1,441,704,190	₱ 508,940,431
Trade and other receivables - net	5	**1,430,045,495**	876,420,381	944,516,250
Subscription receivable	21	**-**	-	350,000,000
Financial assets at fair value through profit or loss	6	**3,947,736**	3,947,736	11,279,636
Inventories	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
Investment property		**-**	-	-
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		**₱ 32,291,255,323**	₱ 26,379,614,319	₱ 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	**₱ 3,496,662,037**	₱ 1,380,849,406	₱ 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**	-	-
Total Equity		**12,924,953,205**	13,157,388,412	1,560,668,987
TOTAL LIABILITIES AND EQUITY		**₱ 32,291,255,323**	₱ 26,379,614,319	₱ 10,759,904,976

See Notes to Consolidated Financial Statements.

(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 December 31, 2016
(Amounts in Philippine Pesos)

	Notes	**2018 (One year)**	2017 (One year)	2016 (Four months)
REVENUES				
Charter fees	20	**₱ 1,721,642,369**	₱ 1,194,216,186	₱ 1,422,433,646
Freight		**1,708,880,761**	1,387,445,706	-
Passage		**969,290,258**	773,491,556	-
Rendering of services		**377,620,815**	243,826,107	-
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	**3,754,741,525**	2,862,147,364	1,261,203,111
GROSS PROFIT		**1,417,290,518**	1,047,020,040	377,182,247
OTHER OPERATING EXPENSES	16	**900,510,203**	529,672,911	155,452,662
OPERATING PROFIT		**516,780,315**	517,347,129	221,729,585
OTHER INCOME (CHARGES) - Net				
Finance costs	18	**(835,388,144)**	(516,979,233)	(260,854,770)
Share in net loss of an associate	10	**(453,048,188)**	(1,962,214)	-
Finance income	18	**6,553,683**	10,401,760	730,801
Gain on bargain purchase	24	**4,370,340**	-	158,228,158
Other income	18	**138,602,416**	143,921,531	15,490,554
		(1,138,909,893)	(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	**-**	(105,375,776)	-
PROFIT (LOSS) BEFORE TAX		**(622,129,578)**	47,353,197	135,324,328
TAX INCOME (EXPENSE)	19	**71,596,622**	113,866,526	(3,644,520)
NET PROFIT (LOSS)		**(₱ 550,532,956)**	₱ 161,219,723	₱ 131,679,808
Earnings (Loss) Per Share (Basic and Diluted)	22	**(₱ 0.302)**	₱ 0.123	₱ 0.263

	Notes	**2018 (One year)**	2017 (One year)	2016 (Four months)
NET PROFIT (LOSS)		**(₱ 550,532,956)**	₱ 161,219,723	₱ 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	**(58,556,375)**	(3,154,527)	(23,690,669)
Remeasurement of post-employment benefit obligation	17	**27,358,603**	(1,317,864)	(47,994)
Currency exchange differences on translating financial statements of foreign operations	2	**1,466,209**	(223,517)	-
Share in the revaluation of vessels of an associate	10	**-**	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		**-**	(49,607)	-
Tax income		**-**	14,882	-
		-	(34,725)	-
Other Comprehensive Income - net of tax		**138,097,749**	170,636,894	778,147,867
TOTAL COMPREHENSIVE INCOME (LOSS) BEFORE PRE-ACQUSITION OTHER COMPREHENSIVE INCOME		**(412,435,207)**	331,856,617	909,827,675
PRE-ACQUISITION OTHER COMPREHENSIVE INCOME		**-**	(55,484,964)	-
TOTAL COMPREHENSIVE INCOME (LOSS)		**(₱ 412,435,207)**	₱ 276,371,653	₱ 909,827,675

See Notes to Consolidated Financial Statements.

(A Subsidiary of Udenna Corporation)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2018, 2017 and
For the Period August 26 to December 31, 2016
(Amounts in Philippine Pesos)

			Attributable to Owners	
	Notes	**Capital Stock**	**Additional paid-in Capital**	**Revaluation Reserves**
Balance at January 1, 2018	21	₱ 1,821,977,615	₱ 9,998,370,157	₱ 1,429,917,004
Additions during the year	14, 21	-	-	-
Total comprehensive income (loss) for the period		-	-	138,097,749
Transfer of revaluation reserves through depreciation, net of tax	21	-	-	(70,145,098)
Balance at December 31, 2018	**21**	**₱ 1,821,977,615**	**₱ 9,998,370,157**	**₱ 1,497,869,655**
Balance at January 1, 2017		500,000,000	-	₱ 1,370,998,267
Issuance of shares during the period	21	1,321,977,615	9,998,370,157	-
Total comprehensive income for the period				115,151,930
Transfer of revaluation reserves through depreciation, net of tax		-	-	(56,233,193)
Balance at December 31, 2017	**21**	**₱ 1,821,977,615**	**₱ 9,998,370,157**	**₱ 1,429,917,004**
Balance at August 26, 2016		1,000,000,000	-	582,411,766
Subscription of shares during the period	21	500,000,000	-	-
Effect of business combination	20	(1,000,000,000)	-	-
Total comprehensive income for the period		-	-	778,147,867
Transfer of revaluation reserves through depreciation, net of tax		-	-	(54,090,586)
Other comprehensive income from acquired subsidiaries	21	-	-	64,529,220
Balance at December 31, 2016		**₱ 500,000,000**	**-**	**₱ 1,370,998,267**

See Notes to Consolidated Financial Statements.

of the Parent Company				
Other Reserves	Retained Earnings	Total	Non-controlling Interest	Total Equity
(₱ 1,058,033,280)	₱ 965,156,916	₱ 13,157,388,412	-	₱ 13,157,388,412
-	-	-	180,000,000	180,000,000
-	(550,532,956)	(412,435,207)	-	(412,435,207)
-	70,145,098	-	-	-
(₱ 1,058,033,280)	**₱ 484,769,058**	**₱ 12,744,953,205**	**₱ 180,000,000**	**₱ 12,924,953,205**
(₱ 1,058,033,280)	₱ 747,704,000	₱ 1,560,668,987	-	P 1,560,668,987
-	-	11,320,347,772	-	11,320,347,772
-	161,219,723	276,371,653	-	276,371,653
-	56,233,193	-	-	-
(₱ 1,058,033,280)	**₱ 965,156,916**	**₱ 13,157,388,412**	**-**	**₱ 13,157,388,412**
-	561,933,606	₱ 2,144,345,372	-	₱ 2,144,345,372
-	-	500,000,000	-	500,000,000
(1,058,033,280)	-	(2,058,033,280)	-	(2,058,033,280)
-	131,679,808	909,827,675	-	909,827,675
-	54,090,586	-	-	-
-	-	64,529,220	-	64,529,220
(₱ 1,058,033,280)	**₱ 747,704,000**	**₱ 1,560,668,987**	**-**	**₱ 1,560,668,987**

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)**	2017 (One year)	2016 (Four months)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax Adjustments for:		**(₱ 622,129,578)**	₱ 47,353,197	₱ 135,324,328
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)**	(4,875,196)	(393,954)
Gain on sale of property and equipment	9	**(1,326,971)**	(376,008)	-
Gain on sale of available-for-sale (AFS) financial assets		**-**	(743,911)	-
Gain on sale of financial assets at fair value through profit or loss (FVTPL)		**-**	(87,784)	-
Fair value gain on disposed AFS reclassified to profit or loss		**-**	(49,607)	-
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)	-
Increase in advances to related parties		**(639,120,416)**	(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		**(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)	(278,550,987)
Increase (decrease) in advances from customers		**(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		**(63,428,617)**	(76,686,630)	(498,135)
Net Cash From (Used in) Operating Activities		**1,992,548,202**	(2,149,004,130)	(572,303,461)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	9	**(5,789,604,581)**	(1,677,390,638)	(1,151,308,873)
Proceeds from disposal of property and equipment	9	**201,169,131**	7,175,264	-
Additions to drydocking costs	11	**-**	-	-
Acquisitions of subsidiaries and additions to interest in a joint venture	10, 24	**(110,089,751)**	(2,290,863,390)	(1,834,117,990)
Proceeds from disposal of financial assets at FVTPL		**-**	7,419,684	-
Proceeds from disposal of AFS financial assets		**-**	3,809,000	-
Net Cash Used in Investing Activities		**(5,698,525,201)**	(3,949,850,080)	(2,985,426,863)
Balance carried forward		**(₱ 3,705,976,999)**	(₱ 6,098,854,210)	(₱ 3,557,730,324)

	Notes	**2018 (One year)**	2017 (One year)	2016 (Four months)
Balance brought forward		**(₱ 3,705,976,999)**	(₱ 6,098,854,210)	(₱ 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	**(1,281,746,979)**	(2,151,099,154)	(1,052,466,589)
Repayments of advances from related parties	20	**(1,039,877,313)**	(533,000,000)	(290,681,863)
Interest paid	18	**(719,520,091)**	(320,911,526)	(158,961,980)
Proceeds from advances from related parties	20	**35,203,829**	1,438,012,897	-
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		**-**	180,000,000	-
Proceeds from issuance of shares of stock	22	**-**	-	-
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		**-**	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	**15,335,457**	180,081,121	165,961,224
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**1,441,704,190**	508,940,431	30,827,174
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**₱ 443,495,969**	₱ 1,441,704,190	₱ 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 ₱40.2 million and ₱40.7 million, respectively (see Notes 9 and 12).

In 2018, the Group acquired certain machinery and equipment amounting to ₱76.8 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 ₱350.0 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.

(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:

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

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

Except for UIBV 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.

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

(m) Incorporated on January 8, 2018 and is engaged in the general business of building and repair of ships, boats and other kinds of vessels as well as in ship breaking activities. 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 ₱303.5 million and ₱169.1 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 ₱1,462.1 million and ₱245.4 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 ₱180.0 million and ₱50.0 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.

	As Previously Reported	Reclassification	As Adjusted
As of December 31, 2017			
Property and equipment - net	₱ 10,999,596,427	₱ 303,509,254	₱ 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	₱ 7,818,568,442	₱ 169,125,830	₱ 7,987,694,272
Other current assets	545,750,777	(245,365,837)	300,384,940
Other non-current assets – net	175,499,300	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). 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 filing. 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 short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in as part of Finance Income in the consolidated 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)	2 to 35 years
Building	20 years
Office furniture, fixtures and equipment	2 to 10 years
Transportation equipment	2 to 5 years

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

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

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

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

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

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

2.8 Drydocking Costs

Drydocking costs, 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:

1. the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;

2. 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.

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

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

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

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

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

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

2.19 Impairment of Non-financial Assets

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

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

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

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

2.20 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability or asset recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated regularly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds as published by 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	**₱ 429,068,769**	₱ 1,426,064,323
Short-term placements	**14,427,200**	15,639,867
	₱ 443,495,969	₱ 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 ₱1.6 million and of ₱31.0 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	2017
Trade receivables	20.1, 20.3	₱ **1,288,836,808**	₱ 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		**(17,601,775)**	(17,601,775)
		₱ **1,430,045,495**	₱ 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.

	2018	2017
Balance at beginning of year	₱ **17,601,775**	₱ 14,566,313
Impairment losses during the year	-	3,035,462
Balance at end of year	₱ **17,601,775**	₱ 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 ₱479.7 million and ₱27.5 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	2017
Fuel and lubricants	20.2	**₱ 216,726,685**	₱ 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
		₱ 525,904,778	₱ 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	2017 [As restated – see Note 2.2(d)]
Input VAT		**₱ 470,121,365**	₱ 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	**-**	29,406,231
Others		**170,110**	590,814
		₱ 963,520,687	₱ 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	CIP	Total
December 31, 2018							
Cost or revalued amounts	₱ 1,383,120,059	₱ 17,474,604,261	₱ 159,722,803	₱ 101,709,707	₱ 168,388,806	₱ 1,332,056,903	₱ 20,619,602,539
Accumulated depreciation and amortizaiton	-	(3,119,163,120)	(56,951,215)	(36,449,898)	(100,926,529)	-	(3,313,490,762)
Accumulated impairment loss	-	(2,214,620)	-	-	-	-	(2,214,620)
Net carrying amount	₱ 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	₱ 211,673,989	₱ 13,379,162,304	₱ 114,549,466	₱ 51,089,515	₱ 128,551,325	₱ 588,837,757	₱ 14,473,864,356
Accumulated depreciation and amortizaiton	-	(3,004,776,365)	(46,095,605)	(30,714,077)	(86,958,008)	-	(3,168,544,055)
Accumulated impairment loss	-	(2,214,620)	-	-	-	-	(2,214,620)
Net carrying amount	₱ 211,673,989	₱ 10,372,171,319	₱ 68,453,861	₱ 20,375,438	₱ 41,593,317	₱ 588,837,757	₱ 11,303,105,681
January 1, 2017							
Cost or revalued amounts	₱ 104,250,013	₱ 9,697,197,070	₱ 58,950,480	₱ 44,644,547	₱ 57,993,472	₱ 335,657,251	₱ 10,298,692,833
Accumulated depreciation and amortization	-	(2,214,725,126)	(23,075,954)	(26,555,834)	(44,427,026)	-	(2,308,783,940)
Accumulated impairment loss	-	(2,214,621)	-	-	-	-	(2,214,621)
Net carrying amount	₱ 104,250,013	₱ 7,480,257,323	₱ 35,874,526	₱ 18,088,713	₱ 13,566,446	₱ 335,657,251	₱ 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.

	Land	Vessels and Vessel Equiment	Transportation Equipment	Leasehold Improvements	Fixture and Equipment	CIP	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization and impairment losses	₱ 211,673,989	₱ 10,372,171,319	₱ 68,453,861	₱ 20,375,438	₱ 41,593,317	₱ 588,837,757	₱ 11,303,105,681
Balance from acquired subsidiaries at October 30, 2018, net of accumulated depreciation and amortization	-	450,283,483	1,016,992	-	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	-	167,829,312	-	-	-	-	167,829,312
Reclassification	-	1,056,486,156	-	8,356,982	-	(1,064,843,138)	-
Disposals - net	-	(194,240,296)	(2,247,690)	(1,082,142)	(3,354,174)	-	(199,842,160)
Depreciation and amortization charges for the year	-	(823,779,766)	(20,063,460)	(6,003,721)	(18,211,127)	-	(868,058,074)
Balance at December 31, 2018, net of accumulated depreciation and amortization and impairment losses	₱ 1,383,120,059	₱ 14,353,226,521	₱ 102,771,588	₱ 65,259,809	₱ 67,462,277	₱ 1,332,056,903	₱ 17,303,897,157
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment losses	₱ 104,250,013	₱ 7,480,257,323	₱ 35,874,526	₱ 18,088,713	₱ 13,566,446	₱ 335,657,251	₱ 7,987,694,272
Balance from acquired subsidiaries at January 1, 2017, net of accumulated depreciation and amortization	-	1,847,173,361	14,089,612	-	12,377,408	-	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	-	67,317,920	-	-	-	-	67,317,920
Reclassification	-	180,118,385	-	-	232,580	(180,350,965)	-
Disposals - net	-	(9,335,148)	(8,507,385)	-	(1,606,112)	-	(19,448,645)
Depreciation and amortization charges for the year	-	(787,186,997)	(17,005,320)	(1,396,102)	(13,168,758)	-	(818,757,177)
Balance at December 31, 2017, net of accumulated depreciation and amortization and impairment losses	₱ 211,673,989	₱ 10,372,171,319	₱ 68,453,861	₱ 20,375,438	₱ 41,593,317	₱ 588,837,757	₱ 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	Net Appraised Values
M/Tug Fortis I	December 14, 2018	P 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	**₱ 12,836,950,468**	₱10,096,699,931
Accumulated depreciation	**(1,836,702,037)**	(1,768,872,688)
Net carrying amount	**₱ 11,000,248,431**	₱ 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	15	**₱ 835,719,005**	₱ 796,422,076	₱ 450,405,966
Other operating expenses		**32,339,069**	22,335,101	7,313,125
	16	**₱ 868,058,074**	₱ 818,757,177	₱ 457,719,091

Certain vessels of the Group with a total net carrying amount of ₱12,059.6 million and ₱8,755.6 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 ₱1,305.8 million and ₱1,305.6 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	**₱ 2,104,212,296**	₱ 2,104,212,296
Accumulated equity share in the total other comprehensive income from previous year	**106,087,393**	-
Equity share in net loss	**(453,048,188)**	(1,962,214)
Equity share in other comprehensive income during the year	**-**	108,049,607
	1,757,251,501	2,210,299,689
Jointly controlled entity – Meridian Maritime Training Center (Meridian)	**63,917,332**	58,635,925
	₱ 1,821,168,833	₱ 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	**₱ 8,469,249,696**	₱ 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 ₱5.3 million and ₱13.1 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		**₱ 694,861,356**	₱ 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		**-**	1,600,000
Others		**300,000**	-
		₱ 734,638,640	₱ 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:

	Notes	**2018**	2017
Current:			
Bank loans	12.2	**₱ 4,894,210,434**	₱ 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**	-
		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**	-
Bank loans	12.2	**-**	10,434,324
		9,064,308,132	6,897,669,657
		₱ 15,619,861,853	₱10,332,160,635

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

	Term loans (see Note 12.1)	**Bank loans** (see Note 12.2)	**Mortgage loans** (see Note 12.3)	**Obligations under finance lease** (see Note 12.4)	**Total**
Balance as of January 1, 2018	₱ 7,714,366,413	₱ 2,455,814,577	₱ 161,979,645	₱ -	₱ 10,332,160,635
Cash flows from financing activities:					
Additions	2,975,255,891	2,723,117,984	-	-	5,698,373,875
Repayments	(958,215,288)	(284,722,127)	(21,885,206)	(16,924,358)	(1,281,746,979)
	2,017,040,603	2,438,395,857	(21,885,205)	(16,924,358)	4,416,626,897
Non-cash financing activities:					
Balance from acquired subsidiaries	777,327,956	-	-	-	777,327,956
Additions	-	-	40,183,363	76,805,600	116,988,963
Restatement of foreign currency denominated loans	(23,242,597)	-	-	-	(23,242,598)
	754,085,359	-	40,183,363	76,805,600	871,074,321
Balance at December 31, 2018	**₱ 10,485,492,375**	**₱ 4,894,210,434**	**₱ 180,277,802**	**₱ 59,881,242**	**₱ 15,619,861,853**
Balance as of January 1, 2017	₱ 2,596,979,367	P 4,576,345,754	₱ 199,457,057	-	₱ 7,372,782,178
Cash flows from financing activities:					
Additions	1,404,093,151	1,184,823,399	-	-	2,588,916,550
Repayments	(559,970,152)	(1,512,915,688)	(78,213,314)	-	(2,151,099,154)
	844,122,999	(328,092,289)	(78,213,314)	-	437,817,396
Non-cash financing activities:					
Balance from acquired subsidiaries	2,446,689,650	7,561,112	-	-	2,454,250,762
Additions	-	-	40,735,902	-	40,735,902
Reclassification	1,800,000,000	(1,800,000,000)	-	-	-
Conversion from USD to PHP	20,298,400	-	-	-	20,298,400
Restatement of foreign currency denominated loans	6,275,997	-	-	-	6,275,997
	4,273,264,047	(1,792,438,88)	40,735,902	-	2,521,561,061
Balance at December 31, 2017	₱ 7,714,366,413	₱ 2,455,814,577	₱ 161,979,645	₱ -	₱ 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:

	Security	Terms	Interest Rates	Outstanding Balance 2018	Outstanding Balance 2017
China Banking Corporation (CBC)	CSC shares of stocks/ Continuing Suretyship	6 years	4.50%	**₱ 1,800,000,000**	₱ 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
PBB	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 Philippine Bank of Communications (PBComm)	Mtug Pindasan, Mtug Samal Mtug Sigaboy	5 years	6.00% to 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 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)
				₱ 10,485,492,375	₱ 7,714,366,413

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

In 2013, PNX-Chelsea entered into a Memorandum of Agreement (MOA) with China Shipbuilding & Exports Corporation (CSEC) for the acquisition of one unit of oil tank (MT Great Princess) in the amount of US$21,187,500. In connection with the acquisition of an oil tank vessel, PNX-Chelsea entered into an OLSA amounting to US$14.0 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 ₱0.8 million (first tranche) and ₱2.2 million(second tranche), of which ₱0.7 million, ₱1.3 million and ₱1.4 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 ₱462.5 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 ₱914.0 million in December 31, 2017. This loan has been fully settled as of December 31, 2018.

Related debt issuance costs amounted to ₱8.2 million, of which ₱0.1 million, ₱0.6 million and ₱0.9 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 ₱13.5 million, of which ₱2.3 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 ₱429.3 million and ₱445.1 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 ₱707.8 million and ₱731.2 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 ₱100.0 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 ₱69.7 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 ₱70.4 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 ₱43.4 million and ₱27.5 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 ₱270.0 million and ₱247.0 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 ₱120.0 million at an interest rate of 4.5% per annum. Also, a loan amounting to ₱79.7 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 ₱263.5 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 ₱135.0 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 ₱71.1 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 ₱5.0 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 ₱89.8 million and ₱103.3 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 ₱1.8 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 ₱1.8 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 ₱300.0 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 ₱525.0 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 ₱1,037.4 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 ₱800.0 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 ₱1,203.7 million and ₱1,283.4 million as of December 31, 2018 and 2017, respectively, were used as collateral to secure the payment of these loans (see Note 9).

(l) TLA with DBP - Starlite

In 2016 and 2015, Starlite entered into 15-year term loan agreements amounting to ₱306.0 million and ₱300.0 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 ₱753.6 million and ₱735.9 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 ₱575.0 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 ₱38.3 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 ₱565.7 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 ₱618.0 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 ₱840.5 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 ₱1.5 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 ₱11.3 million, or which ₱0.1 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 ₱1,620.1 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 ₱368.1 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 ₱449.7 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 ₱460.0 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 ₱814.6 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 ₱524.9 million, ₱364.0 million and ₱90.4 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 ₱44.3 million and ₱1.3 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 ₱71.7 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:

	Security	Terms	Interest Rates	Outstanding Balance 2018	2017
Primary Institutional Lenders	Unsecured	30 to 180 days	4.25% to 5.375%	**₱ 2,013,768,437**	₱ 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 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	0.00%	**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%	**-**	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%	**-**	10,434,324
				₱ 4,894,210,434	₱ 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 ₱1,759.6 million and ₱1,637.4 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

	Security	*Terms*	*Interest Rates*	*Outstanding Balance* 2018	*2017*
BDO	Real Estate Mortgage	10 years	0.00%	**P 109,997,080**	P 120,000,000
Chinabank Savings	Chattel Mortgage on Transportation Equipment	3 years	11.00% to 17.00%	**38,503,117**	-
AUB	Chattel Mortgage on Transportation Equipment	3 to 5 years	7.00% to 8.50%	**19,991,031**	27,411,954
BDO	Chattel Mortgage on Transportation Equipment	3 years	0.00%	**3,045,821**	3,129,183
PNB	Chattel Mortgage on 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 Transportation Equipment	3 years	7.00%	**1,986,724**	3,839,567
BPI	Chattel Mortgage on Transportation Equipment	3 years	10.28%	**1,390,922**	-
BDO	Chattel Mortgage on Transportation Equipment	3 years	6.90% to 7.53%	**304,056**	1,243,743
				P 180,277,802	P 161,979,645

Mortgage loans pertain to loans obtained by the Group to finance the acquisition of certain properties and transportation equipment. These loans bear average effective interest rates ranging from 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 ₱311.1 million and ₱269.6 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 ₱112.5 million as of December 31, 2018. Total interest expense incurred amounted to ₱3.3 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:

	Notes	**2018**	2017
Trade payables	20.2, 20.6	**₱ 2,645,692,295**	₱ 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
		₱ 3,496,662,037	₱ 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		**₱ 180,000,000**	₱ 50,000,000
Reclassification to non-controlling interest		**(180,000,000)**	-
Addition during the year		**-**	180,000,000
Reversal to advances	20.4	**-**	(50,000,000)
Balance at end of year		₱ -	₱ 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	**₱ 1,243,088,820**	₱ 866,546,176	₱ 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	-
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		**27,657,433**	25,241,841	5,932,488
		₱ 3,754,741,525	₱ 2,862,147,364	₱ 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	**2018 (One year)**	2017 (One year)	2016 (Four months)
Bunkering	20.2	**₱ 1,243,088,820**	₱ 867,597,634	₱ 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	-
Rentals	20.3, 23.3	**78,56 0,530**	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	-
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
		₱ 4,655,251,728	₱ 3,391,820,275	₱ 1,416,655,773

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

	Note	**2018 (One year)**	2017 (One year)	2016 (Four months)
Cost of sales and services	15	**₱ 3,754,741,525**	₱ 2,862,147,364	₱ 1,261,203,111
Other operating expenses		**900,510,203**	529,672,911	155,452,662
		₱ 4,655,251,728	₱ 3,391,820,275	₱ 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	**2018 (One year)**	2017 (One year)	2016 (Four months)
Short-term employee benefits		**₱ 781,712,606**	₱ 456,034,336	₱ 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**	16,011,360	1,744,827
	16	**₱ 915,416,994**	₱ 556,278,918	₱ 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	**2018 (One year)**	2017 (One year)	2016 (Four months)
Cost of sales and services	15	**₱ 589,964,580**	₱ 363,097,068	₱ 245,574,960
Other operating expenses		**325,452,414**	193,181,850	43,593,204
	16	**₱ 915,416,994**	₱ 556,278,918	₱ 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:

	2018	2017
Fair value of plan assets	₱ 48,867,276	₱ 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	-	(381,217)
	₱ 12,300,710	₱ 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	₱ 32,885,129	₱ 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:		
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	₱ 36,566,566	₱ 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	₱ 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	₱ 48,867,276	₱ 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	₱	**5,319,102**	₱	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**		265
	₱	**48,867,276**	₱	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	₱	**35,162,375**	₱	42,261,263
Fair value of plan assets		**-**		(5,672,383)
	₱	**35,162,375**	₱	36,588,880

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

		2018		2017
Balance at beginning of year	₱	**42,261,263**	₱	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)**		-
Interest cost		**1,374,430**		1,234,567
Balance from acquired subsidiaries		**-**		15,709,900
Benefits paid		**-**		(5,125,632)
Balance at end of year	₱	**35,162,375**	₱	42,261,263

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

		2018		2017
Balance at beginning of year	₱	**5,672,383**	₱	7,031,908
Reclassifications	(	**5,672,383)**	(	1,502,033)
Interest income		**-**		296,954
Return on plan assets (excluding amounts included in net interest)		**-**	(	154,446)
Balance at end of year	₱	**-**	₱	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	₱ 9,923
Equity securities	1,689,378
Debt securities	1,956,795
UITFs	2,011,278
Others	5,009
	₱ 5,672,383

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

The plan assets earned a return of ₱0.6 million and ₱1.0 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 (One year)**	2017 (One year)	2016 (Four months)
Recognized in profit or loss:				
Current service cost	17.2(a)	**₱ 24,778,821**	₱ 16,011,360	₱ 1,744,827
Net interest expense	18.1	**1,216,147**	695,650	309,297
	16	**₱ 25,994,968**	₱ 16,707,010	₱ 2,054,124
Recognized in other comprehensive loss:				
Return on plan assets (excluding amounts included in net interest expense)		**₱ 1,902,393**	₱ 1,351,100	₱ 47,994
Net actuarial gain		**(29,260,996)**	(33,236)	-
		(₱ 27,358,603)	₱ 1,317,864	₱ 47,994

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

	Notes	**2018 (One year)**	2017 (One year)	2016 (Four months)
Cost of sales and services	15	**₱ 589,964,580**	₱ 363,097,068	₱ 245,574,960
Other operating expenses		**325,452,414**	193,181,850	43,593,204
	16	**₱ 915,416,994**	₱ 556,278,918	₱ 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%**	**(₱ 5,607,191)**	**₱ 6,275,243**
Salary growth rate	**+/- 1.0%**	**6,477,769**	**(5,569,717)**
December 31, 2017			
Discount rate	+/- 1.0%	(₱ 7,316,857)	₱ 8,852,349
Salary growth rate	+/- 1.0%	7,960,557	(6,748,143)

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

(ii) *Asset-liability Matching Strategies*

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

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the plan assets as of 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	**₱ 42,489,272**	₱ 35,719,426
More than five years but not more than ten years	**74,866,629**	40,137,840
	₱ 117,355,901	₱ 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	**₱ 761,501,452**	₱ 507,291,749	₱ 162,081,934
Deficiency taxes		**14,216,262**	-	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		**-**	3,035,462	-
Others		**-**	-	9,575,739
		₱ 835,388,144	₱ 516,979,233	₱ 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	**₱ 3,626,087**	₱ 4,875,196	₱ 393,954
Gain on sale and leaseback	**2,927,596**	-	-
Foreign currency exchange gains	**-**	5,526,564	336,847
	₱ 6,553,683	₱ 10,401,760	₱ 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 (One year)**	2017 (One year)	2016 (Four months)
Handling and trucking		**₱ 71,878,889**	₱ 34,729,429	-
Rental income	20.3, 23.2	**16,524,911**	7,422,943	9,273,407
Rebates		**11,000,086**	14,828,417	-
Gain on sale of asset		**1,326,971**	-	-
Insurance claims		**-**	62,784,384	-
Miscellaneous		**37,871,559**	24,156,358	6,217,147
		₱ 138,602,416	₱ 143,921,531	₱ 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.

	2018 (One year)	2017 (One year)	2016 (Four months)
Recognized in profit or loss:			
Regular corporate income tax	**₱ 142,356,824**	₱ 154,047,913	₱ 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
	142,855,293	155,618,398	21,223,030
Deferred tax income relating to origination and reversal of temporary differences	**(214,451,915)**	(269,484,924)	(17,578,510)
	(₱ 71,596,622)	(₱ 113,866,526)	₱ 3,644,520
Recognized in other comprehensive income — Deferred tax expense (income) relating to origination and reversal of temporary differences	**(₱ 58,556,375)**	(₱ 3,139,645)	₱ 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)	2017 (One year)	2016 (Four months)
Tax on pretax profit (loss) at 30%	**(₱ 186,638,873)**	₱ 14,205,959	₱ 40,597,298
Adjustments for income subjected to lower tax rates	**(121,908)**	(549,211)	(39,792)
Tax effects of:			
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 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)**	-	(47,468,447)
Pre-acquisition income	**-**	31,612,733	-
Deductible expenses charged to APIC	**-**	(169,579,640)	-
Unrecognized DTA on Net Operating Loss Carry Over (NOLCO)	**-**	3,782,582	3,191,646
Excess of optional standard deduction	**-**	2,597,300	-
MCIT	**-**	-	1,723,430
	(₱ 71,596,622)	(₱ 113,866,526)	₱ 3,644,520

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

	2018	2017
NOLCO	**₱ 393,628,519**	₱ 205,236,419
Revaluation reserves on property and equipment	**(123,064,147)**	(559,367)
Capitalized borrowing costs	**(7,069,055)**	-
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**	-
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	**375,132**	-
	₱ 283,345,565	₱ 215,516,180

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

	2018	2017
Revaluation reserves on property and equipment	**(₱ 100,009,056)**	(₱ 250,001,452)
NOLCO	**14,197,287**	73,383,371
Revaluation surplus on disposed vessel	**(3,036,983)**	(3,036,983)
Impairment losses on long-term 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 gains – net	**4,490**	(403,390)
Capitalized borrowing costs	**-**	(7,165,158)
Others	**(677,264)**	(1,498,116)
	(₱ 82,471,428)	(₱ 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.

	2018 (One year)		2017 (One year)		2016 (Four months)	
	Profit or Loss	**Other Comprehensive Income**	Profit or Loss	Other Comprehensive Income	Profit or Loss	Other Comprehensive Income
Deferred tax expense (income):						
NOLCO	**₱ 129,206,015**	**-**	₱ 262,600,813	-	(₱ 3,630,009)	-
Revaluation reserves of vessels	**77,836,409**	**(50,348,793)**	8,528,446	(3,549,887)	(14,488,398)	23,705,067
Post-employment benefit obligation	**5,715,571**	**(8,207,582)**	4,940,882	395,360	646,915	(14,398)
Unrealized foreign currency loss – net	**5,356,625**	**-**	(6,636,437)	-	(1,410,986)	-
MCIT	**(2,414,707)**	**-**	189,554	-	(2,341,804)	-
Impairment loss on receivables	**-**	**-**	910,639	-	4,595,155	-
Impairment loss on property and						
Capitalized borrowing costs						
Others	**(1,247,998)**	**-**	(995,641)	14,882	(949,383)	-
	₱ 214,451,915	**(₱ 58,556,375)**	₱ 269,538,256	(₱ 3,139,645)	(₱ 17,578,510)	₱ 23,690,669

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

Year	Original Amount	Applied in Previous Periods	Applied in Current Period	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2018	₱ 452,967,583	-	-	-	₱ 452,967,583	2021
2017	906,451,769	-	-	-	906,451,769	2020
2016	10,638,820	-	10,638,820	-	-	2019
2015	11,642,046	-	-	11,642,046	-	2018
	₱1,381,700,218	**-**	**₱ 10,638,820**	**₱ 11,642,046**	**₱ 1,359,419,352**	
MCIT:						
2018	₱ 942,908	-	-	-	₱ 942,908	2021
2017	772,955	-	-	-	772,955	2020
2016	4,392,543	-	-	-	4,392,543	2019
2015	3,357,615	-	-	3,357,615	-	2018
	₱ 9,466,021	**-**	**-**	**₱ 3,357,615**	**₱ 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.

		Amounts of Transactions			Outstanding Balances	
Related Party Category	Notes	2018 (One year)	2017 (One year)	2016 (Four months)	2018	2017
Parent —						
Cash advances granted	20.4	**₱ 518,714,995**	₱ 2,428,234,009	₱ 10,000,000	₱ 2,946,949,004	₱ 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)

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	**₱ 2,488,434,793**	₱ 194,446,078
Net advances	**639,120,416**	2,293,988,715
Balance at end of year	**₱ 3,127,555,209**	₱ 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		**₱ 1,040,772,152**	₱ 85,759,255
Net advances (payments)		**(1,004,673,484)**	905,012,897
Reversal from deposits for future stock subscription	14	**-**	50,000,000
Balance at end of year		**₱ 36,098,668**	₱ 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 ₱48.9 million and ₱47.1 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 ₱2.0 billion. The carrying amounts of the consolidated assets and liabilities of CSC at the time of acquisition amounted to ₱8.4 billion and ₱5.4 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 ₱500.0 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 ₱0.4 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:

	Shares		Amount	
	2018	2017	**2018**	2017
Authorized - ₱1 par value	**2,000,000,000**	2,000,000,000	**₱ 2,000,000,000**	₱2,000,000,000
Issued and outstanding				
Balance at beginning of period	**1,821,977,615**	500,000,000	**₱ 1,821,977,615**	₱ 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	**₱ 1,821,977,615**	₱1,821,977,615

As of December 31, 2016, 500,000,000 shares have been subscribed amounting to ₱500.0 million, of which ₱150.0 million have already been collected. Subscription receivable amounting to ₱350.0 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 ₱5,272,615,385, 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 ₱10.68 per share for a total gross proceeds of ₱5.8 billion. In addition, the Group recognized the APIC amounting to ₱4,725,754,772, net of issuance costs amounting to ₱565,265,468, in the 2017 consolidated statement of financial position. As at December 31, 2018, the Company's listed shares closed at ₱6.46 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.

	Property and Equipment (see Note 9)	AFS Financial Asset	Post-employment Benefit Obligation (see Note 17.2)	Investment in Associate and a Joint Venture (see Note 10)	Cumulative translation adjustments	Total
Balance as of January 1, 2018	**₱ 1,287,281,993**	**-**	**₱ 34,808,921**	**₱ 108,049,607**	**(₱ 223,517)**	**₱ 1,429,917,004**
Revaluation increment	167,829,312	-	-	-	-	167,829,312
Remeasurements of post-employment benefit obligation			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 earnings - revalued tankers	(100,207,283)	-	-	-	-	(100,207,283)
Other comprehensive income before tax	67,622,029	-	27,358,603	-	1,466,209	96,446,841
Tax income	(20,286,609)	-	(8,207,581)	-	-	(28,494,190)
Other comprehensive income after tax	47,335,420	-	19,151,022	-	1,466,209	67,952,651
Balance at December 31, 2018	**₱ 1,334,617,413**	**-**	**₱ 53,959,943**	**₱ 108,049,607**	**₱ 1,242,692**	**₱ 1,497,869,655**
Balance as of January 1, 2017	₱ 1,335,232,117	₱ 34,725	₱ 35,731,425	-	-	₱ 1,370,998,267
Remeasurements of post-employment benefit obligation	-	-	(1,317,864)	-	-	(1,317,864)
Disposal of AFS financial assets	-	(49,607)				(49,607)
Gain on revaluation of tankers	67,317,920	-	-	108,049,607	-	175,367,527
Pre-acquisition other comprehensive income	(55,484,964)	-	-		-	(55,484,964)
Currency exchange differences on translating financial statements of foreign operations	-	-	-	-	(223,517)	(223,517)
Depreciation transferred to retained earnings - revalued tankers	(65,518,941)	-	-	-	-	(65,518,941)
Other comprehensive income before tax	(53,685,985)	(49,607)	(1,317,864)	108,049,607	(223,517)	52,772,634
Tax income (expense)	5,735,861	14,882	395,360	-	-	6,146,103
Other comprehensive income after tax	(47,950,124)	(34,725)	(922,504)	108,049,607	(223,517)	58,918,737
Balance at December 31, 2017	₱ 1,287,281,993	-	₱ 34,808,921	₱ 108,049,607	(₱ 223,517)	₱ 1,429,917,004

21.3 Other Reserves

Other reserves amounting to ₱1.0 billion pertain to the excess of the net identifiable assets of CSC amounting to totaling ₱3.0 billion over the Company's acquisition price of ₱2.0 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:

	2018 (One year)	2017 (One year)	2016 (Four months)
Net profit (loss)	**(₱ 550,532,956)**	₱ 161,219,723	₱ 131,679,808
Divided by weighted average shares outstanding	**1,821,977,615**	1,309,830,939	500,000,000
Earnings per share – basic and diluted	**(₱ 0.302)**	₱ 0.123	₱ 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%.

	2018	2017
Within one year	**₱ 635,685**	₱ 919,465
More than one year but not more than five years	**-**	635,685
	₱ 635,685	₱ 1,555,150

Rent income amounted to ₱16.5 million, ₱7.4 million and ₱9.3 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	2017
Within one year	**₱ 25,211,899**	₱ 29,593,121
More than one year but not more than five years	**97,802,296**	92,655,245
More than five years	**34,929,111**	48,176,068
	₱ 157,943,306	₱ 170,424,434

Total rentals from these operating leases amounted to ₱78.6 million, ₱42.6 million and ₱13.8 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 ₱11.5 million and ₱5.1 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	PV of NMLP
Within one year	₱ **29,808,914**	₱ 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)**	-
	₱ **59,881,242**	₱ 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 ₱8.9 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 ₱8.8 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 ₱0.5 million. A provision for the claim with probable settlement amount of ₱0.8 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 ₱0.2 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 ₱409.6 million and ₱236.0 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 ₱22.8 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 ₱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 ₱180.6 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 ₱1,886 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 ₱90.6 million, and ₱14.2 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:

	SFPI	SGFI	Total
Cash and cash equivalents	₱ 12,731,674	₱ 2,603,783	₱ 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	**₱ 95,016,184**	**₱ 10,646,825**	**₱ 105,663,009**

The excess of acquisition costs over the net assets of SGFI amounting to ₱3.5 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 ₱4.4 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 ₱6,048.0 million, ₱600.0 million and ₱1,677.8 million, respectively. The fair values of the identifiable assets acquired and liabilities assumed from these subsidiaries as at the date of acquisition were as follows:

	UIBV	WSI	Starlite	Total
Cash and cash equivalents	₱ 25,508,842	₱ 65,588,642	₱ 88,983,637	₱ 180,081,121
Trade and other receivables	765,659	63,365,673	844,057,036	908,188,368
Prepayments and other current assets	-	4,936,396	89,270,689	94,207,085
Property and equipment	-	13,864,952	2,301,692,380	2,315,557,332
Investment in associate	2,104,212,296	-	-	2,104,212,296
Other non-current assets	-	5,614,686	11,470,799	17,085,485
Trade and other payables	-	(18,282,601)	(360,025,772)	(378,308,373)
Interest-bearing loans	-	(7,561,112)	(2,446,689,650)	(2,454,250,762)
Other non-current liabilities	-	(6,025,955)	(18,663,921)	(24,689,876)
Net Assets	**₱ 2,130,486,797**	**₱ 121,500,681**	**₱ 510,095,198**	**₱2,762,082,676**

The excess of acquisition costs over the net assets of UIBV, WSI and Starlite amounting to ₱3,917.4 million, ₱478.5 million and ₱1,167.7 million, respectively, is presented as part of Goodwill account in the 2017 consolidated statement of financial position. The goodwill recognized comprises the value of expected synergies from the acquisition of the subsidiaries.

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

	UIBV	WSI	Starlite	Total
Revenues	-	₱ 192,467,905	₱ 786,745,751	₱ 979,213,656
Net Profit	**-**	**₱ 45,611,439**	**₱ 59,764,337**	**₱ 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 ₱21.6 million and ₱1.1 million, respectively. As such, goodwill amounting to ₱10.4 million for BMI and ₱63.9 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.

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
2018								
SEGMENT RESULTS								
Sales to external customers	-	₱1,757,891,739	₱333,938,349	₱2,718,512,313	₱286,904,889	₱74,784,753	-	₱5,172,032,043
Intersegment sales	270,600,136	-	27,561,495	-	-	343,386,758	(641,548,389)	-
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	-	1,280,255,117	236,836,409	2,108,489,121	156,265,142	343,843,989	(370,948,253)	3,754,741,525
Other operating expenses	213,688,403	303,991,393	66,622,200	467,902,115	63,339,429	59,400,047	(274,433,385)	900,510,203
Operating profit (loss)	56,911,733	173,645,228	30,479,740	142,121,077	67,300,318	14,927,475	3,833,249	516,780,315
Finance costs	(67,130,802)	(472,419,797)	(5,063,296)	(287,529,810)	(1,708,695)	(1,535,744)	-	(835,388,144)
Share in net income of an associate	(453,048,188)	-	-	-	-	-	-	(453,048,188)
Finance income	260,327	551,970	120,186	4,787,732	822,973	10,495	-	6,553,683
Gain on bargain purchase	4,370,340	-	-	-	-	-	-	4,370,340
Other income	2,422,448	13,497,623	126,180	125,223,180	-	1,166,233	(3,833,249)	138,602,416
Profit (loss) before pre-acquisition income and tax	(456,214,142)	(284,724,975)	25,662,810	(15,397,821)	66,414,596	14,568,459	-	(622,129,578)
Pre-acquisition income	-	-	-	-	-	-	-	-
Profit (loss) before tax	(456,214,142)	(284,724,975)	25,662,810	(15,397,821)	66,414,596	14,568,459	-	(622,129,578)
Tax expense (income)	8,087,094	(107,518,851)	16,698,734	(14,857,071)	20,138,887	5,854,585	-	(71,596,622)
Net profit (loss)	(₱464,301,236)	(₱177,206,124)	₱8,964,076	(₱540,750)	₱46,275,709	₱8,713,874	-	(₱550,532,956)
SEGMENT ASSETS AND LIABILITIES								
Total assets	₱19,079,431,497	₱14,365,262,097	₱1,116,384,381	₱9,796,950,150	₱288,718,724	₱138,661,865	(₱12,494,153,390)	₱32,291,255,323
Total liabilities	₱4,949,434,237	₱9,708,083,288	₱583,364,648	₱8,065,317,881	₱115,344,703	₱118,707,818	(₱4,173,950,458)	₱19,366,302,118

2017	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
SEGMENT RESULTS								
Sales to external customers	-	₱1,227,036,207	₱261,321,170	₱2,180,760,492	₱240,049,535	-	-	₱3,909,167,404
Intersegment sales	203,293,982	-	12,473,814	-	-	204,735,092	(420,502,888)	-
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	-	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	39,948,017	(92,349,729)	529,672,911
Operating profit (loss)	142,619,781	(15,984,898)	76,265,686	363,997,621	80,153,908	(18,760,716)	(110,944,253)	517,347,129
Other income (charges) net	(54,433,571)	(209,382,650)	(11,591,672)	(84,700,326)	(1,181,265)	(272,925)	(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)	₱284,198,323	(₱181,824,240)	₱43,051,164	₱135,356,144	₱9,397,914	(₱14,959,582)	(₱114,000,000)	₱161,219,723
SEGMENT ASSETS AND LIABILITIES								
Total assets	₱18,951,605,041	₱11,412,401,836	₱853,196,994	₱6,338,410,534	₱168,650,550	₱64,814,514	(₱11,409,465,150)	₱26,379,614,319
Total liabilities	₱4,684,787,143	₱7,772,852,340	₱516,755,576	₱5,261,321,618	₱37,821,516	₱64,171,046	(₱5,115,483,332)	₱13,222,225,907

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
2016								
SEGMENT RESULTS								
Sales to external customers	-	₱1,520,184,843	₱118,200,515	-	-	-	-	₱1,638,385,358
Intersegment sales	-	82,708,009	15,825,995	-	-	104,191,190	(202,725,194)	-
Total revenues	-	1,602,892,852	134,026,510	-	-	104,191,190	(202,725,194)	1,638,385,358
Cost of sales and services	-	1,234,433,037	71,571,705	-	-	84,548,888	(129,350,519)	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)	-	199,311,385	46,085,447	-	-	(2,962,411)	(20,704,836)	221,729,585
Gain on bargain purchase	158,228,158	-	-	-	-	-	-	158,228,158
Other income	-	24,921,541	1,193,000	-	-	171,177	(10,795,164)	15,490,554
Other income (charges) - net	158,228,158	(220,444,185)	(13,133,944)	-	-	(260,122)	(10,795,164)	(86,405,257)
Profit (loss) before tax	158,228,158	(21,132,800)	32,951,503	-	-	(3,222,533)	(31,500,000)	135,324,328
Tax expense (income)	-	(5,960,942)	10,006,233	-	-	(400,771)	-	3,644,520
Net profit (loss)	₱158,228,158	(₱15,171,858)	₱22,945,270	-	-	(₱2,821,762)	(₱31,500,000)	₱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 c ategories 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 ₱24.0 million, and sale of goods amounting to ₱36.6 million, which are recognized at point in time and those arising from TC and BB agreements amounting to ₱274.7 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:

	2018	2017
Financial assets	**₱ 10,647,346**	₱ 191,301,896
Financial liabilities	**(316,344,000)**	(834,908,373)
Net exposure	**(₱ 305,696,654)**	(₱ 643,606,477)

If the Philippine peso had strengthened against the U.S. dollar, loss before tax in 2018 would have decreased by ₱39.6 million and profit before tax in 2017 would have increased by ₱69.3 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 +/- ₱1.9 million and +/-₱18.6 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	**2018**	2017
Cash and cash equivalents	4	**₱ 443,495,969**	₱ 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	**3,127,555,209**	2,488,434,793
		₱ 4,983,128,408	₱ 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 ₱0.5 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.

	Current	**Not more than 3 months**	**More than 3 months but not more than 1 year**	**More than 1 year**	**Total**
December 31, 2018					
Expected loss rate					
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.

		Current		**Non-current**	
	Notes	**Within Six Months**	**Six to 12 Months**	**One to Five Years**	**More than Five Years**
Interest-bearing loans	12	₱ 5,673,981,385	₱ 1,130,501,732	₱ 9,740,720,792	₱ 2,408,802,755
Trade and other payables (except for government-related obligations)	13	3,146,020,255	-	-	-
Advances from related parties	20.4	18,049,334	18,049,333	-	-
		₱ 8,838,050,974	**₱ 1,148,551,065**	**₱ 9,740,720,792**	**₱ 2,408,802,755**

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

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

		2018		2017	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets:					
Loans and Receivables:					
Cash and cash equivalents	4	**₱ 443,495,969**	**₱ 443,495,969**	₱ 1,441,704,190	₱ 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	20.4	**3,127,555,209**	**3,127,555,209**	2,488,434,793	2,488,434,793
Financial Assets at FVTPL —					
Equity securities	6	**3,947,736**	**3,947,736**	3,947,736	3,947,736
		₱ 4,987,076,144	**₱ 4,987,076,144**	₱ 4,840,402,331	₱ 4,840,402,331
Financial Liabilities—					
At amortized cost:					
Trade and other payables	13	**₱ 3,146,020,255**	**₱ 3,146,020,255**	₱ 1,257,568,676	₱ 1,257,568,676
Interest-bearing loans	12	**15,619,861,853**	**15,619,861,853**	10,332,160,635	10,332,160,635
Advances from related parties	20	**36,098,668**	**36,098,668**	1,040,772,152	1,040,772,152
		₱ 18,801,980,776	**₱ 18,801,980,776**	₱12,630,501,463	₱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 ₱3,352.0 million and ₱2,838.4 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 ₱604.5 million and ₱1,618.4 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 ₱3.9 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	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:					
Loans and Receivables:					
Cash and cash equivalents	4	₱ 443,495,969	-	-	₱ 443,495,969
Trade and other receivables - net	5	-	-	1,369,911,121	1,369,911,121
Restricted cash	8, 11	1,637,081	-	-	1,637,081
Security deposits	8, 11	-	-	40,529,028	40,529,028
Advances to related parties	20.4	-	-	3,127,555,209	3,127,555,209
		₱ 445,133,050	**-**	**₱ 4,537,995,358**	**₱ 4,983,128,408**
Financial Liabilities—					
At amortized cost:					
Trade and other payables	13	-	-	₱ 3,146,020,255	₱ 3,146,020,255
Interest-bearing loans	12	-	-	15,619,861,853	15,619,861,853
Advances from related parties	20.4	-	-	36,098,668	36,098,668
		-	**-**	**₱ 18,801,980,776**	**₱ 18,801,980,776**

		2017			
	Notes	Level 1	Level 2	Level 3	Total
Financial Assets:					
Loans and Receivables:					
Cash and cash equivalents	4	₱ 1,441,704,190	-	-	₱ 1,441,704,190
Trade and other receivables - net	5	-	-	857,419,350	857,419,350
Restricted cash	8, 11	31,043,312	-	-	31,043,312
Security deposits	8, 11	-	-	17,852,950	17,852,950
Advances to related parties	20.4	-	-	2,488,434,793	2,488,434,793
		₱ 1,472,747,502	-	₱ 3,363,707,093	₱ 4,836,454,595
Financial Liabilities:					
At amortized cost:					
Trade and other payables	13	-	-	₱ 1,257,568,676	₱ 1,257,568,676
Interest-bearing loans	12	-	-	10,332,160,635	10,332,160,635
Advances from related parties	20.4	-	-	1,040,772,152	1,040,772,152
		-	-	₱ 12,630,501,463	₱ 12,630,501,463

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	**₱ 19,366,302,118**	₱ 13,222,225,907
Total equity	**12,924,953,205**	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.

BUSINESS PARTNERS

ASIA UNITED BANK
Picadilly Branch
(+632) 403.2558

BANK OF CHINA
Manila Branch
(+632) 885.0111

BDO UNIBANK, INC.
Fort Legend Tower Branch
(+632) 856.0630

CHINA BANK CORPORATION
Caloocan Branch
(+632) 421.7075

CTBC COMMERCIAL BANK CORP.
Fort Legend Tower Branch
(+632) 811.8566

DEVELOPMENT BANK OF THE PHILIPPINES
Makati Branch
(+632) 892.6198

MAYBANK PHILIPPINES, INC.
Accralaw Tower, BGC Branch
(+632) 556.9831

PHILIPPINE BANK OF COMMUNICATIONS
Sen. Gil Puyat Branch
(+632) 843.9287

PHILIPPINE BUSINESS BANK
Global City
(+632) 403.9824

PHILIPPINE VETERANS BANK
Makati Branch
(+632) 902.1600

ROBINSONS BANK CORPORATION
Burgos Branch
(+632) 553.7204

UNITED COCONUT PLANTERS BANK
San Pedro Davao Branch
(+6382) 221.3267

BANK OF THE PHILIPPINE ISLANDS
(+632) 818.5541

CHINABANK SAVINGS
(+632) 988.9555

FIRST COMMERCIAL BANK MANILA BRANCH
(+632) 960.1111

LANDBANK OF THE PHILIPPINES
(+632) 708.7087

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(+632) 811.5807

PENTA CAPITAL & INVESTMENT CORPORATION
(+632) 815.8066

SECURITY BANK CORPORATION
(+632) 887.9188

UNICAPITAL, INC.
(+632) 892.0991

UNION BANK OF THE PHILIPPINES
(+632) 667.6388

CORPORATE CONTACT INFORMATION

CHELSEA SHIPPING CORP.
26th Floor Fort Legend Tower
3rd Avenue corner 31st Street
Bonifacio Global City, Taguig City 1634
Tel: +63 2 403 4015
Fax: +63 2 403 4022
Website: www.chelseashipping.ph
Email: info@chelseashipping.ph

TRANS-ASIA SHIPPING LINES, INCORPORATED
Trans-Asia Shipping Lines Building
M.J. Cuenco Avenue corner
Osmeña Boulevard, Cebu City
Tel: +63 32 254 6491 to 98
Website: www.transasiashipping.com
Email: starsy@transasiashipping.com

WORKLINK SERVICES, INC.
A-1 Do-Well Compound
700 Lerma Street,
Barangay Old Zaniga,
Mandaluyong City
Tel: +63 2 533 3888
Fax: +63 2 531 3178
Communication Support:
+63 917 847 9105
+63 925 525 7719
Website: www.wsi.ph
Email: communicationsupport@wsi.ph

STARLITE FERRIES, INC.
Virginia Tan-Dy Bldg.
Rizal Avenue Corner P. Dandan Street
Poblacion 3, Batangas City
Tel: +63 43 723 9965
Website: www.starliteferries.com
Email: info@starliteferries.com

CHELSEA
LOGISTICS HOLDINGS CORP.
A UDENNA Company

DAVAO HEAD OFFICE
Stella Hizon Reyes Road
Bo. Pampanga, Davao City 8000
Tel: +63.82.224.5373

MANILA OFFICE
26th Floor Fort Legend Tower
3rd Avenue corner 31st Street
Bonifacio Global City, Taguig
City 1634
Tel: +63.2.403.4015
Fax: +63.2.403.4022
www.chelsealogistics.ph