

COVER SHEET

SEC Registration Number

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Company Name

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

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Form Type

1	7	-	Q
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Department requiring the report

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Secondary License Type, if applicable

N	A
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COMPANY INFORMATION

Company's Email Address

www.chelsealogistics.ph

Company's Telephone Number/s

+632 403-4015

Mobile Number

N/A

No. of Stockholders

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Annual Meeting
Month/Day

Last Monday of March

Fiscal Year
Month/Day

12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person

IGNACIA S. BRAGA IV

Email Address

igna.braga@udenna.ph

Telephone Number/s

+632 403-4015

Mobile Number

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Contact Person's Address

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

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designate

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended 30 September 2018
2. Commission identification number CS201619734
3. BIR Tax Identification No 009-393-167-000
4. Exact name of issuer as specified in its charter CHELSEA LOGISTICS HOLDINGS CORP.
5. Province, country or other jurisdiction of incorporation or organization Davao City, Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code
Stella Hizon Reyes Road, Bo. Pampanga, Davao City, Philippines 8000
8. Issuer's telephone number, including area code +63 82 224 5373
9. Former name, former address and former fiscal year, if changed since last report
Formerly CHELSEA LOGISTICS CORP.
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each class

Number of shares outstanding

COMMON

1,821,977,615

Amount of debt outstanding: PHP14,509,636,660

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

Yes [☒] No [☐]

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

PHILIPPINE STOCK EXCHANGE

COMMON SHARES

12. Indicate by check mark whether the registrant:

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

Yes [☒] No [☐]

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

Yes [☒] No [☐]

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

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

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

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(Unaudited)

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

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(Unaudited)

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

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(Unaudited)

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

See Notes to Interim Consolidated Financial Statements.

CHELSEA LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Chelsea Logistics Corp.)
(A Subsidiary of Udenna Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(Unaudited)

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

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

Supplemental Information for Non-cash Investing Activity--

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

See Notes to Interim Consolidated Financial Statements.

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

1. CORPORATE INFORMATION

1.1 Information and Operations

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

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

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

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

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

1.2 Subsidiaries and their Operations

As of September 30, 2018 and December 31, 2017, the Company holds ownership interests in the following subsidiaries:

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

¹Wholly owned subsidiary of CSC

²Wholly owned subsidiary of FTC

³Wholly owned subsidiary of Trans-Asia

⁴Wholly owned subsidiary of Starlite

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

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

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

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

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

- (d) Incorporated on August 25, 1994 and is primarily engaged in general business of domestic shipping, to own and operate vessels of any class, type of description for domestic trade, to charter in and out any such vessel.
- (e) Incorporated on June 2, 1994 and is engaged in logistics services such as but not limited to cargo freight forwarding (air, land and sea), cargo consolidation, courier services, distribution, trucking, warehousing, customs brokerage, packing and crafting, etc.
- (f) Incorporated on March 7, 2000 and is established to serve the growing demand of marine fuel (bunker) of foreign vessels calling on the ports of the Philippines and hauling of marine fuel and petroleum products for major oil companies.
- (g) Incorporated on December 26, 1957 and is engaged in the business of acquiring and operating floating equipment for charter or hire and for the conveyance and carriage of goods, wares, and merchandise of every description in the Philippines coastwise traffic without any fixed schedule.
- (h) Incorporated on February 2, 2011 and is engaged in the ownership and operation of vessels for domestic trade for the purpose of conveyance or carriage of petroleum products, goods, wares and merchandise of every kind and description.
- (i) Incorporated on March 30, 2012 and is engaged in the business of ship management and to act as agent, broker, ship handler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels.
- (j) Incorporated on April 8, 2013 and is engaged in the towage and salvage of marine vessels and other crafts including their cargoes upon seas, lakes, rivers, canals, bays, harbours, and other waterways between the various ports of the Philippines.
- (k) Incorporated on January 18, 2012 and is engaged in, operates, conducts, and provides tug and marine services to all vessels, foreign or coastwise that dock and undock in the District Port of Davao and all other ports in the Philippines.

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

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

- (m) Incorporated on January 8, 2018 and is engaged in the general business of building and repair of ships, boats and other kinds of vessels as well as in ship breaking activities.
- (n) Incorporated on March 14, 2018 and is engaged to carry on the business of ship management and to act as agent, broker, ship chandler or representative of foreign/domestic shipping corporations and individuals for the purpose of managing, operating, supervising, administering and developing the operation of vessels belonging to or which are or may be leased or operated by said shipping corporations and individuals and for such purpose, to act as principal in and hire the services of a local manning agent for the overseas employment for seamen, and to equip any and all kinds of ships, barges and vessels of every class and description owned by any shipping corporation.
- (o) Incorporated on November 28, 2007 and is engaged in machining and mechanical works on ship machineries and industrial plants.
- (p) Incorporated on July 6, 2006 primarily to engage in the business of domestic shipping for the transportation of passengers and cargoes with territorial waters and/or in the high seas and is presently engaged in the charter or lease of maritime vessels.
- (q) Incorporated on June 21, 2000 primarily to establish and maintain restaurant, coffee shops, refreshment parlors, cocktail lounges and cater goods, drinks, refreshments and other food commonly served in such establishments.
- (r) Incorporated on September 30, 2005 and is engaged in the purchase of all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation for purposes of selling the same on retail or wholesale, either local and/or through importation.
- (s) Incorporated on June 27, 2018 and is engaged to purchase all kinds of food and beverage products and merchandise, except rice and corn, locally and/or through importation, for purposes of selling the same on retail or wholesale locally.
- (t) Organized under Philippines laws and registered with SEC on August 8, 2008 as an investment holding company.

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

1.3 Approval of Consolidated Interim Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

2.1 *Basis of Preparation of Consolidated Interim Financial Statements*

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

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

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

(b) *Presentation of Consolidated Interim Financial Statements*

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

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

(c) *Functional and Presentation Currency*

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

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

2.2 Adoption of New and Amended PFRS

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

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

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

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

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

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

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

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

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

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

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

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

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

- (ii) PFRS 15, *Revenue from Contract with Customers*. This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

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

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

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

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

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

(c) *Effective Subsequent to 2018 but not Adopted Early*

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

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

- (ii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this amendment in the Group's consolidated interim financial statements.
- (iii) PFRS 16, *Leases* (effective from January 1, 2019). This new standard on leases will replace PAS 17, *Leases*, and three related interpretations. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similar to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

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

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

2.3 Basis of Consolidation

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

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

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

(a) *Investments in Subsidiaries*

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

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

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

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

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

(b) *Investment in an Associate*

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

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

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

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

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

(c) Investment in a Joint Venture

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

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

2.4 Segment Reporting

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

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 25, which represent the main products and services provided by the Group.

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

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

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

2.5 Financial Assets

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

(a) Classification and Measurement of Financial Assets in accordance with PFRS 9

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

(i) Financial Assets at FVTPL

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

A financial asset is considered as held for trading if:

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

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

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

(ii) Financial Assets at Amortized cost

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

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

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

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to officers and employees), Advances to Related Parties and Security deposits and Restricted cash presented as part of Other Current Assets and Other Non-Current Assets accounts, in the consolidated statement of financial position.

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

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

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

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

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

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

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

(i) *Financial Assets at FVTPL*

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

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

(ii) *Loans and Receivables*

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

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to officers and employees), Advances to Related Parties and Security deposits and Restricted cash presented as part of Other Current Assets and Other Non-Current Assets accounts, in the consolidated statement of financial position.

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

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss (see Note 2.16).

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

(c) Impairment of Financial Assets

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

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

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

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

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

2.6 Inventories

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

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

2.7 Property and Equipment

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

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

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

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

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

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

Vessels and vessel equipment	5 to 35 years
Building	20 years
Office furniture, fixtures and equipment	2 to 10 years
Transportation equipment	2 to 5 years

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

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

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

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

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

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

2.8 Drydocking Costs

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

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

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

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

2.9 Other Assets

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

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

2.10 Financial Liabilities

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

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

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

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

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

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

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

2.11 Deposits for Future Stock Subscriptions

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

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

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

2.12 Offsetting Financial Instruments

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

2.13 Business Combinations

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

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

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

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

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

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

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

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

2.14 Advances from Customers

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

2.15 Provisions and Contingencies

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

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

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

2.16 Revenue and Expense Recognition

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

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

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

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

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

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

- (a) *Charter fees* – Revenue, which consists mainly of charter income arising from the charter hire of its vessels, is recognized based on the type of charter arrangement entered into, either under a time charter (TC), a continuing voyage charter (CVC), or bareboat agreement (BB) [see Note 3.1(a)]. Under a TC and BB, revenue is recognized based on the terms of the contract, with the distinction that in a BB, no administration or technical maintenance is included as part of the agreement. Under a CVC, revenue is recognized upon completion of the voyage; however, appropriate accrual of revenue is made at the end of the reporting period.
- (b) *Passage* – Revenue is recognized upon completion of the route and is based on the published tariff rates per passenger and route of the vessel.
- (c) *Freight* – Revenue is recognized when services have been completed and is generally based on a rate per cubic meter or weight of the cargo, whichever is higher, while rates for containerized cargo are based on a fixed rate per container.
- (d) *Tugboat fees* – Revenue, which consist of fees arising from docking, undocking, shifting, towing, ferry services, tugboat usage and delivery services to marine vessels and other crafts, is recognized upon the completion of contractually agreed services.
- (e) *Standby charges* – Revenue is recognized upon failure of customer to utilize/dispatch the tanker within the allotted lay-time initially agreed upon with the counterparty.
- (f) *Logistics services* – Revenue is recognized when contractually-agreed tasks have been substantially performed. Service fees are also recognized when cargoes are received by either the shipper or consignee for export and import transactions.
- (g) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.
- (h) *Rentals* – Revenue from rentals arising from the short-term lease of office space is recognized at the agreed rates over the lease term [see Note 2.17(b)].
- (i) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

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

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

2.17 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

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

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

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

(b) Group as Lessor

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

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

2.18 Functional Currency and Foreign Currency Transactions

(a) Transactions and Balances

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

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

(b) Translation of Financial Statements of Foreign Subsidiary

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

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

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

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

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

2.19 Impairment of Non-financial Assets

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

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

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

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

2.20 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

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

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

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

(b) Post-employment Defined Contribution Plan

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

(c) *Termination Benefits*

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

(d) *Profit-sharing and Bonus Plans*

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

(e) *Compensated Absences*

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

2.21 Borrowing Costs

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

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

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

2.22 Income Taxes

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

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

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

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

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

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

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

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

2.23 Related Party Transactions and Relationships

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

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

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

2.24 Equity

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

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

Revaluation reserves comprise gains and losses arising from the revaluation of the Group's vessels, remeasurements of post-employment defined benefit plan and cumulative translation adjustments on financial statements of foreign subsidiaries.

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

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

2.25 Earnings Per Share

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

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

2.26 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Revenue Recognition for Charter Arrangements

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

(b) Application of Expected Credit Losses (ECL) to Financial Assets at Amortized Cost

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

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

(c) Distinction Between Operating and Finance Leases

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

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

(d) Capitalization of Borrowing Costs

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

(e) Recognition of Provisions and Contingencies

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

3.2 Key Sources of Estimation Uncertainty

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

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

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

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

(b) Determination of Net Realizable Value of Inventories

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

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

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

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

(d) Fair Value Measurement of Vessels

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

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

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

(e) Determining Realizable Amount of Deferred Tax Assets

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

(f) Impairment of Non-financial Assets

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

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

(g) Valuation of Post-employment Defined Benefit Obligation

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

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of:

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

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

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

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

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

A reconciliation of the allowance for impairment at the beginning and end of September 30, 2018 and December 31, 2017 is shown below.

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

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

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

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

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

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

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

The Group purchased 8,800 preference shares of San Miguel Corporation, a publicly listed company. Additional preference shares were purchased in 2016 at par with quantity of 29,400 and 93,400 shares.

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

7. INVENTORIES

This account includes the following:

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

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

8. OTHER CURRENT ASSETS

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

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

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

9. PROPERTY AND EQUIPMENT

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

	Land	Vessels and Vessel Equipment	Transportation Equipment	Building and Leasehold Improvements	Office Furniture, Fixture and Equipment	CIP	Total
September 30, 2018							
Cost or revalued amounts	P 213,761,703	P 12,788,835,648	P 120,110,255	P 96,809,277	P 124,117,517	P 4,473,093,025	P 17,816,727,425
Accumulated depreciation and amortization	-	(2,643,202,333)	(50,626,398)	(34,000,904)	(78,623,125)	-	(2,806,452,760)
Accumulated impairment loss	-	(2,214,620)	-	-	-	-	(2,214,620)
Net carrying amount	<u>P 213,761,703</u>	<u>P 10,143,418,695</u>	<u>P 69,483,857</u>	<u>P 62,808,373</u>	<u>P 45,494,392</u>	<u>P 4,473,093,025</u>	<u>P 15,008,060,045</u>
December 31, 2017							
Cost or revalued amounts	P 211,673,989	P 12,863,128,955	P 114,549,466	P 51,089,515	P 128,551,325	P 588,837,757	P 13,957,831,007
Accumulated depreciation and amortization	-	(2,792,252,270)	(46,095,605)	(30,714,077)	(86,958,008)	-	(2,956,019,960)
Accumulated impairment loss	-	(2,214,620)	-	-	-	-	(2,214,620)
Net carrying amount	<u>P 211,673,989</u>	<u>P 10,068,662,065</u>	<u>P 68,453,861</u>	<u>P 20,375,438</u>	<u>P 41,593,317</u>	<u>P 588,837,757</u>	<u>P 10,999,596,427</u>
January 1, 2017							
Cost or revalued amounts	P 104,250,013	P 9,366,967,816	P 58,950,480	P 44,644,547	P 57,993,472	P 335,657,251	P 9,968,463,579
Accumulated depreciation and amortization	-	(2,053,621,702)	(23,075,954)	(26,555,834)	(44,427,026)	-	(2,147,680,516)
Accumulated impairment loss	-	(2,214,621)	-	-	-	-	(2,214,621)
Net carrying amount	<u>P 104,250,013</u>	<u>P 7,311,131,493</u>	<u>P 35,874,526</u>	<u>P 18,088,713</u>	<u>P 13,566,446</u>	<u>P 335,657,251</u>	<u>P 7,818,568,442</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of September 30, 2018 and December 31, 2017 is shown below.

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

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

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

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

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

If the Group's vessels and vessel equipment were measured under the cost model, the cost, accumulated depreciation and net carrying amount as of September 30, 2018 and December 31, 2017 are as follows:

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

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

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

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

10. INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

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

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

On March 27, 2017, CLC acquired all of UIBV's outstanding capital stock through a share swap agreement with Udenna wherein Udenna transferred to CLC 18,200 UIBV shares. In exchange, the Company issued 775,384,615 new common shares from its authorized and unissued capital stock in favor of Udenna. UIBV owns 80% economic interest and 39.97% of the voting rights in KGLI-NM, which holds 39.85% economic interest in and owns 60% of the voting stock in Nenaco. Nenaco, in turn owns 88.31% of 2GO. Hence, the Company has a 28.15% indirect economic interest in 2GO (See Note 21.1).

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

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

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

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

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

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

11. OTHER NON-CURRENT ASSETS

This account is composed of the following as of:

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

Other investments pertain to investments in insurance security fund.

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

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

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

12. INTEREST-BEARING LOANS

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

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

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

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

12.1 Term Loans

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

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

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

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

In 2014, PNX-Chelsea entered into a MOA with CSC for the importation of one unit of oil tank vessel (MT Chelsea Denise II) from China for a total cost of US\$7,300,000. In connection with the MOA, PNX-Chelsea entered in another OLSA with the same local bank for P300.0 million to finance the acquisition of MT Chelsea Denise II in 2014. The loan is subject to effective interest rate of 6.46% per annum and is payable for a quarterly basis for five periods commencing at the end of the fourth quarter of 2015. These loans have been fully settled as of September 30, 2018.

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

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

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

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

In connection with the MOA, CSC entered into an OLSA amounting to US\$14.5 million with BDO, the proceeds of which was used to partly finance the importation of the vessel. The loan is payable in 27 consecutive equal quarterly principal installments starting in August 2012. The loan is subject to quarterly repricing of interest computed at one-year LIBOR plus applicable margin of 3.5% per annum. These loans have been fully settled as of September 30, 2018.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(g) *TLA with CBC – Trans-Asia*

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

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

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

(h) TLA with UCPB and PBComm – DGMSI

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

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

(i) TLA with CBC

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

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

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

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

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

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

(k) TLA with PBB – Starlite

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

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

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

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

(l) TLA with DBP - Starlite

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

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

Certain vessels of Starlite with net carrying amounts of P791.4 million and P735.9 million as of September 30, 2018 and December 31, 2017 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 September 30, 2018 and December 31, 2017, Starlite has complied with these covenants.

(m) TLA with DBP – PNX-Chelsea

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

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

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

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

(n) TLA with DBP – Trans-Asia

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

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

(o) TLA with DBP – CSC

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

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

12.2 Bank Loans

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

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

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

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

12.3 Mortgage Payables

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

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

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

12.4 Obligations Under Finance Lease

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

13. TRADE AND OTHER PAYABLES

This account consists of:

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

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

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

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

14. DEPOSITS FOR FUTURE STOCK SUBSCRIPTION

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

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

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

15. COST OF SALES AND SERVICES

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

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

16. OPERATING EXPENSES BY NATURE

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

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

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

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

17. SALARIES AND EMPLOYEE BENEFITS

17.1 Salaries and Employee Benefits

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

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

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

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

17.2 Post-employment Defined Benefits

(a) Characteristics of Post-employment Defined Benefit Plan

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

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

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

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

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

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

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

(i) *Post-employment Benefit Asset*

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

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

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

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

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

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

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

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

(ii) Post-employment Benefit Obligation

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Present value of the obligation	P 42,261,263	P 42,261,263
Fair value of plan assets	(5,672,383)	(5,672,383)
	<u>P 36,588,880</u>	<u>P 36,588,880</u>

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

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

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

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

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

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

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

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

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

(iii) Post-employment benefit expense

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

<i>Recognized in profit or loss:</i>	
Current service cost	P 2,680,742
Net interest income	(<u>268,783</u>)
	<u>P 2,411,959</u>
<i>Recognized in other comprehensive loss –</i>	
Return on plan assets (excluding amounts included in net interest expense)	<u>P 1,930,731</u>

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

	<u>Notes</u>		
Cost of sales and services	15	P	1,875,881
Other operating expenses			<u>805,861</u>
	17.1	P	<u>2,681,742</u>

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

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

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

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

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

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Risks*

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

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

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

(i) *Sensitivity Analysis*

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2017.

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

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

(ii) *Asset-liability Matching Strategies*

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

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

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

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

(iii) Funding Arrangements and Expected Contributions

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

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

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

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

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

18. OTHER INCOME (CHARGES) - Net

18.1 Finance Costs

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

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

18.2 Finance Income

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

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

18.3 Other Income

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

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Handling and trucking		P 103,054,976	P 35,119,315
Rebates		8,000,000	14,828,417
Rental income	20.3, 23.2	4,611,941	5,306,552
Miscellaneous		<u>13,739,690</u>	<u>12,693,699</u>
		<u>P 129,406,607</u>	<u>P 67,947,983</u>

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

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

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

19. TAXES

19.1 Registration with the Board of Investments (BOI)

On November 23, 2011 and December 10, 2008, CSC had registered its activity for MT Great Diamond and MT Chelsea Cherylyn, respectively, with the BOI under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987 as a new operator of domestic/interisland shipping on a pioneer status. As a registered entity, the Group is entitled to tax and non-tax incentives, which include a six-year income tax holiday (ITH). 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 PN-X-Chelsea's BOI registration of MT Chelsea Dominance and MT Chelsea Charlize, which commenced in November 2016 and September 2015, respectively, for a period of four periods, was transferred to the Group following its acquisition. The tax and non-tax incentives of MT Chelsea Dominance and MT Chelsea Charlize are similar to that of MT Great Princess and MT Chelsea Denise II.

19.2 Current and Deferred Taxes

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

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

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

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

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

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

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

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

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

	2018 (Unaudited)		2017 (Audited)	
	Profit or Loss	Other Comprehensive Income	Profit or Loss	Other Comprehensive Income
Deferred tax expense (income):				
NOLCO	(P 53,031,978)	P -	(P 30,086,624)	P -
Revaluation reserves of vessels	(16,859,007)	(22,699,535)	(15,899,019)	14,712,289
MCIT	648,477	-	(433,433)	-
Unrealized foreign currency loss – net	319,139	-	230,793	-
Post-employment benefit obligation	-	-	-	(579,219)
Impairment loss on property and equipment	-	-	31,110	-
Others	-	-	93,905	-
	(P 68,923,370)	(P 22,699,535)	(P 46,063,268)	P 14,133,070

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

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

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

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

20. RELATED PARTY TRANSACTIONS

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

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

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

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

20.1 Charter Fees and Standby Charges

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

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

20.2 Fuel Purchases

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

20.3 Rentals

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

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

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

20.4 Advances to and from Related Parties

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

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

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

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

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

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

20.5 Transactions with Post-employment Benefit Plan

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

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

20.6 Acquisition of CSC's Shares

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

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

20.7 Key Management Personnel Compensation

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

20.8 Others

- (a) Certain interest-bearing loans of the Group were secured by a corporate guarantee of Udenna and by certain stockholders through a continuing surety agreement with the respective banks (see Note 12).
- (b) The Group granted donations amounting to P0.3 million in 2018 and 2017 to Udenna Foundation, Inc., a non-stock, non-profit organization, established by Udenna. This is presented as part of Miscellaneous under the Other Operating Expenses account in the consolidated statement of profit and loss (see Note 16).

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

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

As of December 31, 2016, 500,000,000 shares have been subscribed amounting to P500.0 million, of which P150.0 million have already been collected. Subscription receivable amounting to P350.0 million as of December 31, 2016 was fully collected in 2017.

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

On July 11, 2017, the SEC issued an Order approving the Registration Statement covering the securities, which comprised the Company's outstanding capital stock. On August 8, 2017, the Company's shares were listed in the PSE and the trading of offer shares commenced. The Company offered to the public 546,593,000 primary shares at an offer price of P10.68 per share for a total gross proceeds of P5.8 billion. In addition, the Group recognized the APIC amounting to P4,725,754,772, net of issuance costs amounting to P565,265,468, in the 2017 consolidated statement of financial position. As at September 30, 2018, the Company's listed shares closed at P8.02 per share.

21.2 Revaluation Reserves

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

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

21.3 Other Reserves

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

22. EARNINGS PER SHARE

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

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

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

23. COMMITMENTS AND CONTINGENCIES

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

23.1 Charter Agreements

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

23.2 Operating Lease Commitments – Group as Lessor

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

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

23.3 Operating Lease Commitments – Group as Lessee

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

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

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

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

23.4 Finance Lease Commitments – Group as Lessee

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

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

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

23.5 Legal Claims

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

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

23.6 Unused Lines of Credit

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

23.7 Mergers and Acquisitions

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

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

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

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

23.8 Others

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

24. GOODWILL

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

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

	UIBV		WSI		Starlite		Total
Cash and cash equivalents	P	25,508,842	P	65,588,642	P	88,983,637	P 180,081,121
Trade and other receivables		763,659		63,305,673		844,057,036	908,188,368
Prepayments and other current assets		-		4,936,396		89,270,689	94,207,085
Property and equipment		-		13,864,952		2,301,692,380	2,315,557,332
Investment in an associate		2,104,212,296		-		-	2,104,212,296
Other non-current assets		-		5,614,688		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		-		8,025,955		18,663,921	26,689,876
Net Assets	P	2,130,486,797	P	121,500,681	P	510,095,198	P 2,762,082,676

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

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

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

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

25. SEGMENT INFORMATION

25.1 Business Segments

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

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

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

25.2 Segment Assets and Segment Liabilities

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

25.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation and combination both in 2018 and 2017.

25.4 Analysis of Segment Information

The tables presented in the succeeding page present revenue and profit information regarding business segments for the periods ended September 30, 2018 and 2017 and certain asset and liability information regarding segments as at September 30, 2018 and December 31, 2017.

	Investing and Other Activities	Tankering	Tugboats	Roll-on/ Roll-off Passenger	Distribution and Warehousing	Ship Management and Crewing	Elimination	Consolidated
2018								
SEGMENT RESULTS								
Sales to external customers	P -	P 1,268,461,885	P 221,912,729	P 2,013,692,318	P 190,659,691	P -	P -	P 3,694,726,623
Intersegment sales	224,768,902	-	-	-	-	295,467,094	(520,235,996)	-
Total revenues	224,768,902	1,268,461,885	221,912,729	2,013,692,318	190,659,691	295,467,094	(520,235,996)	3,694,726,623
Cost of sales and services	-	664,332,701	158,606,669	1,569,779,568	102,380,874	227,157,726	(295,467,094)	2,426,790,444
Other operating expenses	134,500,654	237,599,217	50,311,190	310,159,244	40,614,977	44,160,689	(226,706,904)	590,639,067
Operating profit (loss)	90,268,248	366,529,967	12,994,870	133,753,506	47,663,840	24,148,679	1,938,002	677,297,112
Finance costs	(22,648,175)	(303,722,610)	(4,065,075)	(195,444,698)	(428,401)	(222,869)	-	(526,531,828)
Share in net income of an associate	(197,768,855)	-	-	-	-	-	-	(197,768,855)
Finance income	275,354	162,186	234,498	504,090	177,647	7,658	-	1,361,433
Other income	1,241,013	7,749,167	-	121,243,239	91,498	1,019,692	(1,938,002)	129,406,607
Profit (loss) before tax	(128,632,415)	70,718,710	9,164,293	60,056,137	47,504,584	24,953,160	-	83,764,469
Tax expense (income)	29,589,615	(50,726,702)	9,910,870	25,978,505	17,650,116	8,348,806	-	40,751,211
Net profit (loss)	(P 158,222,030)	P 121,445,412	P 746,577	P 34,077,632	P 29,854,468	P 16,604,354	P -	P 43,013,258
SEGMENT ASSETS AND LIABILITIES								
Total assets	P 19,652,340,884	P 14,085,920,827	P 1,050,949,325	P 8,659,526,666	P 219,035,209	P 118,631,886	(P 12,918,170,341)	P 30,868,234,456
Total liabilities	P 5,449,666,309	P 9,360,826,646	P 529,915,997	P 6,967,404,596	P 63,496,385	P 99,940,072	(P 4,856,382,801)	P 17,614,867,204
2017								
Sales to external customers	P -	P 1,096,038,949	P 192,695,282	P 1,007,376,634	P -	P -	P -	P 2,296,110,865
Intersegment sales	52,590,275	-	8,093,814	-	-	148,572,898	(209,256,987)	-
Total revenues	52,590,275	1,096,038,949	200,789,097	1,007,376,634	-	148,572,898	(209,256,987)	2,296,110,865
Cost of sales and services	-	686,767,000	105,726,894	709,218,772	-	135,734,835	(156,666,712)	1,480,780,788
Other operating expenses	50,930,033	121,704,071	32,388,131	118,486,393	-	20,605,096	(55,000,021)	298,113,702
Operating profit (loss)	(7,339,758)	287,567,878	62,674,072	179,671,469	-	(7,767,032)	2,409,746	517,216,375
Finance costs	(357,757,459)	(163,868,369)	(7,557,188)	(23,354,255)	-	(403,576)	-	(552,940,846)
Finance income	104,869,008	131,087	419,770	702,337	-	9,529	-	106,131,731
Other income	62,386,769	9,628,984	-	60,379,509	-	349,236	(2,409,746)	130,334,752
Profit (loss) before tax	(197,841,440)	133,459,581	55,536,655	217,399,060	-	(7,811,843)	-	200,742,013
Tax expense (income)	(72,993,667)	46,437,728	16,696,941	60,074,976	-	(1,305,288)	-	48,910,689
Net profit (loss)	(P 124,847,773)	P 87,021,853	P 38,839,714	P 157,324,084	-	(P 6,506,554)	P -	P 151,831,323
SEGMENT ASSETS AND LIABILITIES								
Total assets	P 18,951,605,041	P 11,412,401,836	P 853,196,994	P 6,338,410,534	P 168,650,550	P 64,814,514	(P 11,409,465,150)	P 26,379,614,319
Total liabilities	P 4,684,787,143	P 7,772,852,340	P 516,755,576	P 5,261,321,618	P 37,821,516	P 64,171,046	(P 5,115,483,332)	P 13,222,225,907

26. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to its financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 27. The main types of risks are market risk, credit risk and liquidity risk.

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

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

26.1 Market Risks

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

(a) *Foreign Currency Risk*

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

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

U.S. dollar denominated financial assets and financial liabilities, translated into Philippine pesos at the September 30, 2018 and December 31, 2017 closing rates follow:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Financial assets	P 5,681,045	P 191,301,896
Financial liabilities	(343,589,667)	(834,908,373)
Net exposure	(P 337,908,622)	(P 643,606,477)

If the Philippine peso had strengthened against the U.S. dollar, profit before tax would have increased by P24.8 million and P69.3 million in 2018 and 2017, respectively. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased profit before tax in 2018 and 2017 by the same amount. This sensitivity of the net result for the period assumes a +/- 7.33% and +/-10.77% change of the Philippine peso/U.S. dollar exchange rate for the periods ended September 30, 2018 and December 31, 2017, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous nine months for 2018 and 12 months in 2017 estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of the reporting period.

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

(b) *Interest Rate Sensitivity*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At September 30, 2018 and December 31, 2017, the Group is exposed to changes in market interest rates through cash in bank and certain bank borrowings which are subject to variable interest rates (see Note 12). All other financial assets and liabilities have either fixed interest rates or noninterest-bearing.

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

The changes in percentages would affect profit or loss before tax by +/- P1.0 million and +/-P18.6 million for the periods ended September 30, 2018 and December 31, 2017, respectively.

26.2 Credit Risk

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

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

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

		September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	<u>Notes</u>		
Cash and cash equivalents	4	P 1,071,144,492	P 1,441,704,190
Trade and other receivables – net (excluding advances to officers and employees)	5	988,862,424	857,419,350
Restricted cash	8, 11	27,657,633	31,043,312
Security deposits	8, 11	33,476,566	17,852,950
Advances to related parties	20.4	<u>2,532,811,744</u>	<u>2,488,434,793</u>
		<u>P 4,302,455,228</u>	<u>P 4,836,454,595</u>

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

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

The Group applies the PFRS 9 simplified approach in measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and other receivables.

To measure the expected credit losses, trade receivables and other assets have been grouped based on shared credit risk characteristics and the days past due. The other assets relate to receivables from both third and related parties other than trade receivables and have substantially the same risk characteristics as the trade receivables. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other assets.

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Not more than three months	P 102,390,999	P 271,416,774
More than three months but not more than one year	186,795,854	77,355,212
More than one year	<u>140,100,307</u>	<u>118,815,142</u>
	<u>P 429,287,159</u>	<u>P 467,587,128</u>

Financial assets past due for more than three months pertain mostly to the trade receivables from PPPI. The management believes that such receivables are not impaired as it may be offset against the Group's liabilities to PPPI.

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

26.3 Liquidity Risk

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

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

As at September 30, 2018, the Group's financial liabilities have contractual maturities which are presented below.

	Notes	Current		Non-current	
		Within Six Months	Six to Twelve Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 4,294,694,270	P 2,786,959,685	P 6,131,521,511	P 4,478,320,937
Trade and other payables (except for government-related obligations)	13	2,339,313,918	-	-	-
Advances from related parties	20.4	<u>75,176,682</u>	<u>75,176,681</u>	<u>-</u>	<u>-</u>
		<u>P 6,709,184,870</u>	<u>P 2,862,136,366</u>	<u>P 6,131,521,511</u>	<u>P 4,478,320,937</u>

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

	Notes	Current		Non-current	
		Within Six Months	Six to Twelve Months	One to Five Years	More than Five Years
Interest-bearing loans	12	P 1,852,209,328	P 1,626,989,697	P 6,652,104,772	P 805,378,747
Trade and other payables (except for government-related obligations)	13	1,222,209,319	-	-	-
Advances from related parties	20.4	520,386,076	520,386,076	-	-
		<u>P 4,594,804,723</u>	<u>P 2,147,375,773</u>	<u>P 6,652,104,772</u>	<u>P 805,378,747</u>

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

27. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

27.1 Carrying Amounts and Fair Values by Category

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

		September 30, 2018		December 31, 2017	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets:					
Loans and Receivables					
Cash and cash equivalents	4	P 719,646,861	P 719,646,861	P 1,441,704,190	P 1,441,704,190
Trade and other receivables - net	5	988,862,424	988,862,424	857,419,350	857,419,350
Restricted cash	8, 11	27,657,633	27,657,633	31,043,312	31,043,312
Security deposits	8, 11	33,476,566	33,476,566	17,852,950	17,852,950
Advances to related parties	20.4	2,532,811,744	2,532,811,744	2,488,434,793	2,488,434,793
Financial Assets at FVTPL -					
Equity securities	6	3,947,736	3,947,736	3,947,736	3,947,736
		P 4,306,402,964	P 4,306,402,964	P 4,840,402,331	P 4,840,402,331
Financial Liabilities:					
At amortized cost:					
Trade and other payables	13	P 2,339,313,918	P 2,339,313,918	P 1,222,209,318	P 1,222,209,318
Interest-bearing loans	12	14,509,636,660	14,509,636,660	10,332,160,635	10,332,160,635
Advances from related parties	20	150,353,363	150,353,363	1,040,772,152	1,040,772,152
		P 16,999,303,941	P 16,999,303,941	P 12,595,142,105	P 12,595,142,105

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

27.2 Offsetting of Financial Assets and Financial Liabilities

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

28. FAIR VALUE MEASUREMENTS AND DISCLOSURES

28.1 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

28.2 Financial Instruments Measured at Fair Value

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

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

The Group has no financial liabilities measured at fair value as of September 30, 2018 and December 31, 2017.

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

The tables in the succeeding page summarize the fair value hierarchy of the Group's financial assets and financial liabilities as of September 30, 2018 and December 31, 2017, which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

		2018			
		Level 1	Level 2	Level 3	Total
Financial Assets:					
<i>Loans and Receivables</i>					
Cash and cash equivalents	P	719,646,861	P -	P -	P 719,646,861
Trade and other receivables - net		-	-	988,862,424	988,862,424
Restricted cash		27,657,633	-	-	27,657,633
Security deposits		-	-	33,476,566	33,476,566
Advances to related parties		-	-	2,532,811,744	2,532,811,744
	P	747,304,495	P -	P 3,555,150,734	P 4,302,455,228
Financial Liabilities:					
<i>At amortized cost:</i>					
Trade and other payables	P	-	P -	P 2,339,313,918	P 2,339,313,918
Interest-bearing loans		-	-	14,509,636,660	14,509,636,660
Advances from related parties		-	-	150,353,363	150,353,363
	P	-	P -	P 16,999,303,941	P 16,999,303,941
		2017			
		Level 1	Level 2	Level 3	Total
Financial Assets:					
<i>Loans and Receivables</i>					
Cash and cash equivalents	P	1,441,704,190	P -	P -	P 1,441,704,190
Trade and other receivables - net		-	-	857,419,350	857,419,350
Restricted cash		31,043,312	-	-	31,043,312
Security deposits		-	-	17,852,950	17,852,950
Advances to related parties		-	-	2,488,434,793	2,488,434,793
	P	1,472,747,502	P -	P 3,363,707,093	P 4,836,454,595
Financial Liabilities:					
<i>At amortized cost:</i>					
Trade and other payables	P	-	P -	P 1,222,209,318	P 1,222,209,318
Interest-bearing loans		-	-	10,332,160,635	10,332,160,635
Advances from related parties		-	-	1,040,772,152	1,040,772,152
	P	-	P -	P 12,595,142,105	P 12,595,142,105

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

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

28.4 Fair Value Measurements of Non-financial Assets

The fair values of the Group's vessels, included as part of Property and Equipment account, were determined based on the appraisal reports of a professional and independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Note 9). To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the vessels. In estimating the fair value of these vessels, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's non-financial assets indicated above is their current use.

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

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

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Total liabilities	P 17,614,867,204	P13,222,225,907
Total equity	<u>13,253,367,252</u>	<u>13,157,388,412</u>
Debt-to-equity ratio	<u>1.33 :1.00</u>	<u>1.00 : 1.00</u>

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

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

Item2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Comparable discussion on Material Changes in Results of Operations for the Nine Months Ended 30 September 2018 vs. 30 September2017.

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

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

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

Revenues

Presented below is the comparison of the Group's consolidated revenues for the nine(9) months ended 30 September2018 as compared to the pro-forma combined revenues for the same period in 2017.

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

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

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

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

Costs and Expenses

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

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

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

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

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

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

Net Profit

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

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

Financial Condition

(30 September 2018 vs. 31 December 2017)

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

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

Cash and cash equivalents declined by 50% from ₱1,442 million as of 31 December 2017 to only ₱720 million as of 30 September 2018 as a result of the Group's cash management efforts maintaining certain level of cash and some timing in disbursements and collections.

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

Increase in inventories of approximately ₱173 million was due to acquisition of spare parts inventories in preparation for drydocking of certain vessels, and additional fuel and lubricants inventory in anticipation of increased fuel prices as a result of the implementation of the Tax Reform for Acceleration and Inclusion. Spare parts inventories rose from ₱88 million as of 31 December 2017 to ₱156million as of 30 September 2018 while fuel and lubricants rose from ₱49 million to ₱117 million as of the end of the reporting period.

The increase in Other Current Assets from ₱1,926 million as of 31 December 2017 to ₱2,847 million as of 30 September 2018 was primarily the result of advance payments paid for the acquisition of vessels for the expansion of the Group's operations.

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

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

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

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

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

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

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

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

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

Key Performance Indicators and Relevant Ratios

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

	<u>30 September 2018</u>	<u>31 December 2017</u>
Current ratio	0.80	1.13
Debt-to-equity ratio	1.33	1.00
Book value per share	7.27	7.22
EBITDA margin	31%	44%
Return on equity	0.32%	
Earnings per share	0.02	

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

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

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

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

As discussed in the Note 13 of the interim consolidated financial statements, certain subsidiaries of the Company have breached its financial covenants with lender banks. Management, however, believes that such breach will not have an adverse effect on the Company's financial condition as the Company's Management has communicated with the lender banks for the waiver of said covenants. Except for contingencies, the Company is not aware of other events that will materially trigger direct or contingent financial obligation.

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

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

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

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

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

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

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

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

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

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

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

PART II OTHER INFORMATION

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

On July 13, 2018, the Company filed a Motion for Reconsideration with the PCC for redress with regard to the PCC's voiding of the acquisition of Trans-Asia and the penalty of ₱22.8 million for non-notification. On July 18, 2018, the Company filed its Motion for Partial Reconsideration of the above KGLI-NM Decision wherein the Company prayed that it be allowed to proceed with the transaction without the PCC's imposed condition voiding the acquisition of Trans-Asia.

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

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

On the same date, the Commission approved the Company's acquisition of 60.15% ownership in KGLI-NM, which will increase the Company's effective ownership in 2Go Group to 35.1%. It should be noted that the Commission's approval of this transaction was conditioned on its Decision finding the acquisition of Trans-Asia void. On 18 July 2018, the Company filed its Motion for Partial Reconsideration of the above KGLI-NM Decision wherein the Company prayed that it be allowed to proceed with the transaction without the PCC's imposed condition voiding the acquisition of Trans-Asia.

On 9 October 2018, the Notice of Sufficiency from the PCC regarding said Forms was received and the reduced penalty of ₱11,427,007.72 was paid on 10 October 2018. On 14 October 2018, the Company filed its Waiver of the Period for Phase 1 review and on 19 October 2018, the Company filed its Voluntary Commitments which are presently under review by the PCC.

As the foregoing PCC Decisions are not yet final, these have no impact on the business, operations and financial conditions of Chelsea.

2. On 5 July 2018, CLC broke ground on a 25,000 sqm property in Taguig City where the Company through WorkLink Services, Inc. intends to construct a warehouse facility as part of its expansion program.
3. On 11 July 2018, the Company accepted the delivery of MV Salve Regina, a brand new 67-meter Bed-seat RoRo Passenger vessel, in Hiroshima, Japan. The vessel had its maiden voyage on 28 September 2018 plying the Batangas – Caticlan route. It is the first brand-new RoPax to service the Batangas-Caticlan route. It was built by Kegoya Dock Co. Ltd., a Japan-based shipbuilder.
4. On 15 August 2018, the Company submitted a ₱11.2-billion unsolicited proposal to the Philippine Ports Authority (PPA) for the modernization of the Sasa port in Davao City.

5. On 5 October 2018, CLC inaugurated two vessels namely: MT Chelsea Providence and MV Salve Regina. M/T Chelsea Providence is a 183.3-meter long medium-range oil tanker that can carry up to 54 millionliters of petroleum at any given time. M/V Salve Regina, on the other hand, is a roll-on, roll-off vessel which can accommodate more than 500 passengers and 41 vehicles.
6. On 23 October 2018, the Department of Transportation granted the original proponent status to the Company for its ₱49 billion unsolicited proposal to upgrade the Davao International Airport.
7. On 7 November 2018, the National Telecommunications Commission named Mislattel Consortium, a consortium between Udenna Corporation, Chelsea Logistics Holdings Corp. and China Telecommunications Corporation, as the provisional third telco player in the Philippines.
8. On 12 November 2018, CLC's Board of Directors approved the change in name of Chelsea Logistics Holdings Corp. to Chelsea Logistics and Infrastructure Holdings Corp.

SIGNATURES

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

CHELSEA LOGISTICS HOLDINGS CORP.

By:



DENNIS A. UY

Chairman of the Board



CHRYSS ALFONSUS V. DAMUY

President and CEO



IGNACIA S. BRAGA IV

Vice President – Finance

Signed this 12th day of November 2018