COVER SHEET

4	4	0	9

SEC Registration Number

2 G O   G R O U P ,   I N C .

(Company's Full Name)

8 T H   F L O O R   T O W E R   1   D O U B L E   D R A G O N
P L A Z A   M A C A P A G A L   B L V D .   C O R N E R
E D S A   E X T E N S I O N   P A S A Y   C I T Y

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

ELMER B. SERRANO
Corporate Secretary
(Contract Person)

(02) 528-7171
(Company Telephone Number)

1 2	3 1	1 7 - A	0 9	2 0
Month	*Day*	(Form Type)	*Month*	*Day*

(Fiscal Year)

DECEMBER 31, 2017

(Annual Meeting)

(Secondary License Type, If Applicable)

Corporation Finance Department
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1,891
Total No. of Stockholders

Domestic   Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A
ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2017**

2. SEC Identification Number **4409**   3. BIR Tax Identification No.**000-313-401-000**

4. Exact name of issuer as specified in its charter **2GO Group, Inc.**

5. Philippines
   Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
   Industry Classification Code:

6. **8th Floor, Tower 1, DoubleDragon Plaza, Macapagal Blvd. corner EDSA Extension, Pasay City**
   Address of principal office   Postal Code **1302**

7. **(02) 528-7171**
   Issuer's telephone number, including area code

8. **No change in name, address and fiscal year since its last report**
   Former name, former address, and former fiscal year, if changed since last report.

9. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common stock	2,446,136,400

10. Are any or all of these securities listed on a Stock Exchange.

    Yes [**X**]   No [ ]   **Philippine Stock Exchange - Common Stock**

11. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 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 that the registrant was required to file such reports);

    Yes [**X**]   No [ ]

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

    Yes [**X**]   No [ ]

12. Aggregate market value of the voting stock held by non-affiliates as of December 31, 2017, P 5,272,314,247 (P18.48/share):

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PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

2GO GROUP, INC.

Business Development

2GO Group, Inc. (the "Registrant", the "Company", or "2GO"), was formed and organized on May 26, 1949 under the corporate name William Lines, Inc.

Driven by the vision of providing the nation with the best shipping services, on December 21, 1995, William Lines, Inc., Carlos A. Gothong Lines, Inc. and Aboitiz Shipping Corporation consolidated their resources and expertise and marked the birth of William, Gothong & Aboitiz, Inc. ("WG&A"). Thereafter, on February 4, 2004, WG&A changed its corporate name to Aboitiz Transport System (ATSC) Corporation as a result of the buyout that Aboitiz Equity Ventures, Inc. (AEV) made of the respective interests of Chiongbian and Gothong in WG&A in 2002. On August 24, 2011, the Securities and Exchange Commission (SEC) approved the change of corporate name of Aboitiz Transport System (ATSC) Corporation to ATS Consolidated (ATSC), Inc. On March 9, 2012, the SEC approved a subsequent change of the corporate name of ATS Consolidated (ATSC), Inc. to 2GO Group, Inc.

In July 2010, the SEC approved the statutory merger of the Registrant with Zoom in Packages, Inc. (ZIP), a wholly owned subsidiary of the Company. Further, in August 2010, the SEC also approved the statutory merger of the Company with another wholly owned subsidiary – Reefer Van Specialists, Inc. (RVSI). The mergers were expected to further improve the effectiveness and efficiency of freight services of 2GO as well as reduce costs as people, processes, systems were integrated.

On December 1, 2010, the former major stockholders of 2GO, namely AEV and Aboitiz and Company, Inc. (ACO), sold their shareholdings in 2GO to Negros Navigation Co., Inc. (NENACO), which sale was consummated on December 28, 2010. The equity value included all the logistics and shipping businesses of the Company, except its interest in its joint ventures with the Jebsen Group of Norway. AEV's and ACO's shareholdings in 2GO represented 77.24% and 15.96%, respectively, of the total outstanding common shares of 2GO. In February 2011, as a result of the mandatory tender offer requirement, NENACO's ownership in 2GO increased by 4.92%.

On December 21, 2012, NENACO sold 240,000,000 common shares of 2GO at P1.65 per share to public shareholders, thus, decreasing NENACO's ownership in 2GO from 98.12% to 88.31%.

On December 21, 2012, NENACO caused the sale of 240,000,000 common shares of stock that NENACO holds in 2GO, at a price of P1.65 per share, via regular Block Sale and through the facilities of the Philippine Stock Exchange, to the following unrelated third parties:

1. R A L Holdings and Equities Corporation – 119,000,000 common shares;
2. BIVI Realty Development Corporation – 80,000,000 common shares
3. East Asian BBB Realty, Inc. – 41,000,000 common shares

NENACO now owns 2,160,141,995 common shares of 2GO, equivalent to 88.31% of the total outstanding common shares of 2GO.

In 2016, Udenna Corporation entered into a Share Purchase Agreement for its acquisition of the entire outstanding stock of KGL Investment B.V. (**KGLI-BV**), a company organized and existing under laws of Netherlands, approximately owning 39.71% voting interest in KGLI-NM Holdings, Inc. (**KGLI-NM**). KGLI-NM in turn owns 59.59% equity interests in NENACO.

On March 31, 2017, SM Investments Corporation (**SMIC**) acquired a 34.5% economic stake in NENACO through China-ASEAN Marine B.V. (**CAM B.V.**). The Tax Clearance and Certificate Authorizing Registration of the acquired shares in NENACO are currently being processed with the Bureau of Internal Revenue for the transfer of shares to SMIC.

On 02 May 2017, Chelsea Logistics Holdings Corp. (**CLC**), a subsidiary of Udenna Corporation, entered into agreements to acquire the following shares of KGLI-NM: (i) 43,081 Redeemable Preferred B shares and 200 Common Shares, representing 9.93% of NENACO, voting stock for a total cash consideration of Php1,193,172,286.29; and (2) 219,609 Preferred C shares, representing 50.37% of KGLI-NM's voting capital stock for a cash consideration of Php219,609.00. Approval of the PCC of these share acquisitions is likewise currently being processed.

Upon completion of above transactions, Udenna Group will indirectly own 52.62% voting and 35.19% economic interests in 2GO, while SMIC will indirectly have a 14.01% voting and 30.46% economic interest in 2GO.

The majority owner of the registrant, NENACO, is one of the oldest domestic shipping companies in the Philippines. It was organized and registered with the SEC on July 26, 1932 for the purpose of transporting passengers and cargoes at various ports of call in the Philippines. Further, its principal office is located at 15th Floor, Times Plaza Building, U.N. Ave. corner Taft Avenue, Ermita, Manila.

2GO's shares of stock are publicly traded in the Philippine Stock Exchange (PSE). As at December 31, 2017 and 2016, the Company is 88.3%-owned subsidiary of Negros Navigation Co., Inc. ("NN" or the "Parent Company"). NN is a 59.6%-owned subsidiary of KGLI-NM Holdings, Inc. (KGLI-NM). Its ultimate parent is Chelsea Logistics Holdings Corp (Chelsea). KGLI-NM and Chelsea are both incorporated and domiciled in the Philippines.

Corporate Structure

In order to create a unified identity for the Company and its brand structure, in February and March 2012, the Registrant and its subsidiaries amended their respective Articles of Incorporation and By-Laws to change its corporate name to *2GO Group, Inc. 2GO Express, Inc.*, and *2GO Logistics, Inc.*

NN-ATS Logistics Management & Holdings Co., Inc. (NALMHCI), a 100% owned subsidiary of 2GO was organized and incorporated in November 2011. The purpose of NALMHCI is primarily to act as managing agents, local agents or representatives of (i) subsidiaries and affiliates engaged in logistics activities, (ii) corporations, (iii) partnerships, (iv) agencies, (v) associations, (vi) enterprises, (vii) establishments, (viii) institutions, private or governmental, domestic or foreign, except the management of funds, portfolios, or other similar assets of the managed entities; and to undertake, organize, form, promote, develop or establish businesses, and all forms of enterprises, whether here or abroad, as are necessary, suitable, or convenient to be undertaken, organized, formed, promoted, developed or established to carry out, directly or indirectly, the purposes and interests or to enhance the businesses or to render more valuable or profitable any of its rights, properties, interests or enterprises.

On March 8, 2012, the SEC approved the registration of Special Container and Value Added Services, Inc. (SCVASI), a 100%-owned subsidiary of the Registrant. Its primary purpose is engaging in domestic and/or international business of transporting any and all kinds of goods and cargoes, by sea, air and land, functioning as non-vessel operating common carrier, engaging in cargo forwarding including acting as cargo consolidator and break-bulk agent, and courier for mails, letters, pouches, other cargoes and personal effects of any and all kinds, types and nature.

A recent addition to the Group is 2GO Rush Delivery, Inc. which was registered with the SEC on December 21, 2016. Its primary purpose is the establishment, maintenance and operation of transportation logistics and delivery services, including pick-up, transportation and delivery activities, sorting, handling, processing and warehousing; and all activities ancillary to the performance of the aforementioned activities involving goods, materials and documents of all kinds with or without the use of web or digital services.

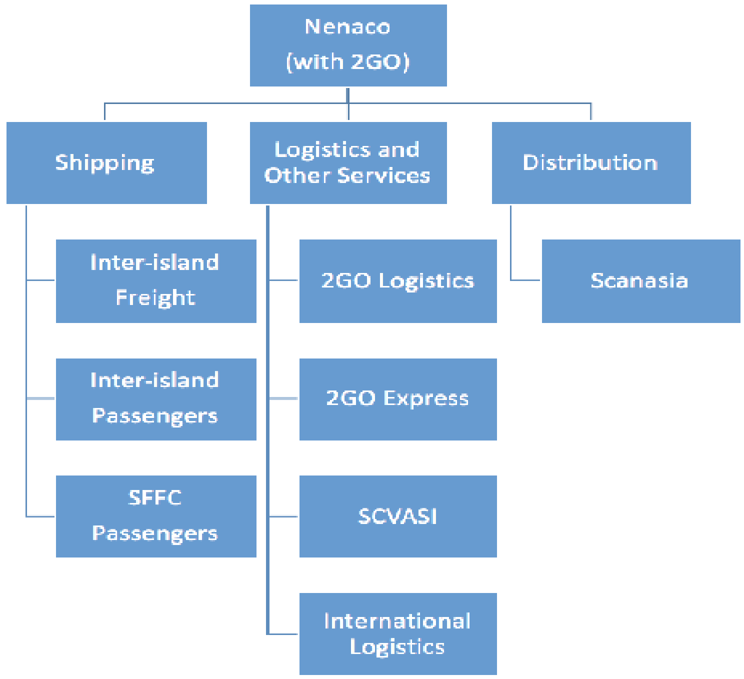
Please refer to the attached Exhibit for the subsidiaries.

Brand Structure

The Company is engaged in the movement of people operating under brand names '2GO Travel' for passage business and '2GO Freight' for cargo business.

2GO and its subsidiaries (collectively referred to as the Group) provide shipping, logistics and distribution services to small and medium enterprises, large corporations, and government agencies throughout the Philippines. The shipping group operates ocean-going freighters, roll-on/roll-off freight and passenger vessels, and fast ferry passenger vessels. The logistics group offers transportation, warehousing and distribution, cold chain solutions, domestic and international ocean and air forwarding services, customs brokerage, project logistics, and express and last mile package and e-commerce delivery. The distribution group leverages 2GO's shipping and logistics services to provide value-added distribution services to principals and customers.

The Company and its subsidiaries started the standardization of its brands on the latter part of 2011 and implemented the following brand structure:



The Company adopted the stronger brand "2GO" as its flagship brand for its various businesses. Going forward, the Company will function with three core business units, as follows:

Shipping —integrating the country's leading passenger ships and fast ferries, Negros Navigation, SuperFerry, SuperCat, and Cebu Ferries, this unit offers the biggest fleet and the widest choice of route linking Luzon, Visayas, and Mindanao, through land and sea multimodal transport linkages.

Logistics and Other Services — this unit will continue to handle commercial and personal shipping needs including household goods, auto rolling cargo shipping, containerized shipping, break bulk & LCL consolidation, freight refrigerated vans, and ISO tank shipments.

Distribution —this unit leverages on the Company's more than 100 years of expertise in Logistics, Distribution, Warehousing, and Inventory Management.

On various dates in 2012, the Company initiated the change of names of its vessels and secured the approval of the Maritime Industry and Authority. This move was in line with the change in company name and brand structure.

OLD Vessel Names	NEW Vessel Names
MV "Superferry 5"	MV "St. Joan of Arc"[1]
MV "Superferry 12"	MV "St. Pope John Paul II"
MV "Superferry 20"	MV "St. Gregory the Great [2]
MV "Superferry 21"	MV "St. Leo the Great"
MV "Cebu Ferry 1"	MV "St. Augustine of Hippo"

[1] Sold in 2016
[2] Sold in 2013

MV "Cebu Ferry 2"	MV "St. Anthony de Padua"
MV "Cebu Ferry 3"	MV "St. Ignatius of Loyola"
MV "Supercat 22"	MV "St. Nuriel"
MV "Supercat 23"	MV "St. Uriel"
MV "Supercat 25"	MV "St. Sealthiel"
MV "Supercat 26"	MV "St. Emmanuel"
MV "Supercat 30"	MV "St. Jhudiel"
MV "Supercat 32"	MV "St. Braquiel"
MV "Supercat 36"	MV "Supercat 36"
MV "Supercat 38"	MV "Supercat 38"

All these changes reflect an important redirection for 2GO i.e. towards becoming a world-class transport, logistics, and supply chain company.

Vessel Fleet

As of December 31, 2016, 2GO and its subsidiaries has a total fleet of twenty four (24) operating vessels, of which nineteen (19) are company-owned ships. The fleet consists of eight (8) fast crafts, eight (8) RoRo/Pax vessels (of which one (1) vessel is leased from its parent company, NENACO), and three (3) freighters which are under lease agreement with NENACO) and five (5) are chartered vessel in 3rd parties. The Company's operating vessel fleet has a combined Gross Registered Tonnage of approximately 128,146 metric tons, total passenger capacity of approximately 13,561 passengers and aggregate cargo capacity of approximately 3,724 twenty-foot equivalent units (TEUs).

During the year, one RoRo/Pax vessel was acquired to replace one RoRo/Pax vessel that was sold with a view to improving operational efficiency. 2GO continues to engage in charter agreements for 5 freighter vessels to have additional capacities to serve the freight market.

Currently, 2GO operates five (5) RoRo/Pax vessels calling on Manila as their homeport. These vessels are larger coastwise vessels that sail from Luzon to Visayas and Mindanao. Further, 2GO operates three (3) medium-sized vessels, formerly called the Cebu Ferries, two (2) of which have Batangas as its homeport, plying on the Batangas-Caticlan route, while the other vessel calling on Manila as homeport serves the Palawan route. The six (6) fast craft passenger vessels, on the other hand, are smaller fast crafts that ply on short distances. The Company also operates eight (8) purely-cargo vessels to fully complement its freight business.

Ports of call

The Company's extensive presence throughout the country, from Luzon to Mindanao, is carried out through its branch operations and agency networks resulting to maximized efficiencies in network coverage by clustering vessel port calls with minimal nautical mileage. These are located primarily in Manila, Batangas, Calapan, Puerto Princesa, Odiongan, Bacolod, Caticlan, Cebu, Dumaguete, Iloilo, Ormoc, Tagbilaran, Butuan, Cagayan de Oro, Davao, Dipolog, General Santos, Iligan, Ozamis, and Zamboanga.

Market Share

As of December 31, 2017, 2Go continues to dominate the Philippine Sea Travel with 90% passage market share in and out Manila. Freight market share also is at 27%, still leading the market even with competitors adding more ships.

Subsidiaries and Affiliate of 2GO

2GO has four (4) direct subsidiaries and one (1) affiliate, 2GO Express, Inc., The Supercat Fast Ferry Corp. (SFFC), NALMHCI, SCVASI, 2GO Rush Delivery, Inc. and MCC Transport Philippines, Inc. (MCCP)

1. 2GO Express, Inc.

2GO Express Incorporated includes:

1) Domestic Services composed of electronic commerce, general cargo and courier services

2) Sea Services, composed of both Less Container and Full Container Loads. 2GO Express used its historical and inherent strength in moving cargo by sea, being one of the biggest users of cargo space on all 2GO ships. Aside from moving balikbayan boxes from international forwarders, 2GO Express started moving automotive and motorcycle parts as the vehicle industry continues to generate consistent double-digit growth, especially seen in the expansion of vehicle dealers in the Visayas and Mindanao cities.
3) International Services

2GO Express' Subsidiaries

Hapag-Lloyd Philippines, Inc. (HLP)

Hapag-Lloyd Philippines, Inc. (HLP), a wholly owned subsidiary of 2Go Express, has been the Philippine agent of Germany's largest liner shipping company, Hapag-Lloyd Actiengesellschaft (HLAG), for more than 20 years since it started in November 1, 1992.

HLP gained its assertive presence in the market through the synergy of two dependable partners HLAG and 2GO. Hapag-Lloyd is one of the world's leading liner shipping companies in terms of global market coverage. Its core business which is the liner service, also encompasses door to door delivery in the Philippines through the 2GO network.

HLP has expanded its services with branches in Cebu, Davao and General Santos offering the same operational structure with standardized process and customized solutions for customers. Through this cooperative interaction, HLP has continuously increased its revenue year on year and is confident that it will sustain its positive performance in an expanding Philippine market and the positive economic growth of its main trading partners.

Today, Hapag-Lloyd Philippines Inc. and 2GO name embodies a proud legacy of leadership and service built on years of shipping and logistics experience. Our unique work ethic remains unchanged. Our goal is to be the best and the most reliable transport and supply chain provider in the country, moving products and catalyzing business growth in domestic and international markets.

Hansa Meyer Projects (Phils.), Inc. (HMPPI)

A worldwide experienced and one of the leading/competent project Cargo Forwarder providing complete transport/logistics solution. Established as one of the business unit of ***Hansa Meyer Global -*** which has 18 branches and exclusive partners at the most strategic venues of the world.

As a transport architect, HMPPI's services include, but are not limited to Project & Transport Feasibility Studies, Budget Calculations, Duty, Tax and Customs Consultancy, Seafreight and Airfreight, Transshipment, Trucking, Heavy Lift Transport by Land, Air and Sea, Vessel and/or Barge Loading and/or Unloading, Customs Clearance, Project Site Logistics, Positioning on foundation, Global Project Coordination of Cargo Movements, Chartering of International & Domestic Vessels & Barges, Port and/or Pier Management, Civil Works for Delivery Support (Beach Heads and Jetty Construction, Temporary construction of by pass, Bridge reinforcement and structural works).

For 20 years, HMPPI had been successful in delivering capital and/or plant equipment when and where they matter and will continue to offer project management and consultancy services for transportation of heavy and bulk-sized equipment used in power, manufacturing plants, telecommunications, infrastructure, and mining. HMPPI handled over 150 major projects and over one million freight tons having 280T as the heaviest single cargo handled in the Philippines.

2GO Logistics, Inc.

The Philippine economy continued to show strong growth with a thriving consumer market driven by its growing middle class, overseas remittances and the BPO sector. The growth in consumption has continued to bring about changing needs of manufacturers and retailers. The changing consumer and retail landscape has provided both opportunities and challenges, primarily in the field of supply chain services. The growth in modern retail outside of traditional geographical markets, characterized by "smaller and farther" retail formats has put a strain on both the cost to serve stores efficiently and replenish products effectively.

2GO Logistics continues to string together various solution sets designed to address these concerns and enable the opening of stores in new markets while replenishing products at the fastest possible time that ensure availability of the products at store shelves. 2GO Group's collective capability to serve retailers' orders nationwide given its expansive physical infrastructure of warehouses, trucks, and its own vessels that have priority berthing in highly congested ports, highlights the advantages that 2GOLI provides its customers.

One such solution set is 2GOLI's cross-docking and FSL (Forward Stock Locations) service which provides a fast and economically viable means of reaching retail outlets. This service provides retailers with better product availability where it matters.

This capability of 2GOLI to add value through innovative solutions has made it a very attractive proposition for many FMCG and Retail companies and has resulted in an increasing number of engagements from existing clients, as well as an increasing number of new customers served by 2GOLI.

2. The Supercat Fast Ferry Corporation (SFFC)

SuperCat Fast Ferry Corporation (SFFC) supports the tourism industry in the islands it serves and continuously improves to provide safe, reliable and convenient marine passage to inter-island travelers - complementing the seamless service of its mother ship, 2GO Travel. All SuperCat vessels adhere to the highest standards of safety, with International Safety Management (ISM) certification, and compliance with maritime and class regulations.

A Customer Interaction Center (CIC) and a SuperCat website linked to 2GO Travel allows travelers and tourists the convenience of booking their trips online, as well as, seamlessly linking with any of 2GO Travel's various destinations. Ticket outlets are found nationwide to cater to the needs of the traveling public. Passengers may choose cabin accommodations from economy open-air class, to tourist and business class. Snacks and refreshments are offered on board, and passengers are attended to by friendly and well-trained cabin crew members.

3. NN-ATS Logistics Management & Holding Co., Inc. (NALMHCI)

NNATS Logistics Management and Holding Co., Inc., is always in constant pursuit of creative and innovative ways to help improve the client's business and excel in all the services it provides.

United Dock South Dockhandlers, Inc. (USDI) has been assessed by AJA Registrars and registered under ISO 14001:2004 Environmental Management System. EMS is a framework that helps an organization achieve its environmental goals through consistent review, evaluation, and improvement of its environmental performance. Previously, USDI has been an ISO 9001:2008 Quality Management System (QMS) certified and the only Arrastre & Stevedoring Organization in Cebu to have been certified in ISO 9001:2008 and ISO 14001:2004.

NNATS Logistics Management and Holdings Company Incorporated has launched its Passenger/Cargo RORO Vessel (ROPAX) under the SulitFerry brand powered by 2GO Group Inc. The vessel is brand new with 532 seating capacity and 25 units of Passenger Bus or Cargo Trucks. It plies the route of Matnog, Sorsogon to Allen, Northern Samar and vice versa via Eastern Nautical Highway.

Supersail Services Incorporated on the other hand has locked a business deal for a manpower requirement with a shoe manufacturer, Asaphil in Clark Freeport, Mabalacat, Pampanga.

4. Special Container and Value Added Services, Inc. (SCVASI)

In its aim to be the sought-after transport and logistics provider nationwide, Special Container and Value Added Services, Inc. (SCVASI) sustained its expertise as the market leader in the cold chain and liquid transportation sector.

SCVASI as a whole, deals with an innovative strategic approach to a variety of businesses to wit; hauling service for bulk liquids (ISO tank and Flexibags), temperature-controlled vans and trucks (Reefer Containers for FCL and LCL), palletized and containerized goods for food and non-food products where its value-added services always come built-in for our Quikmove business.

The company started its corporate life on March 8, 2012 and began its commercial operations on January 1, 2013. It is 100% owned by 2GO Group Inc.

SCVASI also offers ISO tanks and Flexibags services for domestic and international liquid transport. With the continuing partnership with our foreign principals such as BULKHAUL and SEACUBE for ISO tanks, and Bulk Packing and Qingdao-LET for Flexibag supply, SCVASI was able to serve the requirement of the solvents industry. This also assist to cover our target market in the Food Grade business – palm oil, coconut oil and ethanol and to accommodate our growing market for liquid products including our land move projects in Luzon.

Product Lines and Markets

Briefly, the Company's product lines and solutions are described as follows:

1. 2GO TRAVEL

2GO Travel provides comfortable and secure transport between major destinations across the country. Beyond routine point-to-point transport, 2GO Travel provides a leisurely and low-cost travel experience. The company's ability to guarantee convenience and affordability underpins its positioning as the preferred means of travel around the islands. The company has upgraded its vessel amenities and range of service offerings. 2GO Travel now offers a wide selection of hotel and accommodation services, as well as tours and events, on top of traditional passenger transport.

2. 2GO FREIGHT

2GO Freight provides cargo handling services for various types of goods and shipments, including full container load (FCL) and LCL, loose cargo, roll-on/roll-off and rolling cargo. What primarily sets the company apart from other shipping lines is its ability to provide exceptional reliability. 2GO Group has the highest frequency of voyages from Manila to major ports across the country and it is the most reliable operator which is increasingly important as

3. SUPPLY CHAIN

The Supply Chain Solutions (SCS) team was established in 2015 to address the need to deliver value to key customers through the combination of services within 2GO Group. Through the years, and countless conversations with customers, we have learned to recognize that the different pillars of 'end to end' services must be of the highest quality, extensive in scope, seamless in its execution, and coordinated from a single point.

The objective of SCS is to engage with key customers and address both their day to day operational and cost issues, as well as their farther reaching strategic business directions. SCS is organized to harness the collective strength of 2GO Group through the different Business Units. It will package innovative, sustainable and relevant solutions that impacts on the performance of its customers by ensuring that their products are available in retail stores when and where needed, in the most efficient way.

Collaboration with customers is a regular occurrence where issues and solutions are crafted with the help of our key account teams supported closely by our logistics design and implementation team. This type of approach is meant to address on-going concerns as well as the design and implementation of new initiatives and projects. Our SCS team becomes the first point of contact with our key customers, driving the required changes or enhancements where needed.

SCS is likewise organized to engage, on an ongoing basis, new customers that require 'end to end' services, and who share the same collaborative approach to developing a lasting relationship based on value creation. While many of its customers belong to the Philippines top consumer manufacturing and retail sectors, SCS continues to explore new solutions for other growing sectors in the country, as well as large global companies who have limited presence in the Philippines.

The importance of organizing SCS underscores 2GO Group's aspiration to dominate the supply chain industry in the country.

ScanAsia Overseas Inc. (SOI)

Scanasia Overseas Inc. (SOI) is the Distribution business unit of the 2Go Group. It completes the end to end proposition of the 2Go Organization by making products of Principals available all the way to store shelves of various stores nationwide.

Established some 31 years ago, Scanasia traces its roots to specialist distribution services for the Dairy category by representing leading brands in various Modern Trade and Food Service outlets. Some nine years ago, the foot print of Scanasia expanded towards the Pharma-Convenience store Channel with the appointment by Procter and Gamble to be the National Distributor of their products for Mercury Drugstore. Since then, this coverage was further extended to include Southstar Drugstore.

Kerry Logistics (Phils.), Inc. (KLPI)

A partnership created with the purpose of providing the best integrated logistics, international freight forwarding and supply chain solutions. Kerry Logistics (Phils.), Inc. (KLPI) was established in 2009 by way of a joint venture entered into by 2Go Group Inc., through 2Go Express, and Kerry Logistics Network Limited of Hong Kong, through the former's holding companies KLN Investment Holdings Philippines, Inc. and KLN Logistics Holdings Philippines, Inc.

KLPI has strengthened its competitive advantage within the freight forwarding industry with the synergy of two solid and dependable brands, Kerry Logistics and 2Go. Kerry Logistics, which holds 51% share of KLPI, is one of the Top 25 Global Freight Forwarders based on gross revenue/turnover and freight forwarding volumes as reported by Armstrong & Associates, Inc. Its core business encompasses integrated logistics, international freight forwarding, express and supply chain solutions. It is currently expanding its global footprint by acquiring/merging with other 3PL companies in Europe, USA and Asia. The expansion is in line with Kerry's strategy to accelerate the business development on a global scale. It is in partnership and the choice of top 100 brands. 2Go Express, on the other hand, holds 49% share of KLPI and is part of the 2Go Group of Companies, the largest and premier logistics provider in the Philippines. With 150 years combined shipping and logistics experience, it provides complete supply chain solutions with seamless links to over 150 countries worldwide.

KLPI has continued to strengthen its market presence through its expertise in integrated freight forwarding, supply chain solutions, integrated logistics, including warehousing. To further intensify its market reach, it has eight branches strategically located in Manila, Luzon, Visayas and Mindanao including five warehouses offering diverse services to include international and domestic air and sea freight forwarding, cargo consolidation, warehousing and domestic distribution, dangerous goods handling, customs brokerage, building logistics and exhibition logistics.

Aside from the support of both 2Go and Kerry Logistics, KLPI is likewise a member of the Global Logistics Network (GLN), an umbrella organization that encompasses leading independently owned and operated companies worldwide that specialize in the logistics industry. It has a global presence that spans 596 Offices in 309 Cities in 119 Countries, handling over 3 million shipments per year.

WRR Trucking Corporation (WTC)

WRR Trucking Corporation (WTC) is a wholly owned subsidiary of 2GO Express Inc., and was incorporated on March 25, 2008 primarily to engage in the business of transportation, hauling or forwarding of cargo, freight, merchandise, goods, and other articles within the lawful commerce of man by means of trucks, automobiles, and both container and closed vans. Regular business started on May 1, 2008.

WRR Trucking Corporation is a member of the Confederation of the Truckers Association of the Philippines (CTAP).

The Non-Shipping and Supply Chain Group is composed of the following divisions:

- **Logistics, Express and Distribution ("LED**"). LED is handled through 2GO Logistics, 2GO Express and SOI and is expected to lead the Group's growth in the future. With more than 3,233 distribution outlets strategically spread across the country, LED captures a big share of the sea-based and express delivery market and the distribution of pharmaceutical products and well-known local and international brands of food products and beverages.
- **International Logistics.** Through three companies, this SBU handles international logistics involving international sourcing and consolidation, customs clearance and brokerage, project cargo management, heavy lift

and special cargo handling, global containerized transport, international freight forwarding and warehousing. This unit operates internationally through partnerships with global supply chain leaders such as Hapag-Lloyd and Hansa Meyer, both from Germany, and the Kerry Logistics Group from Hong Kong.

- **Value-Added Services.** Value-Added group provides support to the different business units within the group. 2GO Special Container and Value Added Services, Inc. (SCVASI) provides in-land and domestic freight reefer transportation, reefer van lease and maintenance, isotanks and flexibags, isotanks and flexibags repairs and maintenance, crating and packaging services as well as special projects (small scale). 2GO Alliances comprised of various entities that provide ancillary support services to the various business units within the Group. The list of companies and nature of the services they perform are outlined below:
    - J&A - Water barging services
    - Red Dot - Manpower services
    - North Harbor Tugs - Tug boat provider
    - Sungold Forwarding - Trucking and forwarding services
    - United South Dockhandlers - Arrastre and stevedoring services
    - Supersail Services - Manpower provider and vessel support services
    - Astir - Engineering services

2GO Group is now the largest provider of end-to-end logistics solutions, covering not just domestic supply chain but incorporating international product movement and distribution as well.

Competition

The Group considers the following as its major competitors in the domestic shipping industry: Phil Span Asia Container Corp, Oceanic Container Lines and National Marine Corporation, Lorenzo Shipping, Solid Shipping Lines and Moreta Shipping.

The Group also considers the airline industry and the Ro-Ro Nautical Highway as its indirect competitors, particularly in the passage business.

Passage and freight rates are generally determined by the Philippine Liner Shipping Association (PLSA), the association of shipping operators, where the Registrant is also a member.

Safety, Security and Quality Standards

2GO's vessel fleet is managed by the Ship Management Division (SMD) of the Registrant's parent company, NENACO, who administers the ship, crewing and purchasing management as well as the ship cost accounting and fuel management of the whole 2GO fleet.

NENACO, as a ship management company is certified and compliant with the International Safety Management Code (ISM) administered by the Maritime Industry Authority (MARINA) and the National Security Programme for Sea Transport and Maritime Infrastructure (NSPSTMI), a National Ship Security (NSS) certification administered by the Office for Transport Security.

The ISM code is an International Maritime Organization (IMO) initiated mandatory requirement for all ship-operating companies. Its objectives are to ensure safety at sea, prevention of human injury or loss of life, and avoidance of damage to the environment, in particular, to the marine environment, and to property,

NENACO believes in ensuring Talent Development through competency enhancement programs particularly in investing in relevant training programs. For technical trainings, Ship Management Head, Mr. Eduardo G. Dela Cruz, partnered with reputable and globally recognized Training Institutions, like DNV-GL. Some of the trainings attended by our Ship Management Team are **Superintendents Workshop In Managing day to day Operations,** the aim of said workshop is to provide the participants with the knowledge, understanding and proficiency necessary to fulfil the role of a superintendent, the **Compliance to MLC 2006** provided management guidance on updated regulatory requirements for fair terms of employment and guarantee safe, secure and decent living and working conditions on board ship, while the **Internal Audit ISM-ISPS-MLS for Shipping Companies, Designated Person Ashore,**

Maritime Risk Management are inter related courses for a holistic approach in the integration of all regulatory requirements that supports Risk Management programs through proper application of Threat and Error Management, Incident Investigation and Root Cause analysis, to support the company's thrust on Safety Culture and ensure business reliability and continuity. The Ship Management Division, through its Safety and Quality Assurance team and in coordination with HROD, conducts refresher courses for both shore based and ship based personnel such as: ISM Training, Occupational Safety Training, Risk Management, Accident and Incident Investigation, Environmental Management Training, Video-Tel Computer Based Training, Safe Navigation Training, Port Entry Guide Training, Hazardous Goods and Dangerous Cargoes Training, Bassnet Systems Planned Maintenance Training and behavioral training programs as well for its vessel officers and crew.

SMD's Safety, Quality, and Assurance department launched several programs such as the "Hero of the Day" program to acknowledge and commend individuals/crew member/s who had shown extraordinary support in saving Life, Environment, Reputation, and Property and the "Cleanest Ship of the Year' to acknowledge and commend the Ship's effort to maintain good housekeeping as the first principle of safety. The same department has stimulated the "Safety and Environmental Topic of the Month"- which refers to posters to promote and raise awareness on safety and environmental issues to the whole fleet.

In line with vessel security the **Seafarers with Designated Security Duties (SDSD)** courses were likewise conducted on-board Fleet Vessels in order to amplify the safety and security responsibilities of fleet personnel.

To strengthen vessel security posture the **Company Security Course** was also added in the list of courses taken; the **CSO** course elaborated the responsibilities of securing the vessel's internal security including tasks related to risk assessment, crisis management, personnel safety and vessel security.

To ensure that NENACO vessels are manned with qualified, efficient, suitably-experienced seafarers and competent shore-based technical staff leading to a better operation of ships, the use of **BASS Fleet Management** Systems and the **I-PROC** integrated software system is now in full swing covering all the main areas of NENACO Fleet Maritime Operations Logistics requirements.

Customers

Other than the FMCG clients, 2Go Freight maintain a broad customer base such as rolling cargo shippers, fresh produce, temperature controlled shippers, special containers for liquid livestock customers as well as non-containerized cargoes.

Purchases of Materials, Parts and Supplies

Materials, parts and supplies are obtained mostly from local suppliers at competitive rates. Fuel and lubes, the biggest operating expense of the Company is purchased from a major fuel provider.

Selected Major Suppliers of the Registrant:

Fuel and vessel spare parts are the major supplies needed for operations which are available locally and abroad. The Group does not expect any shortage in any of these supplies nor depend upon one or limited number of suppliers for said supplies. Selected major suppliers of the Group follow:

Items/Services Supplied	Major Suppliers
* Fuel and lubricants	Phoenix Petroleum Philippines, Inc. Petrilliam Blac Corporation Promethium Marketing Co. F2020 International Corp.
* Vessel repairs	Jersa Industrial & Marine Corp. Astir Engineering Works Inc. Chesteel Marine Industrial JCG Marine and Industrial Supply

Items/Services Supplied	Major Suppliers
* Vessel spare parts	Phil-Nippon Swan & Concorde, Inc. Sumiyoshi Trading Co. Ltd. Daikai Engineering Pte Power System Inc. Cesmel Europe Marine and Industrial IHI Turbo International Trade Rurex Fabrication and Trading
* Vessel safety equipment	Racomser – Radars FM Apolinario Co., Inc. MPM Safety Industries, Inc. Offshore Marine and Industrial
* Container van rentals	Waterfront Container Leasing
* Container van repairs	Brisk Nautilus Dock Integrated Services Ardee's Venture Regan Industrial Sales, Inc.
* Drydocking services	Subic Drydocking Corp. Keppel Batangas Shipyard
* Security services	Vestina Security
* Terminal equipment rental	Ravago – crane and generators Exec Engineering Hasting Motors
* Terminal equipment repairs	Exec Engineering Asian Engine Rebuilding Portmizer
* Insurance	Pioneer Insurance Steamship Mutual Management (Bermuda) Limited Philippine Charter Insurance Corp.
* Stevedoring and arrastre	Asian Terminal Inc. Manila North Harbor Port Inc. Iliasco Arrastre& Stevedoring Co. IMASCO Arrastre & Stevedoring Oro Port Cargo Handling Services, Inc. Visayan Vets & Ports Services Filipinas Port Services, Inc. Zamboanga City Integrated Port South Cotabato Integrated Port Central Inter-Transport Logistics
* Trucking services	NN-ATS Logistics and Management Holding Co., Inc. (NALMHCI) Harbour Link Transport Inc./ARR Ent. Fast Cargo Logistics Corp. Fast Services, Nice Trucking

Items/Services Supplied	Major Suppliers
	PKT Trucking, TFO Trucking, MTT Trucking
	PTC Mindanao Port Services, F. Tio Trucking, David Trucking, Nocos Hauling Services, D Eck Trans System Corp.
	Isometric Enterprises
* Communications	Racomser, Jeda Marine
	PLDT
	e-PLDT Innove

Contract for Distribution and Repair and General Services

2GO contracts with more than 20 major trucking, forwarding and container repair companies in the Philippines, including affiliated companies, to provide end-to-end logistics solutions required by its customers. These contracts are conducted on an arms-length basis.

The Company's passenger ticketing and cargo booking are principally conducted through its network of branches and sales agents, most of which are situated at ports served by the Company. In addition, independent agencies/outlets are also maintained in urbanized areas such as Manila, Cebu, and Cagayan de Oro.

These Agencies and Outlets are covered by Agency Contracts renewable annually, subject to certain conditions. Contracts with affiliated companies for agency and general services are conducted on an arms-length basis.

General Service contracts include contracts with engineering, repair and service companies, independent concessionaires, and janitorial service providers.

Patents, Trademarks, Copyrights, Licenses, Franchises

2GO's vessels are duly registered with MARINA and subjected to regular survey and ISM audit to ascertain its adherence to vessel and manning safety standards. The company is the holder of several Certificates of Public Convenience (CPC), Provisional Authority (PA) and Special Permit (SP) issued by MARINA to service domestic ports of call.

Related Party Transactions

Related party transactions with both customers and suppliers are discussed in the 2017 Consolidated Financial Statements.

Employees

2GO (Parent) has a complement of 765 employees as of December 31, 2017.

The Company has a Labor Management Council (LMC) that is a member of the Philippine Association of Labor Management Council, wherein the labor and the management work hand in hand to accomplish certain goals using mutually acceptable means. With this council, labor and management representatives discuss and decide on issues of equal concern to both parties. They are social partners sharing a common interest in the success and growth of the enterprise and the economy. LMC aims to promote harmony among all the 2GO employees, the officers, staff and other employees of the Company and to establish an equally beneficial relationship.

2GO's LMC holds a regular yearly convention to bring all chairmen and representatives to a forum with the principals and officers of the Company. The convention seeks to promulgate resolutions most of which are economic demands from the Labor sector and management; address all other concerns and issues; amend the charter; and to hold elections for the officers of the national LMC.

The establishment of the LMC in September 23, 1986 has given rise to more benefits and privileges to the employees. More significantly the merging of three of the most prominent and well respected shipping lines in the country has seen a dramatic improvement in terms of employee benefits and privileges far better than any other company in the industry offers. This includes among others, medical allowances, group hospitalization plan, educational assistance for qualified dependents, mortuary assistance and privilege pass for employees and their immediate family members.

Government Regulations

The MARINA through Memorandum Circular No. 79 requires all owners/operators of inter-island vessels engaged in Public Transport Service to secure a certificate of accreditation of domestic shipping enterprise / entities from the Authority before they can provide a water transport service.

The Circular is intended to foster standards for domestic shipping operations in order to protect public interest and to generate vital information that will enable MARINA to effectively supervise, regulate and rationalize the organizational movement, ownership and operation of all inter-island water transport utilities, and consequently, to prevent the proliferation of incompetent, inefficient, unreliable and fly-by-night operators.

Accreditation serves as a prerequisite to the granting of franchises for individual vessel operations. 2GO vessels have been issued Certificates of Public Convenience/Provisional Authorities to operate in specified routes.

On 15 February 2018, the Philippine Competition Commission (**PCC)** ruled that Udenna's acquisition of KGLI-BV is a notifiable transaction under Rules and Regulations to Implement the Philippine Competition Act. PCC declared the acquisition void. The PCC decision does not affect the ownership of the Company or its parent NENACO, since KGLI-NM remains to be the stockholder of record of majority of shares in NENACO.

Research and Development Activities

Research and development (R&D) are the company's activities to discover and create new lines of services and/or make major improvements on the existing ones. This is consistent with the Company's strategy to focus its efforts on developing and maintaining its existing value-added businesses where it believes much of its future will lie.

Costs and Effects of Compliance with Environmental Laws

With regard to environmental laws, 2GO follows the regulations embodied in the International Convention for the Prevention of Pollution from Ships, 1973, as modified by the protocol of 1978 (MARPOL 73/78). The said Convention includes regulations aimed at preventing and minimizing pollution from ships - both accidental pollution and that from routine operations - and currently includes, among others, Regulations for the Prevention of Pollution by Oil, Prevention of Pollution by Harmful Substances Carried by Sea in Packaged Form, Prevention of Pollution by Garbage from Ships to which the Company observes. During the year, the Company incurred less than a million to comply with these rules and regulations.

The existing government regulations are intended to achieve the goal of the government to develop the country's water transport system. The goal is to provide adequate, safe, efficient, and economical shipping services that are at par with the world's best that will cater to the transport requirements of a growing national economy and for regional development.

Major Risks Involved in the Business of 2GO and its Subsidiaries

With safety being the Group's no. 1 priority, a safety management system was developed to tie in all these requirements and create a comprehensive system that is dynamic and auditable. The system, developed in 1999 with the assistance of the Det Norske Veritas (DNV), was patterned after the IMO's International Safety Management (ISM) Code. The Group's vessels and relevant shore-based offices are subjected to audits by the MARINA and are certified as compliant to the ISM Code.

Vessel officers and crew demonstrate commitment to safety through strict conduct of emergency drills and exercises, among several other activities. Various drills are conducted regularly in port and at sea. The drills include fire, collision, steering casualty, oil spill, man overboard, and abandon ship. The drills prepare them for the unlikely event of an emergency. Ship-shore drills are also performed to enhance the skills of shore-based crisis management committees in responding to emergency situations involving vessels.

Drydocking for each vessel in the fleet is conducted to ensure that the vessels' hull, machinery and critical equipment meet the requirements of the MARINA and classification societies in terms of seaworthiness. The vessels are classed with various classification societies.

In addition, the whole fleet is compliant to the National Security Programme for Sea Transport and Maritime Infrastructure (NSPSTMI), an International Ship and Port Security Code (ISPS) certification administered by the Office for Transport Security.

Item 2. Properties

2GO Group, Inc. (Parent)

Vessels

As of December 31, 2017, 2GO and its subsidiaries has a total fleet of twenty-four (24) operating vessels, of which twenty-one (21) are company-owned ships. The fleet consists of ten (10) fast crafts, eight (8) RoRo/Pax vessels of which one (1) vessel is leased. On the other hand, three (3) freighters are under lease agreement with Caprotec and two (2) more vessels are chartered with 3rd parties. The Company's operating vessel fleet has a combined Gross Registered Tonnage of approximately 128,690 metric tons, total passenger capacity of approximately 14,161 passengers and aggregate cargo capacity of approximately 3,724 twenty-foot equivalent units (TEUs).

During the year, two fast craft vessels were constructed and deployed in the Ormoc-Cebu service. 2GO continues to engage in charter agreements for 5 freighter vessels for additional capacities to serve the freight market.

Currently, 2GO operates five (5) RoRo/Pax vessels calling on Manila as their homeport. These vessels are larger coastwise vessels that sail from Luzon to Visayas and Mindanao. Further, 2GO operates three (3) medium-sized vessels, formerly called the Cebu Ferries, two (2) of which have Batangas as its homeport, plying on the Batangas-Caticlan route, while the other vessel calling on Manila as homeport serves the Palawan route. The six (6) fast craft passenger vessels, on the other hand, are smaller fast crafts that ply on short distances. The Company also operates eight (8) purely-cargo vessels to fully complement its freight business.

Land, Buildings and Warehouses

The Company owns several pieces of land and a number of buildings and warehouses. These are used in the normal course of business.

Insurance Coverage

The 2GO vessels are appropriately supported by the top Marine Insurance underwriters throughout the world. The Hull and Machinery insurance, which covers physical damage to the ships, is being covered by Pioneer Insurance & Surety Corporation with support from reputable Reinsurers from Lloyds.

The Protection and Indemnity Insurance covering the legal liabilities of the ship owners such as but not limited to pollution, wreck removal and damages to fixed and floating objects is placed with Steamship Mutual Underwriting Association Limited and The Shipowners' Club.

All passengers boarding any 2GO vessels are secured against injuries and/or loss of life with Pioneer Life Inc.

2GO Shipping's marine cargo insurance covering claims arising from losses and damages to cargoes is placed with Pioneer Insurance & Surety Corporation whilst the insurance policy specifically tailored to protect Bangko Sentral ng Pilipinas (BSP) shipments is covered by FPG Insurance Co., Inc.

The Comprehensive General Liability insurance cover of all the Company's owned, affiliated and associated businesses are fully insured by Pioneer Insurance & Surety Corporation. The rest of 2GO Group's assets and properties nationwide, including warehouses, container vans, machinery, equipment and vehicles are fully covered with insurance policies issued by reputable non-life insurance companies.

Container Yard and Warehousing Facilities

The Company has one of the most extensive networks of container yards and warehousing facilities nationwide.

Most of the Company's container yards have been cemented, whether in whole or in part, to achieve greater efficiency in terminal operations, allow for shorter turnaround time in port, greater utilization in stacking of containers and lower repair and maintenance costs for the operating equipment used at the container yards.

The Company also has sufficient warehouse space. Warehouses are either owned or leased by the Company. The Company's warehouse network consists of warehouses in Bacolod, Butuan, Cebu, Davao, Dumaguete, General Santos, Iligan, Iloilo, Ozamis, Zamboanga and Manila.

Containers and Other Equipment

2GO owns and leases a variety of containers and other equipment of various types and sizes for use in its cargo operations including forklift, top loaders, yard tractors and trailers or chassis. Master lease agreements entitle the Company to use the containers in exchange for a per diem rate for the duration of the lease. Lease purchase agreements allow the Company to use the containers for a specified number of years while it continues to pay the lessor a fixed per diem rate and gives the Company the option to acquire the containers at the end of the lease. Installment purchase agreements allow the Company to pay the full purchase price of the containers by installments in accordance to a fixed schedule.

Containers under capital leases as of December 31, 2016 are shown under the "Property and Equipment" account in Note 8 of the consolidated financial statements.

Liens and Encumbrances

Detailed discussion as regards the mortgage, liens and encumbrance over the properties of the Registrant are disclosed under Notes 8, 12 and 13 of the 2016 consolidated financial statements.

2GO Express, Inc. (Parent)

Major leases of 2GO Express include rental offices, outlets and warehouses nationwide. The lease contracts for its outlets nationwide are renewable every year.

Item 3. Legal Proceedings

There are certain legal cases filed against 2GO Group, Inc. and its subsidiaries in the normal course of business. Management and its legal counsel believe that they have substantial legal and factual bases for their position and are of the opinion that losses arising from these cases, if any, will not have a material adverse impact on the consolidated financial statements.

Item 4. Submission of Matters to a Vote of Security Holders

Nothing was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matter

A. Market Information

The Common Stock of the Corporation is listed at the Philippine Stock Exchange. As of latest market date, April 9, 2018, the market price of the Company's common stock is ₱18.22 per share.

Below is the range of high and low bid information for the Company's common equity for each quarter within the last two fiscal years and any subsequent interim period:

	HIGH	LOW
2017		
First Quarter	9.90	9.00
Second Quarter	29.15	11.50
Third Quarter	25.00	19.20
Fourth Quarter	20.50	16.30
2016		
First Quarter	7.57	5.92
Second Quarter	7.38	7.27
Third Quarter	7.39	7.34
Fourth Quarter	7.65	7.60
2015		
First Quarter	10.50	3.31
Second Quarter	7.48	5.80
Third Quarter	11.60	5.71
Fourth Quarter	8.94	6.65

B. Stockholders

The number of common shareholders of record as of February 28, 2018 was 1,891. The top 20 common stockholders as of February 28, 2018 are as follows:

	Name	No. of Shares	Percentage
1	NEGROS NAVIGATION CO., INC.	2,160,141,991	88.31%
2	PCD NOMINEE CORPORATION (FILIPINO)	265,359,594	10.85%
3	ABACUS SECURITIES CORPORATION	1,530,000	0.06%
4	SANTIAGO TANCHAN III	1,262,500	0.05%
5	CONSTANTINE TANCHAN	1,262,500	0.05%
6	PCD NOMINEE CORPORATION (FOREIGN)	693,979	0.03%
7	PHILIPS MULTIEMPLOYER RETIREMENT PLAN	631,250	0.03%
8	RAMON RIVERO	600,000	0.02%
9	AMA RURAL BANK OF MANDALUYONG, INC.	441,875	0.02%
10	ALEXANDER J. TANCHAN	430,260	0.02%
11	ELIZABETH CHIU	378,750	0.02%
12	RAMON R. RIVERO	320,000	0.01%
13	LILIAN S. LIM	315,625	0.01%
14	FAST CARGO TRANSPORT CORP.	300,000	0.01%
15	BONIFACIO O. DOROY	222,960	0.01%
16	MEREAN T. LU	189,375	0.01%
17	HERMINIGILDO TRINIDAD	189,375	0.01%
18	SHI RONG ZHOU	162,862	0.01%
19	TONY WONG	159,075	0.01%
20	JAVIER ARRIETA	145,187	0.01%

As of February 28, 2018, the total number of shares owned by the public is equivalent to 285,298,390 shares or equivalent to 11.66%.

C. Dividends Declaration

There were no dividends declared during the years 2012 to 2017.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Financial information for the three years ended December 31, 2017, 2016 and 2015 are as follows:

Results of Operations for the Years Ended December 31, 2017 and 2016

Amounts in millions		Dec 31, 2017		Restated Dec 31, 2016	% Change
Revenue	₱	21,551	₱	19,054	13%
Costs of Services and Goods Sold		19,015		15,628	(22%)
Gross Profit		**2,536**		**3,426**	**(26%)**
General and Administrative Expenses		2,175		2,341	7%
Operating Income		**361**		**1,085**	**(67%)**
Other Charges		423		337	(26%)
Provision for Income Tax		248		404	39%
Net Income (Loss)	**₱**	**(310)**	**₱**	**344**	**(190%)**
Add back:					
Financing Charges (Interest)		390		390	(0%)
Provision for Income Tax		248		404	39%
Depreciation and Amortization		1,883		1,442	(31%)
EBITDA	**₱**	**2,211**	**₱**	**2,580**	**(14%)**

2GO Group, Inc. and subsidiaries (2GO or the Group) reported ₱21.6 billion of Revenue in 2017, 13% higher than 2016, and Net Loss of ₱310 million versus Net Income of ₱344 million in 2016.

Revenue increased in 2017, driven by the Group's Non-shipping business (Logistics and Distribution) which continued its strong growth. Non-shipping revenue grew 30% in 2017 driven by increased service offerings to existing strategic customers (e.g., end-to-end warehousing, inventory management, cross-docking, delivery, merchandising), the addition of new customers, and an overall focus on customer service. With the strong growth of the Non-shipping business, the revenue mix of the Group further pushes towards Non-shipping which now accounts for 61% of total Revenue.

Shipping revenue decreased by 6% in 2017. While Freight volumes remained relatively consistent in 2017 and 2016, revenue decreased due pricing pressures from the increased competition in the freight market. Revenue from Passage continued to grow in 2017 as total passengers carried increased during the year.

Costs of Services and Goods Sold increased by 22% in 2017, driven primarily by the increase in fuel prices, costs of goods (inventory) sold in the Distribution business, and non-recurring items described below. Fuel prices increased by 34% during 2017, where the Group was impacted by a negative price variance of ₱525 million. General and Administrative Expenses decreased 7% in 2017 primarily due to the Group's focus on controlling costs and higher restatement related adjustments incurred in 2016 than in 2017.

Net Income excluding Nonrecurring Costs totaled ₱314 million in 2017. EBITDA excluding Nonrecurring Costs totaled ₱2.9 billion in 2017.
Details of Nonrecurring Costs for the years ended December 31, 2017 and 2016 are described as follows:

Amounts in millions		Dec 31, 2017		Dec 31, 2016
Bad debts, inventory losses, related party adjustments	₱	410	₱	676
Restructuring costs		67		-
Provisions and Other Nonrecurring Charges		169		20
Total Nonrecurring Costs	**₱**	**647**	**₱**	**696**
Net Income (Loss)	₱	(310)	₱	344
Add Nonrecurring Costs, net of Income Tax		624		690
Net Income Excluding Nonrecurring Costs	**₱**	**314**	**₱**	**1,034**
EBITDA	₱	2,211	₱	2,580
Add Nonrecurring Costs		647		696
EBITDA Excluding Nonrecurring Costs	**₱**	**2,858**	**₱**	**3,276**

Provisions and Other Nonrecurring Charges primarily consists of one-time costs such as vessel layup costs, provisions for unsettled claims and other charges.

Restructuring costs consist of charges incurred as the Group streamlines its operations.

Financial Position as of December 31, 2017 and 2016

Amounts in millions		Dec 31, 2017		Restated Dec 31, 2016	% Change
Current Assets	₱	8,610	₱	7,602	13%
Noncurrent Assets		7,897		8,072	(2%)
Total Assets	**₱**	**16,507**	**₱**	**15,674**	**5%**
Current Liabilities	₱	12,388	₱	11,237	10%
Noncurrent Liabilities		486		507	(4%)
Total Liabilities	**₱**	**12,874**	**₱**	**11,744**	**10%**
Total Equity		3,633		3,930	(8%)
Total Liabilities and Equity	**₱**	**16,507**	**₱**	**15,674**	**5%**

Total Assets increased 5% to ₱16.5 billion, while Total Liabilities increased 10% to ₱12.9 billion.

Assets

Current Assets increased 13% to ₱8.6 billion from ₱7.6 billion. Cash and Cash Equivalents increased 48% to ₱2.1 billion from ₱1.4 billion primarily due to improved collections of accounts receivables from customers, more efficient management of Inventories, and an increase in Trade and Other Payables. Trade and Other Receivables, net of Allowance for Doubtful Accounts, increased only 4% to ₱4.4 billion from ₱4.2 billion, while Revenue increased 13% in 2017 from 2016.

Noncurrent Assets remained at approximately ₱8.0 billion as of Dec 31, 2017 and 2016.

Liabilities

Current Liabilities increased 10% to ₱12.4 billion from ₱11.2 billion. Short-term Notes Payable increased 14% to ₱2.6 billion from ₱2.3 billion, while the current portion of Long-term Debt decreased 8% to ₱3.1 billion from ₱3.4 billion as 2GO took advantage of lower borrowing rates under short-term credit facilities. Trade and Other Payables increased 20% to ₱6.5 billion from ₱5.4 billion primarily due to advances from its parent company (Negros Navigation Co., Inc.) for use in operations, and accruals for recurring and non-recurring costs.

Noncurrent Liabilities remained at approximately ₱500 million as of Dec 31, 2017 and 2016.

Equity

Total Equity decreased 8% to ₱3.6 billion from ₱3.9 billion due to the Net Loss incurred in 2017.

All significant elements of income or loss from continuing operations are discussed in the management discussion and notes to the consolidated financial statements. Likewise, any significant elements of income or loss that did not arise from continuing operations are disclosed either in the management discussion or notes to the consolidated financial statements. There are no known trends, events, material changes, seasonal aspects, or uncertainties that are expected to affect the Group's continuing operations.

Except as disclosed in the management discussion or notes to the consolidated financial statements, there are no other known events that will trigger direct or contingent financial obligation that is material to 2GO, including any default or acceleration of an obligation. There is no material off-balance sheet transaction, arrangement, obligation, and other relationships of 2GO with unconsolidated entities or other persons incurred during the reporting period. The Group does not expect any liquidity issues within the next twelve months. Capital expenditures are funded through cash generated from operations or additional borrowings.

Key Performance Indicators

The following are the key financial ratios of the Group as of and for the years ended for the years ended December 31, 2017 and 2016.

Accounts	Dec 31, 2017	Dec 31, 2016
Current Ratio	0.7	0.7
Debt to Equity Ratio	3.5	3.0
Revenue Growth	13%	16%
Net Income Margin	(1%)	2%
EBITDA (in Millions of Pesos)	₱ 2,211	₱ 2,580
EBITDA Margin	10%	14%

Current Ratio remained at 0.7 as of December 31, 2017 and 2016.

Debt to Equity Ratio increased to 3.5 in 2017 from 3.0 in 2016, which is attributable to the increase in Trade and Other Payables described above.

Revenue Growth remained robust in 2017 with an increase of 13% from 2016, driven by growth in 2GO's Logistics and Distribution business. Revenue growth of 16% in 2016 benefited from national, regional and local government elections.

Net Income Margin decreased to negative 1% in 2017 from positive 2% in 2016 primarily due to increased fuel costs and non-recurring costs.

EBITDA and EBITDA Margin remained strong at ₱2.2 billion and 10% in 2017, and ₱2.6 billion and 14% in 2016. The decrease is attributable to the Net Loss incurred in 2017 primarily due to increased fuel costs and non-recurring costs.

The Group calculates the key financial ratios as follows:

1.	Current Ratio	Current Assets / Current Liabilities
2.	Debt to Equity Ratio	Total Liabilities / Total Equity
3.	Revenue Growth	(Total Revenue current period / Total Revenue prior period) - 1
4.	Net Income Margin	Net Income / Total Revenue
5.	EBITDA	Net Income + Interest + Inc Tax + Depreciation & Amortization
6.	EBITDA Margin	EBITDA / Total Revenue

Company Outlook

2GO Group continues to serve its customers and stakeholders as the Philippines' largest end-to-end logistics solutions provider. The Group provides shipping, logistics and distribution services to small and medium enterprises, large corporations, and government agencies throughout the Philippines. The shipping group operates ocean-going freighters, roll-on/roll-off freight and passenger vessels, and fast ferry passenger vessels. The logistics group offers transportation, warehousing and distribution, cold chain solutions, domestic and international ocean and air forwarding services, customs brokerage, project logistics, and express and last mile package and e-commerce delivery. The distribution group leverages 2GO's shipping and logistics services to provide value-added distribution services to principals and customers.

During 2017, management's focus centered on strengthening corporate governance and ensuring that the proper internal controls and systems were in place and were effective. For 2018, the Group continues its corporate governance initiatives, and aims to expand and further enhance its service offerings to its customers and stakeholders. The Group plans to achieve this through more streamlined operations and collaboration within its business units, investment in warehousing and logistics information technology solutions for customers, and synergies and best practices from its new shareholders. Management is confident that 2GO will further its growth and become an even stronger logistics solutions provider going forward.

B. FOR THE YEARS ENDED DECEMBER 31, 2016 (as restated) VERSUS 2015

KEY PERFORMANCE INDICATORS (KPIs)

The following key performance indicators (KPIs) are used to evaluate the financial performance of 2GO Group, Inc. and its subsidiaries (2GO or the Company).

a. **Revenues** – Consolidated revenues consist of shipping (freight and passage) and nonshipping (logistics, sale of goods, cold chain and isotank services, port services, international freight forwarding and other revenues). Total Revenue for the year ended 2016 is P19.1 billion, an increase of 16% from 2015.

b. **Operating Income** – Computed as revenues less operating costs and expenses. Operating Income for the year ended 2016 is P1.1 billion or 2% less than 2015.

c. **Net Income** – Represents earnings of the Company after provision for income tax. Net Income for the year ended 2016 is P344.0 million or P234.9 million higher than 2015.

d. **Debt-to-Equity Ratio** – Calculated by dividing total liabilities over total equity. The Company's debt-to-equity ratio as of December 31, 2016 is 2.99:1.0, which is consistent with prior year. Total liabilities and equity stood at P11.7 billion and P3.9 billion respectively.

e. **Current Ratio** – Calculated by dividing total current assets by total current liabilities. The Company's current ratio as of December 31, 2016 is 0.89:1.0 vs. 1.03:1.0 as of December 31, 2015. Total current assets are P7.6 billion. Total current liabilities are to P8.5 billion.

The following table presents comparative figures of the KPIs for the years ended 2016 and 2015 based on the consolidated financial statements of the Company (amounts are in thousands of pesos except for the financial ratios):

2GO Group and Subsidiaries	Year ended 2016	2015
Revenues (a)	19,053,875	16,383,336
Operating Income (b)	1,081,860	1,101,244
Net Income (c)	344,036	109,130

Financial Ratios	As of Dec 31, 2016	Dec 31, 2015
Debt-to-Equity Ratio (d)	2.99:1.00	3.03:1.00
Current Ratio (e)	0.89:1.00	1.03:1.00

Note: The figures above are in P' Thousands except otherwise indicated.

CONSOLIDATED INCOME STATEMENT

	Year ended			
In P' Thousands	2016	2015	'16 vs '15	% variance
REVENUES				
Shipping				
Freight	5,003,299	4,963,311	39,987	1%
Passage	3,941,443	3,524,230	417,213	12%
Nonshipping				
Logistics	4,592,193	3,120,439	1,471,754	47%
Sale of goods	3,479,845	3,223,700	256,145	8%
Cold chain and isotank services	1,415,570	1,169,782	245,788	21%
Port services	153,532	140,438	13,095	9%
International freight forwarding	46,946	39,323	7,624	19%
Others	421,046	202,112	218,934	108%
	19,053,875	16,383,336	2,670,539	16%
Cost of services and goods sold	16,349,315	13,986,498	2,362,817	17%
GROSS PROFIT	2,704,561	2,396,838	307,723	13%
General and administrative expenses	1,622,701	1,295,594	327,107	25%
OPERATING INCOME	1,081,860	1,101,244	(19,384)	(2%)
OTHER INCOME (CHARGES)				
Equity in net earnings of associates and joint ventures	24,541	58,704	(34,163)	(58%)
Financing charges	(389,527)	(331,459)	(58,069)	18%
Others - net	31,640	(235,737)	267,377	(113%)
	(333,346)	(508,492)	175,145	(34%)
INCOME BEFORE INCOME TAX	748,513	592,752	155,761	26%
PROVISION FOR INCOME TAX				
Current	376,724	163,928	212,795	130%
Deferred	27,754	319,693	(291,940)	(91%)
	404,477	483,622	(79,145)	(16%)
NET INCOME	344,036	109,130	234,906	215%
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	330,301	97,033	233,267	240%
Noncontrolling interests	13,735	12,097	1,639	14%
	344,036	109,130	234,906	215%
Basic/ Diluted Earnings Per Share	0.1350	0.0397	0.0954	240%

Note: The figures above are in P' Thousands except earnings per share amounts.

Results of Operations

2GO Group, Inc.'s Net Income for the year ended 2016 increased significantly to P344.0 million or by 215% compared to 2015.

Total consolidated revenues increased 16% to P19.1 billion in 2016, from P16.4 billion in 2015. The non-shipping group grew by 28%, while the shipping group grew by 5%. The non-shipping group primarily grew due to increased service offerings. The shipping group grew from higher volumes and improved vessel turnaround for both large and medium-sized ropax vessels. Revenue mix continues to tilt towards non-shipping, which now accounts for 53% of the total turnover, while shipping contributed 47%.

The Company continues to focus on tightening its cost and expenses. However, financial performance was affected by the recognition of non-recurring restatement adjustments for provision for bad debts and inventory and related party adjustments totaling P260.7 million. Excluding the non-recurring restatement adjustments, Net Income for the year 2016 would have been P604.8 million compared to the Net Income of P696.5 million for the same period in 2015, as presented in the table below.

	Period ended	
In P' Thousands	**Dec 31, 2016**	**Dec 31, 2015**
Net Income, as restated	**344,036**	**109,130**
Non-recurring adjustments		
Provision for bad debts (Trade and other receivables)	**71,577**	**17,936**
Provision for bad debts (Non trade and other receivables)	**105,278**	**75,151**
Inventory on consignment	**-**	**178**
Related party balances adjustment	**83,892**	**(16,334)**
Impairment of vessel and recognition and valuation of asset held for sale	**-**	**260,404**
Goodwill impairment	**-**	**250,000**
Total non-recurring adjustments	**260,747**	**587,335**
Net Income excluding non-recurring adjustments	**604,783**	**696,465**

Earnings per Share

Earnings per Share is calculated by dividing Net Income Attributable to Equity Holders of the Parent Company over weighted-average number of common shares outstanding for the year. Earnings per Share for the year ended 2016 is P0.1350, compared to P0.0397 per share in 2015.

Other changes (+/-5% or more) in the financial statements not covered in the above discussion

<u>2016 vs. 2015</u>

Revenue

- 12% or P417.2 million increase in Passage
- 47% or P1.5 billion increase in Logistics
- 8% or P256.1 million increase in Sale of goods
- 21% or P245.8 million increase in Cold chain and isotank services
- 9% or P13.1 million increase in Port Services
- 19% or P7.6 million increase in International freight forwarding
- 108% or P218.9 million increase in Other Revenues

Other Income / (Charges)

- 58% or P34.2 million decrease in Equity in net earnings of associates
- 18% or P58.1 million increase in Financing charges
- 113% or P267.4 million increase in Other income

CONSOLIDATED BALANCE SHEETS

In P' Thousands	Audited As of Dec 2016	Dec 2015	Amount '16 vs '15	% variance
ASSETS				
Current Assets				
Cash and cash equivalents	1,412,380	1,357,308	55,071	4%
Trade and other receivables - net	4,240,360	4,044,765	195,595	5%
Inventories - net	674,236	513,511	160,726	31%
Other current assets	1,274,995	1,308,456	(33,461)	(3%)
	7,601,972	7,224,040	377,932	5%
Asset held for sale		158,239	(158,239)	(100%)
Total Current Assets	7,601,972	7,382,279	219,692	3%
Noncurrent Assets				
Property and equipment	7,219,399	6,125,276	1,094,122	18%
Investments in associates and joint ventures	282,647	257,230	25,417	10%
Deferred tax assets - net	76,556	112,360	(35,804)	(32%)
Other noncurrent assets	493,577	396,304	97,274	25%
Total Noncurrent Assets	8,072,179	6,891,170	1,181,009	17%
TOTAL ASSETS	15,674,151	14,273,449	1,400,701	10%
LIABILITIES AND EQUITY				
Current Liabilities				
Notes payable	2,324,556	2,111,017	213,539	10%
Trade and other payables	5,408,255	4,492,462	915,793	20%
Income tax payable	14,441	3,999	10,442	261%
Current portion of:				
Long-term debt	696,343	374,094	322,249	86%
Obligations under finance lease	91,706	65,837	25,869	39%
Total Current Liabilities	8,535,300	7,047,408	1,487,892	21%
Noncurrent Liabilities				
Long-term debt - net of current portion	2,705,008	3,176,330	(471,322)	(15%)
Obligations under finance lease - net of current portion	249,995	208,273	41,722	20%
Accrued retirement benefits	246,269	296,773	(50,504)	(17%)
Other noncurrent liabilities	8,067	2,255	5,812	258%
Total Noncurrent Liabilities	3,209,339	3,683,631	(474,292)	(13%)
Total Liabilities	11,744,639	10,731,039	1,013,600	9%
Equity				
Share capital	2,484,653	2,484,653	-	0%
Additional paid-in capital	910,901	910,901	-	0%
Equity reserve	(3,243)	(3,243)	-	0%
Excess of cost of investments over net assets	(9,835)	(9,835)	-	0%
Other comprehensive losses - net	(103,287)	(146,353)	43,066	(29%)
Retained earnings	643,412	313,112	330,301	105%
Treasury shares	(58,715)	(58,715)	-	0%
Equity Attributable to Owners of the Parent Company	3,863,885	3,490,519	373,366	11%
Noncontrolling Interests	65,627	51,891	13,735	26%
Total Equity	3,929,512	3,542,410	387,102	11%
Total Liabilities & Equity	15,674,151	14,273,449	1,400,701	10%

The Company's total assets as of December 31, 2016 stood at P15.7 billion, 10% higher than P14.3 billion as of December 31, 2015.

Current assets increased by 3% or P219.7 million, to P7.6 billion as of December 31, 2016, from P7.4 billion as of December 31, 2015. Cash and cash equivalents increased by 4% or P55.1 million to P1.4 billion as of the end of 2016, from P1.4 billion by the end of 2015, mainly due to increased financing activities. Trade and other receivables increased by 5% or P195.6 million, to P4.2 billion in 2016 from P4.0 billion in 2015. The Company maintained its trade and other receivables close to the same level as last year despite the growth in revenues primarily due to the Company's improved collection performance. However, the Company increased its allowance for doubtful accounts by P552.3M compared to December 31, 2015. Inventories increased by P160.7 million or 31% mainly due to business expansion of the organic principals of the distribution business. This is aside from the reclassification of spare parts amounting to P344.60 million from inventory to Property and Equipment in accordance with the requirements of accounting standards. Other current assets decreased by P33.5 million or 3%.

Non-current assets increased by P1.2 billion or 17%, to P8.1 billion in 2016 from P6.9 billion as of December 31, 2015. Property and equipment increased by 18% or P1.1 billion mainly due to mainly due to vessel-related capex, purchase of containers and the reclassification of spare parts to PPE as mentioned above.
Other Non-current assets increased by 25% or P97.3 million while Investments in associates and joint ventures increased by 10% or P25.4 million.

Total liabilities increased by 9% or P1.0 billion as of 2016 compared to December 31, 2015 mainly due to the increase in trade and other payables by 20% or P915.8 million. Notes payables increased by 10% or P213.5 million. There was also an increase in income tax payable by 261% or P10.4 million, an increase in current portion of long term debt by 86% or P322.2 million, and an increase of 39% or P25.9 million in current portion of obligations under finance lease.

Noncurrent liabilities decreased by P474.3 million or 13%. Long-term debt (net of current portion) decreased by P471.3 million or 15% to P2.7 billion as the end of 2016 from P3.2 billion as of December 31, 2015. There was also a decrease of P50.5 million or 17% in accrued retirement benefits, an increase of P41.7 million or 20% in obligations under finance lease – net of current portion and an increase of P5.8 million or 258% in other noncurrent liabilities.

Total equity increased by 11% to P3.9 billion as of December 31, 2016 versus P3.5 billion in December 31, 2015 due to the net income the Company for the year 2016.

CONSOLIDATED CASHFLOW STATEMENTS

	Period Ended December			
In P' Thousands	2016	2015	'16 vs '15	% variance
Net cash flows provided by operating activities	**2,742,618**	**1,370,075**	**1,372,543**	**100%**
Net cash flows used in investing activities	**(2,320,652)**	**(1,347,609)**	**(973,043)**	**72%**
Net cash flows provided by (used in) financing activities	**(372,298)**	**223,898**	**(596,195)**	**(266%)**
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**5,403**	**9,442**	**(4,038)**	**(43%)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**55,071**	**255,805**	**(200,733)**	**(78%)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,357,308**	**1,101,503**	**255,805**	**23%**
CASH AND CASH EQUIVALENTS AT END OF QUARTER	**1,412,380**	**1,357,308**	**55,071**	**4%**

The Company ended the year 2016 with a net increase in cash of P55.1 million. Net cash flows from operating activities increased by P1.4 billion or 100% compared to last year. The Company's cash flow used in investing activities increased by P973.0 million or 72%. Net cash used in financing activities is higher by 266% or P596.2 million compared to last year.

Other Information

i. Other material events and uncertainties known to management that would address the past and would have an impact on 2GO's future operations are discussed below.

ii. Total fuel/lubes expense is a major component of 2GO's total costs and expenses. The company benefitted from the relatively low fuel prices that continued in 2016.

iii. Except as disclosed in the management discussion and notes to the financial statements, there are no other known events that will trigger direct or contingent financial obligation that is material to 2GO, including any default or acceleration of an obligation. There are also no other known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on revenues or income from operations.

iv. All significant elements of income or loss from continuing operations are already discussed in the management discussion and notes to financial statements. Likewise, any significant elements of income or loss that did not arise from 2GO continuing operations are disclosed either in the management discussion or notes to financial statements.

v. There is no material off-balance sheet transaction, arrangement, obligation, and other relationships of 2GO with unconsolidated entities or other persons created during the reporting period.

vi. Seasonal aspects of the business are considered in 2GO's financial forecast.

vii. 2GO does not expect any liquidity or cash problem within the next twelve months. Capital expenditures are funded through cash generated from operations and additional borrowings.

Company Outlook

2GO Group, Inc. and subsidiaries, which is the country's largest end-to-end logistics solutions provider, offers a full range of capabilities and unmatched resources. Services include warehousing, inventory management, domestic and international express mail and courier services, sales distribution and merchandising, domestic freight services for full/ less container load shipments, Isotank, reefer and cold chain services, heavy lift and project logistics, regular liner passenger service, corporate/ leisure travel and package tours, and international freight forwarding and brokerage.

2GO continues to innovate and adapt to the competitive landscape which continues to evolve and modernize. There are three globally-proven drivers of trade modernization that are happening in the Philippines today: (1) Retailer expansion has shifted to small formats as seen in the proliferation of 24/7 convenience stores; (2) Accelerated GDP growth, especially in the upper middle class, has boosted the increase in personal consumption leading to greater gains in the FMCG industry; and (3) Continued urbanization and sectorization, bringing the growth outside Metro Manila to the key cities in Visayas and Mindanao.

It is in this context that 2GO offers its integrated supply chain platform to provide a unique proposition that is to enable growth for its customers. The over-riding approach is based on the principle of creating value for its customers: engage customers at tactical and strategic levels; collaborate, design and implement solutions to complex challenges; and expand into other relevant, fast growing sectors.

With this, the growth of the Philippines provides a stable and solid backdrop for 2GO's potential to become a stronger player in the industry.

C. FOR THE YEARS ENDED DECEMBER 31, 2015 VERSUS, 2014

KEY PERFORMANCE INDICATORS (KPIs)

The following KPIs are used to evaluate the financial performance of 2GO Group and its subsidiaries. The amounts are in millions of pesos except for the financial ratios.

a. **Revenues** – Consolidated revenues consists of Shipping (Freight and Passage) and non-shipping (Logistics, Distribution, Cold Chain and ISO Tank services, Port services, International Freight Forwarding, other Value Added services). Total Revenue for the period ended December 31, 2015 is P16.42 billion.

b. **Operating Income** – is computed as revenues less operating costs and expenses. Operating income for the period ended December 31, 2015 is P1.81 billion.

c. **Net Income after Income Tax (NIAT)** – is the earnings of the company after income tax expense. The Income after Income Tax for the period December 31, 2015 is P1.08 billion.

d. **Debt-to-equity ratio** – is determined by dividing total liabilities over stockholders' equity. 2GO Group debt-to-equity ratio for the period ended December 31, 2015 is 2.2:1.0.Total liabilities and equity stood at P10.79 billion and P4.95 billion respectively.

e. **Current ratio** – is measured by dividing total current assets by total current liabilities. The Company's current ratio as of December 31, 2015 is 1.15:1:0. Total current assets are P8.16 billion. Total current liabilities amounted to P7.11 billion.

The following table shows comparative figures of the Top Five key performance indicators (KPI) for the full year 2015 versus 2014 and 2013 (amounts in billions except for the financial ratios) based on the consolidated financial statement of 2GO and its subsidiaries:

	For the Period Period December 31		
Consolidated 2GO and Subsidiaries	**Dec. 31, 2015**	**Dec. 31, 2014**	**Dec. 31, 2013**
REVENUES (a)	16,418,049	14,426,995	13,373,193
Operating Income (b)	1,805,780	1,155,564	490,094
NIAT (c)	1,081,328	842,555	227,081
Debt-to-Equity Ratio (d)	2.18:1.00	2.58:1.00	3.06:1.00
Current Ratio (e)	1.15:1.00	1.16:1.00	1.14:1.00

Note: The figures above are in P'MM except otherwise indicated.

CONSOLIDATED INCOME STATEMENT

In P'MM	Period Ended Dec 31				
REVENUES	**2015**	**2014**	**2013**	**'15 vs '14**	**% variance**
Shipping	8,487,542	7,482,007	6,872,368	1,005,535	13%
Passage	3,524,230	3,221,718	2,986,689	302,512	9%
Freight (Note 23)	4,963,311	4,260,289	3,885,679	703,023	17%
Non-Shipping	7,930,508	6,944,988	6,500,825	985,520	14%
Logistics	3,152,197	3,038,804	2,849,148	113,393	4%
Distribution	3,225,800	2,410,751	1,974,780	815,049	34%
Cold Chain and Isotank Services	1,169,782	869,307	693,623	300,475	35%
Port Services	140,438	152,028	174,720	(11,590)	(8%)
International Freight Forwarding	39,323	37,622	35,834	1,700	5%
Others (Note 23)	202,968	436,476	772,720	(233,507)	(53%)
	16,418,049	14,426,995	13,373,193	1,991,055	14%
OPERATING COSTS AND EXPENSES (Note 25)					
Operating	8,892,315	8,800,716	8,766,408	91,599	1%
Terminal	1,718,785	1,405,330	1,356,859	313,455	22%
Cost of Goods Sold	2,638,688	2,087,071	1,720,991	551,617	26%
Overhead	1,362,481	978,314	1,038,841	384,167	39%
	14,612,269	13,271,431	12,883,099	1,340,838	10%
OPERATING INCOME	1,805,780	1,155,564	490,094	650,216	56%
OTHER INCOME (CHARGES)					
Equity in net earnings of associates (Note 12)	58,330	10,974	44,846	47,356	432%
Financing Charges (Note 26)	(351,417)	(332,630)	(369,014)	(18,787)	6%
Reversal of impairment losses on assets held for sale and property and equipment -net			60,606		
Income from retirement of redeemable preferred	5,988				
Others - net (Note 26)	(1,480)	54,205	486,241	(55,685)	(103%)
	(288,579)	(267,451)	222,679	(21,128)	8%
INCOME BEFORE INCOME TAX	1,517,201	888,113	712,773	629,088	71%
PROVISION FOR INCOME TAX (Note 29)	435,873	45,558	485,692	390,315	857%
NET INCOME	1,081,328	842,555	227,081	238,773	28%
ATTRIBUTABLE TO:					
Equity holders of the Parent Company (Notes 10 and 13)	1,069,231	827,735	212,044		
Minority Interest (Note 12)	12,097	14,820	15,037		
	1,081,328	842,555	227,081		
Basic/Diluted Earnings (Loss) Per Share (Note 30)	0.4371	0.3384	0.0867		

Results of Operations

2GO Group, Inc. reported a record setting 71% growth in its 2015 Net Income before Tax to P1.5 billion from P888.1 million the same period last year. Management attributes this record setting performance largely to its focused drive to expand all the business units within the Group by targeting double-digit increases in revenues and supporting this with stringent cost management. 2GO's operating income from the core businesses expanded 56% to P1.8 billion from P1.2 billion against previous year.

The phenomenal growth of 2GO can be attributed to the focused drive to expand all the business units within the Group by targeting double-digit increases in revenues and supporting this with stringent cost management. Though both the Shipping and Non-Shipping business grew immensely, the Non-Shipping group outpaced the Shipping group by growing 14% in revenues as compared to Shipping's increase of 13%.

With this, Group has successfully transformed itself into the largest and most complete supply chain solutions provider. It is now ready and well positioned to address the needs of a growing Philippine economy that is driven by consumption and inter-island trade. The expansion is being propelled by the Group's logistics and value-added services, with 2GO's shipping operations providing a stable platform and a sustainable competitive advantage.

Total consolidated revenues increased by P2.0 billion (or 14%) to P16.4 billion from P14.4 billion for the same period last year. Shipping revenues expanded 13% while Non-shipping grew by 14%. Freight revenues increased 17% mainly due to higher volume (11%) arising from more round trips and optimized routing initiatives. Passage revenues grew 9% on account of a 12% increase in volume. 2GO continues to innovate and improve its service offerings amidst the improving domestic tourism industry that has a positive impact on the volume of sea travelers. At the same token, the growth of the Logistics, Express, Distribution, Cold Chain and Isotank services were are a result of business expansion for its organic and new businesses.

Total costs and expenses grew by 10% only which is slower than the 14% increase in revenues. The Group was able to maintain its Operating costs to P8.9 billion despite the substantial increase in revenues. Its Operating cost ratio is now 54% from 61% the previous year. The shipping group likewise benefited from the relatively low fuel prices in 2015. Cost of goods sold increased by P551.62 million or 26% to P2.64 billion in 2015 from P2.09 billion in 2014 mainly due to the increase in trading goods in relation to the growth in the distribution business. Terminal costs increased by P313.46 million or 22% to P1.72 billion in 2015 from P1.41 billion in 2014 primarily due to outside services, transportation and delivery cost to support its increase in revenues. Its Terminal cost ratio, however, was maintained at 10% of revenues. Overhead cost increased by 39% or P384.17million to P1.36 billion in 2015 compared to P0.98 billion in 2014.

Accordingly, 2GO's net income after tax gained a substantial 28% increase to P1.08 billion from P842.56 million for the same period last year.

2GO is the country's largest total logistics solutions provider that has a full range of capabilities and unmatched resources including warehousing, inventory management, domestic and international express mail and courier services, sales distribution and merchandising, domestic freight services for full/ less container load shipments, ISO tank, reefer and cold chain services, heavy lift and project logistics, regular liner passenger service, corporate/ leisure travel and package tours, and international freight forwarding and brokerage. 2GO Group, Inc. can carry the lightest parcel to the heaviest equipment by land, by sea and by air, be it domestic or international. They continue to reinforce its competitive position by continuously growing its logistics platform by exploiting its various competencies and replicating this in other channels and industries as well.

Earnings (Loss) per Share

Earnings (Loss) Per Share is computed by dividing Net Income (Loss) Attributable to Equity Holders of the Parent over weighted average number of common shares outstanding for the year. Earnings (loss) per share for 2015 stood at P0.4371/ share compared to P0.3384/ share in 2014.

Other changes (+/-5% or more) in the financial statement not covered in the above discussion

2015 vs. 2014

Revenue

- 8% or P11.59 million decrease in Port Services
- 53% or P233.50 million decrease in Others

Other Income / (Charge)

- 432% or P47.36 million increase in equity in net earnings of associates and joint venture
- 103% or P55.69 million decrease in 'other' items

CONSOLIDATED BALANCE SHEETS

In P' Thousands	Period Ended Dec 2015	Dec 2014	Dec 2013	Amount '15 vs '14	% variance
ASSETS					
Current Assets					
Cash and cash equivalents (Note 7)	1,325,355	1,101,361	918,645	223,994	20%
Trade and other receivables (Notes 8 and 23)	4,474,797	3,973,094	3,949,819	501,703	13%
Inventories (Note 9)	938,553	877,542	421,957	61,010	7%
Other current assets (Note 10)	1,423,396	1,209,253	1,054,409	214,143	18%
Total Current Assets	8,162,101	7,161,250	6,344,830	1,000,851	14%
Noncurrent Assets					
Property and equipment (Notes 13 and 20)	6,353,750	5,403,570	5,054,932	950,180	18%
Available-for-sale investments (Note 11)	4,507	5,707	6,907	(1,200)	(21%)
Investments in associates and joint ventures (Note 12)	257,229	192,951	181,977	64,278	33%
Investment Property (Note 14)	9,763	9,763	9,763	(0)	(0%)
Software - net (Note 15)	39,843	29,139	15,379	10,704	37%
Deferred tax assets (Note 29)	318,021	589,334	477,076	(271,313)	(46%)
Goodwill (Note 6)	250,450	250,450	250,450	(0)	(0%)
Other noncurrent assets (Note 16)	346,737	274,092	180,590	72,644	27%
Total Noncurrent Assets	7,580,300	6,755,006	6,177,074	825,294	12%
TOTAL ASSETS	15,742,401	13,916,256	12,521,904	1,826,144	13%
LIABILITIES AND EQUITY					
Notes payable (Note 17)	2,111,017	1,415,651	1,344,927	695,366	49%
Trade and other payables (Notes 18 and 23)	4,553,606	4,612,088	4,189,244	(58,482)	(1%)
Income tax payable	4,687	18,009	5,772	(13,321)	(74%)
Redeemable preferred shares (Notes 21 and 24)	0	5,988	6,680	(5,988)	(100%)
Current portion of:					
Long-term debt (Note 19)	374,094	85,977	373	288,116	335%
Obligations under finance lease (Notes 13 and 20)	65,837	32,837	28,592	32,999	100%
Total Current Liabilities	7,109,241	6,170,550	5,575,588	938,691	15%
Noncurrent Liabilities					
Long-term debt - net of current portion (Note 19)	3,176,330	3,519,186	3,597,496	(342,856)	(10%)
Obligations under finance lease - net of current portion (Notes 13 and 20)	208,273	103,165	89,192	105,108	102%
Accrued retirement benefits (Note 28)	298,072	217,558	167,243	80,514	37%
Other noncurrent liabilities	2,255	14,078	9,369	(11,823)	(84%)
Total Noncurrent Liabilities	3,684,930	3,853,987	3,863,300	(169,057)	(4%)
Total Liabilities	10,794,171	10,024,537	9,438,888	769,634	8%
Equity (Note 24)					
Attributable to Owners of the Parent Company:					
Share Capital	2,484,653	2,484,653	2,484,653	0	0%
Additional paid-in capital	910,901	910,901	910,901	0	0%
Acquisitions of non-controlling interests	(3,243)	(3,243)	(3,243)	(0)	0%
Excess of cost over net asset value of investments	(9,835)	(9,835)	(9,835)	0	(0%)
Other Comprehensive losses - net	(145,074)	(120,257)	(86,405)	(24,817)	21%
Retained Earnings	1,717,652	648,421	(179,314)	1,069,231	165%
Treasury shares	(58,715)	(58,715)	(58,715)	0	0%
	4,896,339	3,851,925	3,058,042	1,044,415	27%
Non-controlling Interests	51,891	39,794	24,974	12,097	30%
Total Equity	4,948,230	3,891,719	3,083,016	1,056,511	27%
TOTAL LIABILITIES AND EQUITY	15,742,401	13,916,256	12,521,904	1,826,145	13%

The Group's total assets as of December 31, 2015 stood at P15.74 billion, 13% higher than P13.92 billion as of December 31, 2014.

Current assets increased by 14% or P1.00 billion to P8.16 billion in 2015 from P7.16 billion as of December 31, 2014. Cash and cash equivalents increased by 20% or P223.99 million to P1.33 billion in 2015 from P1.10 billion in 2014

mainly due to the improved operational performance of the Group, coupled with improved collection efforts. Trade and other receivables increased by 13% or P501.70 million to P4.47 billion in 2015 from P3.97 billion in 2014 as a result of higher revenues. Inventories increased by P61.01 million or 7% mainly due to business expansion of organic as well as with the new principals of the distribution business. Other current assets increased by P214.14 million or 18%.
Non-current assets increased by P825.29 million or 12% to P7.58 billion in 2015 from P6.76 billion as of December 31, 2014. Property and equipment increased by 18% or P950.18 million mainly due to the purchase of a ropax vessel for the Shipping business. Investment in associates increased by 33% or P64.28 million while software costs increased by 37% or P10.70 million. Other Non-current assets likewise increased by 27% or P72,64 million. On the other hand, Available-for-sale financial assets decreased by 21% or P1.20 million while Deferred Tax Assets decreased by 46% or P271.31 million.

Total liabilities increased by 8% or P769.63 million for 2015 compared to 2014 primarily due to the increase in current liabilities by 15% or P938.69 million. The increase in current liabilities was mainly due to the increase in notes payables by 49% or P695.37 million as a result of the payment of major vessel, capital expenditures and dry docking expenses incurred for the year 2015. Trade and other payables slightly decreased by 1% or P58.48 million. Income tax payable decreased by 74% or P13.32 million. Likewise, there are no unredeemed redeemable preferred shares as of December 31, 2015. The current portion of the long-term debt increased by 335% or P288.12 million. There was also an increase in Obligations under finance lease by 100% or P33.0 million in 2015 compared to 2014.

Noncurrent liabilities slightly decreased by 4% or P169.06 million mainly due to the decrease in long term debt (net of current portion) by P342.86 million or 10% to P3.18 billion for the year 2015 from P3.52 billion in 2014. Accrued retirement benefits increased by 37% or P80.51 million to P298.07 million in 2015 from P217.56 million in 2014 as per actuarial valuation. There was an increase in obligations under finance lease (net of current portion) by 102% or P105.11 million while other non-current liabilities decreased by P84% or P11.82 million.

Total equity increased by 27% to P4.95 billion as of December 31, 2015 versus P3.89 billion in December 31, 2014 due to the very strong performance of the Group in 2015.

CONSOLIDATED CASHFLOW STATEMENTS

in P'MM	Period Ended Dec 31				
	2015	**2014**	**2013**	**'15 vs '14**	**% variance**
Net cash flows provided by operating activities	**1,270,205**	**1,439,124**	**1,414,449**	**(168,919)**	**-12%**
Net cash flows used in investing activities	**(1,231,845)**	**(993,476)**	**(1,221,391)**	**(238,369)**	**24%**
Net cash flows used in financing activities	**185,634**	**(262,936)**	**(59,946)**	**448,570**	**-171%**
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	0	4	(1,323)		
NET INCREASE IN CASH AND CASH EQUIVALENTS	**223,994**	**182,716**	**131,789**	**41,278**	**23%**

The Group ended the December 31, 2015 with a net increase in cash of P223.99 million. Net cash flows from operating activities decreased by P168.92 million or 12% compared to 2014. The Group's net cash flow used in investing activities increased by P238.37 million or 24% for 2015. Net cash from financing activities increased by 171% or P448.57 million compared to 2014.

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this SEC Form 17-A.

The management is not aware of any significant or material events or transactions not included nor disclosed in the consolidated financial statements in compliance with SRC Rule 68.

Item 8. Information on Independent Accountant and Other Related Matters

SGV & Co. was appointed as the external auditor of 2GO starting calendar year 2017, with Ms. Josephine H. Estomo as the assigned signing partner.

The Company maintains an Audit Committee, which oversees the internal and external auditors in the conduct of their duties and responsibilities. The Committee is primarily responsible for the review of financial reports and performance of its external auditors and the nomination for approval of the external auditor for the year. Furthermore, the Committee reviews 2GO Group's internal control system, its audit plans, processes and related party transactions.

The committee members are as follows:

Chairman:	Mr. Laurito E. Serrano
Members:	Ms. Ma. Concepcion F. de Claro
	Mr. Joseph C. Tan

(1) External Audit Fees and Services

	Year ended December 31, 2017	**Year ended December 31, 2016**	**Year ended December 31, 2015**
Audit Fees	**P 9,510,000**	**P 2,000,000**	**P 1,414,000**
Audit-Related Fees			
All Other Fees	**55,000**	**50,000**	**50,000**
TOTAL	**P 9,565,000**	**P 2,050,000**	**P 1,464,000**

<u>Audit Fees</u>

This represents professional fees paid to SGV & Co. for financial assurance services rendered for 2GO's Annual Financial Statements, review, and opinion for the SEC Annual Report as of December 31, 2017.

With the support and approval of the newly-elected members of the audit committee and board of directors, 2GO Management agreed to restate prior period financial statements under SGV & Co. to reflect fairly the state of the business. Audit fees paid to SGV & Co. for the special audit amounted to P5,510,000.00.

<u>All Other Fees</u>

This represents fees for services paid to SGV & Co. for other consultancy services rendered.

Audit services provided to 2GO by external auditor SGV & Co. have been pre-approved by the Audit Committee and recommended to the Board of Directors for approval. The Audit Committee has reviewed the magnitude and nature of these services to ensure that they are compatible with maintaining the independence of the external auditor.

(2) Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The consolidated financial statements of 2GO and its Subsidiaries as of December 31, 2016, December 31, 2015 and December 31, 2014 were audited by R.G. Manabat and Co.

In 2017, management, with the support and approval of the then newly-elected members of the audit committee and board of directors, agreed to restate prior period financial statements to reflect fairly the state of the business.

During the course of the SGV & Co. audit, certain adjustments were noted particularly in Accounts Receivable and Fixed Assets resulting from or attributable to the lack of or the apparent breakdown in internal controls and the inconsistent application of accounting policies.

Based on these findings, the new Audit Committee and Board agreed to the further conduct of by SGV & Co. of an audit of the financials for the quarter ended March 31, 2017, and the audit of the adjustments and their application to the relevant accounting periods. In view of the materiality of the restatements and adjustments, the Audit Committee and the Board of Directors approved the filing of the restated financial statements with the SEC with the following details:

The details of the basis of the restatements and reclassifications are as follows:

The details of the basis of the restatement and reclassification of accounts discussing the impact of the newly-adopted accounting policy, estimate or recognition method to the specific restated or reclassified accounts	The details of the basis of the restatements and reclassifications were disclosed in Note 33 to the March 31, 2017 interim consolidated financial statements, which include the comparative restated figures for the three months ended March 31, 2016 and as of and for the years ended December 31, 2016 and 2015.
The relevant accounting standards supporting the restatement and reclassification	
Provision for doubtful receivables (Refer to Note 33.a to the March 31, 2017 interim consolidated financial statements)	For the periods covered by the restatements, there is no provision for doubtful accounts recognized. Under PAS 39, the Group is required at the end of each reporting period to determine whether there is any objective evidence that receivables are impaired, on a specific and collective basis. There was no specific allowance for doubtful receivables provided for receivables such as those from unpaid invoice balances that were deducted outright by customers upon payment and disengaged customers. For the remaining past due receivables, the Group's collective impairment assessment policy has not been applied. PAS 39 par. 64 requires "*An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see* **Error! Hyperlink reference not valid.***). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment*." Further, PAS 39 par. 58 requires "*An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaire*d." PAS 39 par. 59 provides that "*The objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:* ***(a) significant financial difficulty of the issuer or obligor;*** ***(b) a breach of contract, such as a default or delinquency in interest or principal payments*** **...** *(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:* ***(i) adverse changes in the payment status of borrowers in the group (e.g., an increased number of delayed payments*** *or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or…(underscoring ours)*"
Property and equipment-related adjustments (Refer to Note 33.b to the March 31, 2017 interim consolidated	For the periods covered by the restatements, the Group (a) capitalized the cost of repainting, repairs and maintenance (as part of property and equipment), which should have been expensed, and (b) failed to depreciate fixed assets that are available for use. In addition, in 2016, the Group did

financial statements)	not shorten the estimated useful life of its vessels in accordance with the re-fleeting plan. PAS 16 par. 7 requires that "*The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if: (a)* ***it is probable that future economic benefits associated with the item will flow to the entity****; and (b) the cost of the item can be measured reliably.* PAS 16 par 12 further *states "Under the recognition principle in* **Error! Hyperlink reference not valid.**, *an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts.* ***The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.***" PAS 16 par. 51 requires that "*The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and,* ***if expectations differ from previous estimates****, the change(s) shall be accounted for as a change in an accounting estimate in accordance with PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors."* PAS 16 par. 12 provides that "*Depreciation of an asset begins when it is* ***available for use****, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.*" PAS 17 par. 28 requires that "*The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset;* ***otherwise the asset is depreciated over the shorter of the lease term and its useful life*** *(underscoring ours).*"
Reversal of recognized revenue (Refer to Note 33.c to the March 31, 2017 interim consolidated financial statements)	For the periods covered by the restatements, there were revenue recognized that did not meet the revenue recognition criteria under PAS 18, *Revenue*, such as those without proof of delivery, unrecorded returns and deliveries in the inappropriate period. PAS 18 par. 14 provides that "*Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:* ***(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;*** *(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;* *(c) the amount of revenue can be measured reliably;* ***(d) it is probable that the economic benefits associated with the transaction will flow to the entity;*** *and* *(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably (underscoring ours).* PAS 18 par. 20 provides that "*When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:* *(a) the amount of revenue can be measured reliably;* *(b) it is probable that the economic benefits associated with the transaction will flow to the entity;* *(c) the stage of completion of the transaction at the end of the reporting period*

	can be measured reliably; and *(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.*
Impairment of goodwill of SOI (Refer to Note 33.d to the March 31, 2017 interim consolidated financial statements)	The Group impaired the goodwill on SOI in 2015 because SOI incurred operating loss during that year, resulting to its capital deficiency position, and its recoverable value based on its value in use is lower than its carrying amount. PAS 36 par. 90 provides that *"A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognise the impairment loss in accordance with paragraph 104, which states that "An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units).*"
Assets held for sale (Refer to Note 33.e to the March 31, 2017 interim consolidated financial statements)	In September 2015, the Group's BOD approved the sale of one of its vessels. Management assessed that the vessel would qualify as asset held for sale on the date of BOD approval for its sale. Accordingly, the Group reclassified its vessel from property and equipment to assets held for sale in the December 31, 2015 consolidated statement of financial position and recognized impairment loss in the 2015 consolidated statement of profit or loss. PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* par. 6 requires "*An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use*." PFRS 5 par 15 further requires "*An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell*." PFRS 5 par 20 requires "An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised in accordance with paragraph 19."
Inventory-related adjustments (Refer to Note 33.f to the March 31, 2017 interim consolidated financial statements)	The prior period adjustments arose from physical count-to-books reconciliation, additional provision for inventory obsolescence on expiring stocks, and write-down of costs to reflect net realizable values. PAS 2, *Inventories* provides that *"The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use."*
Related party transactions and balances (Refer to Note 33.f to the March 31, 2017 interim consolidated financial statements)	The Group adjusted certain related party transactions and balances that did not reconcile due to (a) differences among subsidiaries in accruing intercompany revenue and costs and (b) timing differences when recognizing income and expense. PAS 1 par. 27 requires "*An entity shall prepare its financial statements, except for cash flow information, using the **accrual basis of accounting**.*
Provisions for contingencies (Refer to Note 33.f to the March 31, 2017 interim consolidated financial	In consultation with its legal counsels, the Group assessed it is probable that certain exposures on litigations and claims would require an outflow of resources to settle based on the status of the cases in 2015. PAS 37 states

statements)	that "*A provision shall be recognised when: (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.* "
Recognition of costs and expenses (Refer to Note 33.f to the March 31, 2017 interim consolidated financial statements)	The prior period adjustments pertain to unrecorded liabilities/expenses which have already been incurred and the expensing out of certain deferred expenses. PAS 1 par. 27 and 28 provides that "*An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework*"
Derecognition of deferred income tax assets (Refer to Note 33.h to the March 31, 2017 interim consolidated financial statements)	The Group assessed that deferred income taxes on certain deductible temporary differences would not qualify for recognition due to insufficient available taxable income in the future to which the deductible temporary differences and excess Minimum Corporate Income Tax (MCIT) can be applied. PAS 12, *Income Taxes* par. 5 defines deductible temporary differences as follows: "*Deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled*." PAS 12 par. 24 requires " *A deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized*"
Reclassification of noncurrent-portion of long-term debt to current liabilities (Refer to Note 33.i to the March 31, 2017 interim consolidated financial statements)	The Group breached its financial ratios required under its long-term debt agreements. Accordingly, the Group reclassified the noncurrent portion of its long-term debt that are subject to such covenants or with cross-default provision in the loan agreements to current liabilities. PAS 1 requires "*When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date*."
Over-all impact of the restatement and reclassification to the company's Result of Operations and Financial condition	The over-all impact of the restatement and reclassification to the Group's results of operations and financial condition was disclosed in Note 33 to the March 31, 2017 interim consolidated financial statements.

The identification of each item affected by the restatement are discussed in Note 33 of the consolidated financial statements as of March 31, 2017 and Note 30 of the consolidated financial statements as of June 30, 2017.

Save for the items restated, no changes in and disagreement with the auditor on any matter of accounting principles or practices, disclosures, etc. exists.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

The names, ages, citizenship, position and offices held or will hold, and brief description of business experience during the past 6 years (except those years stated otherwise) and other directorships held in reporting companies, including name of each company, of all directors and executive officers (as of April 2017) are as follows:

DIRECTORS

The following are the business experience/s of the members of the Board during the last five (5) years:

Mr. Dennis A. Uy, 44, Filipino, has been the Chairman of the Board of 2GO and NENACO since September 2017. He served as the Chief Executive Officer and President of 2GO and NENACO from April to September 2017. He is the Chairman of the Compensation and Remuneration Committee and a member of the Executive Committee. Mr. Uy serves as the Chief Executive Officer and President of Comstech Integration Alliance, Inc. Mr. Uy co-founded P-H-O-E-N-I-X Petroleum Philippines, Inc. in 2002 and has been its Chief Executive Officer and President since 2002. Mr. Uy serves as the Chief Executive Officer and President of Chelsea Shipping Corporation, Global Synergy Trade and Distribution Corporation, Udenna Development Corporation, Value Leases Inc., and Udenna Foundation, Inc. As President, Mr. Uy spearheads operation and management of four companies: Bullex Mining Corporation, BBL Mining Corporation, Davao GM Foods Corporation and Granland Resources Corporation. He serves as the President of Phoenix Petroleum Holdings, Inc. He serves as Chairman and President of Udenna Holdings Corporation and Dencio's Kamayan Inc. He serves as the Chairman of Oilink Mindanao Distribution, Mindanao Media Dynamics, Le Don Printers and Bohemian Promotions and Training Center. Mr. Uy serves as the Chairman of the Board of Directors of Phoenix Petroleum Holdings, Inc., the holding company of PPPI and Udenna Corporation, the ultimate parent company of PPPI. He serves as Chairman of F2 Logistics, Phoenix Philippines Foundation, Inc., and Udenna Foundation, Inc. He serves as Vice Chairman of P-H-O-E-N-I-X Petroleum Philippines, Inc. He has been an Independent Director of Apex Mining Co. Inc. since March 19, 2013. He serves as a Director of P-H-O-E-N-I-X Petroleum Philippines, Inc., First Oriental Packaging, Senorita Farms, Aquamines Philippines, Bulbscor Minerals Corporation and Blucor Minerals Corporation. He has been a Director of 2GO Group, Inc. since February 6, 2017. Mr. Uy served as an Independent Director of Transpacific Broadband Group International Inc. since February 28, 2003. He is a member of the Young President Organization-Philippine Chapter and the Philippine Business for Social Progress. Mr. Uy is the Honorary Consul of Kazakhstan to the Philippines since November 2011. He is also a Member of the Management Association of the Philippines (MAP), the American Chamber of Commerce, Davao Chapter, the Davao City Chamber of Commerce and a Business Sector representative to the Chinatown Development Council in Davao. He was also Past-President of Apo Golf & Country Club and was a Director of Elias Lopez Sports Foundation. Mr. Uy holds a Bachelor of Science Degree in Business Management at the De La Salle University in Manila.

Mr. Francis C. Chua, 68, Filipino, has been an Independent Director of 2GO and NENACO since January 2011. He served as Chairman of the Board of 2GO and NENACO from July 2011 until September 2017. His other current positions include Honorary Consulate General of the Republic of Peru in Manila; President and Eminent Adviser of the Philippine Chamber of Commerce and Industry; Chairman of the Philippine Chamber of Commerce and Industry Foundation, CLMC Group of Companies, and Green Army Philippines Network Foundation; President of DongFeng Automotive, Inc. and Philippine Satellite Corporation; Director of Philippine Stock Exchange, National Grid Corporation of the Philippines, Bank of Commerce, Basic Energy, and Overseas Chinese University; and Trustee of Xavier School Educational Trust Fund, and Adamson University. He graduated with a Bachelor of Science degree in Industrial Engineering from the University of the Philippines.

Mr. Frederic C. DyBuncio, 57, Filipino, has been the President and CEO of 2GO since September 2017 and a Director of 2GO and NENACO since April 2017. He is the Chairman of the Executive Committee and a member of the Risk Oversight Committee, Compensation and Remuneration Committee, and the IT Steering Committee. He is currently an Executive Vice President in SM Investments Corporation. Prior to joining 2GO, he was a career banker who spent over 20 years with JPMorgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various managerial/executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He obtained his undergraduate degree in Business Management from the Ateneo de Manila University, and his master's degree in Business Administration from the Asian Institute of Management.

Atty. Elmer B. Serrano, 50, Filipino, has been a Director, Corporate Secretary, and Corporate Information Officer of 2GO and NENACO since February 2017. He is a member of the Executive Committee and the Compensation and Remuneration Committee. He has been in the practice of corporate law for over two decades and is a senior partner at the law firm of Martinez Vergara Gonzalez & Serrano. Atty. Serrano is currently the Corporate Information Officer of BDO Unibank, Inc. and BDO Leasing and Finance, Inc. He is also the Corporate Secretary of SM Investments Corporation, SM Prime Holdings, Inc., Premium Leisure Corp., PremiumLeisure and Amusement, Inc., Crown

Equities, Inc., BDO Capital & Investment Corporation, BDO Securities Corporation, BDO Insurance Brokers, Inc., Bankers Association of the Philippines and Philippine Dealing System Holdings Corp. and its subsidiaries. He was a director of OCLP Holdings, Inc. until November 2014. He is likewise a director and Corporate Secretary of DFNN Inc. He is a graduate of the Ateneo Law School, a Certified Associate Treasury Professional, and holds a degree of B.S. Legal Management from Ateneo de Manila University.

Ms. Ma. Concepcion F. de Claro, 59, Filipino, became a Director of 2GO and NENACO in April 2017. She is a member of the Audit Committee, the Related Party Transaction Committee, and the IT Steering Committee. She concurrently serves as a member of the Board of Directors of Enderun Colleges, Inc., Sagittarius Mines, Inc., and Udenna Corporation. She is recently appointed as the Chief Finance Officer of Phoenix Petroleum. She is also the Treasurer of Enderun Colleges, Inc. She served as the Chief Operating Officer of Alsons Corporation from March 2011 to 2017 and as a member of the Board of Alsons Power Holdings Corporation from October 2011 to 2017. She was previously a member of the Board of Directors of Manila North Harbour Port, Inc. (from April 2011-June 2012) and Limay Energen Corporation (from July 2011 to March 2012), and Chief Financial Officer of Two San Isidro-SIAI Assets, Inc. (from March 2011 to March 2014). She is a Certified Public Accountant with a B.S. Commerce degree, Major in Accounting, magna cum laude, from Colegio de San Juan de Letran.

Amb. Raul Ch. Rabe, 77, Filipino, has been an Independent Director of 2GO since December 2010. He is also the Chairman of the Risk Management Committee. He served as an Independent Director of NENACO since December 2010, Independent Director of Vivant Corporation since 2004, Director of Bank of Commerce since 2001; Corporate Secretary of Manila Economic and Cultural Office since 2001, and Of Counsel for Rodrigo, Berenguer and Guno Law Offices since 1999. He graduated with a Bachelor of Arts degree at the University of Santo Tomas and a Bachelor of Laws degree from the Ateneo de Manila Law School. He has been a member of the Philippine Bar since 1965 and the Philippine Foreign Services since 1968.

Atty. Monico V. Jacob, 73, Filipino, has served as an Independent Director of 2GO since December 2011 and as an Independent Director of NENACO since December 2010. He is a member of the Related Party Transaction Committee, Risk Oversight Committee, and the Corporate Governance Committee. As a partner of the Jacob & Jacob Law Firm, he has been involved in corporate recovery work including rehabilitation receiverships and restructuring advisory in the following firms: The Uniwide Group of Companies, ASB Holdings, Inc., RAMCAR Group of Companies, Atlantic Gulf and Pacific Company of Manila, Inc., Petrochemicals Corporation of Asia-Pacific, All Asia Capital and Trust Corporation (now known as Advent Capital and Finance Corporation), Nasipit Lumber Company, Inc. and NENACO. His current positions include: President and CEO of Systems Technology Institute, Inc. (STI), Information and Communications Technology Academy, Inc., PhilPlans First, Inc., Philhealthcare, Inc., Banclife Insurance Co. Inc., and JTH Davies Holdings, Inc.; Member of the Boards of Jollibee Foods, Inc., Advent Capital and Finance Corp., Asian Life Financial Assurance, Asian Terminals, Inc., Mindanao Energy, Inc., Phoenix Petroleum Philippines, Inc., De los Santos – STI College, De los Santos – STI Medical Center, Philippine Health Educators, Inc., Philippine Women's University, Unlad Resources Development Corporation, and Anvaya Cove Beach and Nature Club; and Chairman of the Boards of Total Consolidated Asset Mgmt, Inc., and Global Resource for Outsourced Workers, Inc. He completed his Bachelor of Arts in Liberal Arts from Ateneo de Naga and Bachelor of Laws from the Ateneo de Manila University.

Atty. Joseph C. Tan, 59, Filipino, became an Independent Director of 2GO and NENACO in February 2017. He is the Chairman of the Corporate Governance Committee and a member of the Related Party Transaction Committee, Audit Committee, and the IT Steering Committee. He concurrently serves as a member of the Board of Directors of LMG Chemicals Corporation, Premium Leisure Corporation, and Pacific Online Systems Corporation. He is a Founding Partner of MOST Law Firm (formerly Marcos Ochoa Serapio Tan Law Offices). He was a Special Counsel for the Agus Cruz & Manzano Law Office from 2004 to August 2006. He was an Associate of Puno & Puno Law Offices from 1991 to 1995. He is currently an independent director of Premium Leisure Corp. and was a director of San Carlos Bioenergy Corporation. He was also a director of Philippine Bank of Communications from September 2010 to August 2011. Atty. Tan holds a Bachelor of Arts with a Major in Business Administration degree from University of San Francisco, USA. He also holds a Bachelor of Laws degree from the Ateneo de Manila Law School, graduating with honors.

Mr. Laurito E. Serrano, 57, Filipino, became an Independent Director of 2GO Group, Inc. and Negros Navigation Corporation in April 2017. He is the Chairman of the Audit Committee and a member of the IT Steering Committee. He concurrently serves as a member of the Board of Directors of Pacific Online Systems Corporation, Atlas Mining & Development Corporation, Carmen Copper Corporation, MRT Development Corporation, MJIC Investments Corporation, United Paragon Mining Corporation, Axelum Resources Corp., and APC Group, Inc. Mr. Serrano's over 28 years of professional experience in corporate finance advisory work covers the development and promotion of financial advisory and special project engagements involving transaction structuring, public offerings, listings of shares, asset securitization and monetization, workout deals, project studies, business acquisitions and debt and equity capital-raising. Mr. Serrano was a Partner of in the Corporate Finance Consulting Group of Sycip, Gorres, Velayo & Company (SGV&Co) from 1992 to 1997 and started his career in the Audit and Business Advisory Group also of SGV&Co. from 1980 to 1992. Mr. Serrano is a Certified Public Accountant and graduated cum laude from the Polytechnic University of the Philippines, where he obtained his Bachelor of Science Degree in Commerce. He obtained his Master's degree in Business Administration from Harvard Graduate School of Business in Boston, Massachusetts, U.S.A.

EXECUTIVE OFFICERS

The following are the business experience/s of the officers during the last five years:

Mr. William Charles Howell, 39, Filipino-American, is the Chief Financial Officer and Treasurer at 2GO Group, Inc. since July 2017. He has served also as the Chief Finance Officer of NENACO since February 2017 and Vice President of Investments Portfolio at SM Investments Corporation. Previously, he served as CFO and Treasurer of Philippine Geothermal Production Company, Inc. Prior, Mr. Howell held roles in Corporate Development at JDS Uniphase Corporation (now Viavi Solutions Inc.), a technology company listed on the NASDAQ; and Transaction Advisory at Ernst & Young in the San Francisco Bay Area. He brings broad management experience and expertise in accounting, finance, tax, and mergers & acquisitions in various industries including software and technology, distribution, real estate, and energy, among others. He is a Certified Public Accountant in the states of California and Georgia.

Atty. Mia M. Ormita, 41, Filipino, is the Assistant Corporate Secretary since February 2017. She is a Partner of the law firm of Martinez Vergara Gonzalez & Serrano. She has been the Corporate Information Officer and Company Secretary of Steniel Manufacturing Corp. since December 6, 2010. Attorney Ormita served as Compliance Officer of Steniel Manufacturing Corp. since October 2012. She served as an Assistant Corporate Secretary and Assistant Corporate Information Officer at Lodestar Investment Holdings Corp. from November 29, 2007 to May 15, 2009. Attorney Ormita served as a Director of Steniel Manufacturing Corp. Attorney Ormita holds a Bachelor of Arts in Political Science from Ateneo de Manila University in 1997 and a Juris Doctor from Ateneo de Manila Law School in 2003.

Mr. Mark Matthew F. Parco is the Chief Operating Officer of 2GO's Shipping Division. He worked for the Neptune Orient Lines/American President Lines (APL) for over 24 years; started in Sales Management and have moved to different leadership roles in different countries and subsidiaries. He has solid experience in the executive role of managing big multinational organizations particularly in startups, front line offices, in the corporate office, and in a business process unit. His performance and experience has led him to head APL Indonesia, the largest Front Line Office in South East Asia. Prior to joining 2GO, he worked at Philippine Transmarine Carriers in Business Development with the task of growing the maritime, training, and shared services sectors.

Mr. Ricardo B. Aguas Jr. has more than 30 years of vast experience in the areas of end to end supply chain management, sales and marketing, manufacturing, quality management, regulatory affairs, procurement, logistics, human resource, information technology, and finance. He has worked locally with companies such as Procter and Gamble, Selecta Dairy Products, Jollibee Food Corporation and Metro Retail Stores Group. He was posted internationally for regional and global leadership roles and worked for companies such as Michelin in France, Diageo in Singapore and AstraZeneca in China. Currently, he is the Chief Operating Officer of 2go Logistics Group. He is a graduate of Bachelor of Science major in Business Management and Bachelor of Arts major in Political Science and graduated as one of the Top Ten Students of the Philippines. He subsequently finished executive programs in Asian Institute of Management, Pennsylvania State University and University of California, Davis Campus. He used to be part of the Singapore Customs Advisory Council and Asia Pacific Efficient Consumer Response Council. He is currently active with Supply Chain Management Association of the Philippines. He is an industry resource for Best in Breed Supply Chain Solutions.

Mr. Jose S. Ejercito is currently the President of Scanasia Overseas Inc. He was a Consultant for SM Markets from 2012 to 2017. Prior to SM, Pong was the Managing Director of Unilever Korea from 2008 and 2011. He was a Member of the Board of Unilever Philippines and its Customer Development Director. He managed the distribution strategy and operations of Unilever Philippines for many years and held various roles, such as Head of the Multi-Functional Operations Committee, Marketing/Sales Operations Manager, and General Sales (Field) Manager. In the Asia Region, he was assigned as the team leader of the World Class Customer Development (CD) Community tasked to develop world class skills within the CD function. He was posted in Unilever China as National Sales Operations Controller from 2003 to 2006 and set up the first Unilever-operated sales branch in China. Externally, he served as Co-Chair of the industry organization ECR (Efficient Consumer Response) Philippines from 1999 to 2001. He has been a fellow of the Institute of Corporate Directors since 2012. Pong earned his degree of Industrial Engineering from the University of the Philippines. He took up Advanced Executive Program at Northwestern University's Kellogg School of Management in Evanston, Illinois.

Significant Employees

The Corporation considers the contribution of every employee important to the fulfillment of its goals.

Family Relationships

There are no other family relationships within the fourth degree of consanguinity known to 2GO.

Involvement in Certain Legal Proceedings

To the knowledge and/or information of 2GO, none of its nominees for election as directors, the present members of its Board of Directors or its executive officers, is presently or during the last five (5) years been involved in any legal proceeding in any court or government agency on the Philippines or elsewhere which would put to question their ability and integrity to serve 2GO and its stockholders.

With respect to its nominees for election as directors, the present members of its Board of Directors and its executive officers, 2GO is not aware that during the past five (5) years up to even date of: (a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (b) any conviction by final judgment of such person in a criminal proceeding, excluding traffic violations and other minor offenses; (c) such person being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, by any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting such person's involvement in any type of business, securities, commodities or banking activities; and (d) such person being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

Item 10. Executive Compensation

The following table summarizes certain information regarding compensation paid or accrued during the last three fiscal years and to be paid in the ensuing fiscal year to the Registrant Chief Executive Officer and each of the Registrant four other most highly compensated executive officers. For clarity, the compensation paid is for their duties as part of the management team and not in consideration of their duties as directors of the Registrant:

SUMMARY OF COMPENSATION TABLE

President and four (4) most highly compensated executive officers	Year	Salary	Bonuses (13th & 14th Month Pay)
1. Frederic C. DyBuncio. - President and Chief Executive Officer 2. Ricardo B. Aguas Jr. - Chief Operating Officer of 2GO- Logistics 3. Jose S. Ejercito - President of Scanasia Overseas Inc. 4. William Charles Howell - Treasurer and Chief Finance Officer 5. Mark Matthew F. Parco - Chief Operating Officer - Shipping	2018 (estimate)	31,871,913.60	5,311,986

New Management 1. Frederic C. DyBuncio. - President and Chief Executive Officer 2. Ricardo B. Aguas Jr. - Chief Operating Officer of 2GO Logistics 3. Jose S. Ejercito - President of Scanasia Overseas Inc. 4. William Charles Howell - Treasurer and Chief Finance Officer 5. Mark Matthew F. Parco - Chief Operating Officer - Shipping **Old Management** 1. Sulficio O. Tagud Jr. - President and Chief Executive Officer 2. Nelson T. Yap – EVP and Group Chief Finance Officer of NENACO 2. Jeremias E. Cruzabra - Treasurer and Chief Finance Officer 4. Jose Manuel L. Mapa – EVP for Enterprise Accounts of 2GO Logistics 5. Fred S. Pajo – EVP and Chief Operating Officer	2017	35,246,400	5,874,400
1. Sulficio O. Tagud Jr. - President and Chief Executive Officer 2. Nelson T. Yap – EVP and Group Chief Finance Officer of NENACO 2. Jeremias E. Cruzabra - Treasurer and Chief Finance Officer 4. Jose Manuel L. Mapa – EVP for Enterprise Accounts of 2GO Logistics 5. Fred S. Pajo – EVP and Chief Operating Officer	2016	26,035,200	4,339,200

All other officers and directors as a group unnamed	2018 (estimate)	38,162,104	5,970,337
	2017	36,001,985	5,632,393
	2016	30,840,000	5,140,000

2GO has no significant or special arrangements of any kind as regard to the compensation of all officers and directors other than the funded, noncontributory tax-qualified retirement plans covering all regular employees. Once an officer or director has resigned they are no longer entitled to any compensation outside of the qualified retirement plans, if applicable.

Each director receives a monthly allowance of ₱80,000 except for the Chairman of the Board who receives ₱120,000 a month. Further, a per diem of ₱30,000 is given to each Director and ₱45,000 for the Chairman for every Board meeting attended. Such allowances and per diems are maximum amounts which are shared and/or divided equally with NENACO whenever board meetings of NENACO and 2GO are held on the same day.

Further, for 2017 estimates, the compensation of 2GO's officers is shared proportionately with NENACO. Of the above total amounts, the share of 2GO is equivalent to the 80% compensation of the officers.

Except for the regular company retirement plan, which by its very nature will be received by the officers concerned only upon retirement from 2GO, the above-mentioned directors and officers do not receive any profit sharing nor any other compensation in the form of warrants, options, bonuses etc.

Likewise, there are no standard arrangements that compensate directors directly or indirectly, for any services provided to 2GO either as director or as committee member or both or for any other special assignments.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain record and beneficial owners of five per centum (5%) or more of the outstanding capital stock of the Registrant as of February 28, 2018:

Title of Class	Name and Address of Record Owner and Relationship with 2GO	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Class
Common	**Negros Navigation Co., Inc.** 15th Floor Times Plaza Building, U.N. Ave. cor. Taft Ave., Ermita, Manila (**PARENT COMPANY**)	**Negros Navigation Co., Inc.** Authorized Representative: **Mr. Frederic C. DyBuncio** *President and Chief Executive Officer*	Filipino	2,160,141,995	88.31%

NENACO is one of the oldest domestic shipping companies in the Philippines.

Security Ownership of Management – Record and Beneficial Owners as of February 28, 2018:

Title of Class	Name of Beneficial Owner and Position	Citizenship	Amount and Nature of Ownership Direct (D) or Indirect (I)	Class of Securities Voting	Percent of Class
Common	**Dennis A. Uy** Chairman	Filipino	**1,100 (D)**	Voting	0.00%
Common	**Francis C. Chua** Vice-Chairman	Filipino	**1,000 (D)** **9,000 (I)**	Voting	0.00%
Common	**Elmer B. Serrano** Corporate Secretary, CIO	Filipino	**100 (D)**	Voting	0.00%
Common	**Frederic C. DyBuncio** President / Chief Executive Officer	Filipino	**100 (D)**	Voting	0.00%
Common	**Ma. Concepcion F. de Claro**	Filipino	**100 (D)**	Voting	0.00%
Common	**Raul Ch. Rabe** Independent Director	Filipino	**1,000 (I)**	Voting	0.00%
Common	**Monico V. Jacob** Independent Director	Filipino	**1 (D)**	Voting	0.00%
Common	**Joseph C. Tan** Independent Director	Filipino	**100 (D)**	Voting	0.00%
Common	**Laurito E. Serrano** Independent Director	Filipino	**100 (D)**	Voting	0.00%

Security Ownership of the Directors and Officers in 2GO: Common is 12,601 shares; Preferred – none.

Voting trust holders of 5% or More

No person holds more than five per centum (5%) of a class under a voting trust agreement or similar arrangement.

Changes in Control

In December 28, 2010, NENACO purchased the shareholdings of AEV in 2GO comprising 1,889,489,607 common shares at a purchase price of approximately PhP3.55 billion and the shareholdings of ACO in 2GO comprising 390,322,384 common shares at a purchase price of approximately PhP734 million.

In February 2011, as a result of the mandatory Tender Offer, NENACO purchased an additional 120,330,004 common shares in 2GO.

On December 21, 2012, NENACO caused the sale of 240,000,000 common shares of stock that NENACO holds in 2GO, at a price of P1.65 per share, via regular Block Sale and through the facilities of the Philippine Stock Exchange, to the following unrelated third parties:

1. R A L Holdings and Equities Corporation – 119,000,000 common shares;
2. BIVI Realty Development Corporation – 80,000,000 common shares
3. East Asian BBB Realty, Inc. – 41,000,000 common shares

NENACO now owns 2,160,141,995 common shares of 2GO, equivalent to 88.31% of the total outstanding common shares of 2GO.

On March 31, 2017, SM Investments Corporation (**SMIC**) acquired a 34.5% economic stake in NENACO through China-ASEAN Marine B.V. (**CAM B.V.**). For such acquisition, SMIC acquired from CAM B.V. 888,467,234 Series B Preferred Shares of NENACO representing 15.87% of the voting interest for a cash consideration of US$0.14/share or a total amount of One Hundred Twenty Four Million Five Hundred Thousand Dollars (US$124,500,000.00) based on the shares' fair market value. The Tax Clearance and Certificate Authorizing Registration of the acquired shares in NENACO are currently being processed with the Bureau of Internal Revenue for the transfer of shares to SMIC.

In 2016, Udenna Corporation entered into a Share Purchase Agreement for its acquisition of the entire outstanding stock of KGL Investment B.V. (**KGLI-BV**), a company organized and existing under laws of Netherlands, approximately owning 39.71% voting interest in KGLI-NM Holdings, Inc. (**KGLI-NM**). KGLI-NM in turn owns 59.59% equity interests in NENACO.

On 02 May 2017, Chelsea Logistics Holdings Corp. (**CLC**), a subsidiary of Udenna Corporation, entered into agreements to acquire the following shares of KGLI-NM: (i) 43,081 Redeemable Preferred B shares and 200 Common Shares, representing 9.93% of NENACO, voting stock for a total cash consideration of Php1,193,172,286.29; and (2) 219,609 Preferred C shares, representing 50.37% of KGLI-NM's voting capital stock for a cash consideration of Php219,609.00. Approval of the PCC of these share acquisitions is likewise currently being processed.

Upon completion of above transactions, Udenna Group will indirectly own 52.62% voting and 35.19% economic interests in 2GO, while SMIC will indirectly have a 14.01% voting and 30.46% economic interest in 2GO.

Item 12. Certain Relationships and Related Transactions

In the ordinary course of business, 2GO has transactions with subsidiaries, associates, and other related companies consisting of ship management services, charter hire, management services, courier services, purchases of steward supplies, availment of stevedoring, arrastre, trucking, rental and repair services. 2GO needs these services to complement its services to its freight and passage customers.

The identification of the related parties transacting business with 2GO and how the transaction prices were determined by the parties are discussed in the Notes to the financial statements as of December 31, 2017. 2GO will continue to engage the services of these related parties as long as it is economically beneficial to both parties.

Moreover, 2GO and its subsidiaries do not have existing or proposed transactions with parties that are considered outside of the definition of "related parties" but have the influence of negotiating the terms of material transactions that may not be available to other, more clearly independent parties on an arm's length basis.

PART IV – CORPORATE GOVERNANCE

Item 13.

2GO continues to practice good corporate governance based on principles and leading practices. Being in a dynamic environment, 2GO ensures that it still promotes its core values of transparency, openness, and accountability. For 2GO, good corporate governance and a value-oriented management are pillars of business resilience.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

a) Exhibits - See accompanying Index to Exhibits

The exhibits, as indicated in the Index to Exhibits, are either not applicable to the Company or require no answer.

b) Reports on SEC Form 17-C

The list of the reports submitted to the Commission is as follows:

Date of Disclosure	Subject
April 6, 2018	Mergers & Consolidations
April 5, 2018	Results of Organizational Meeting of Board of Directors
April 5, 2018	Results of Annual or Special Stockholders' Meeting
February 26, 2018	Press Release – 2GO Group Reports 2017 Revenue Growth of 13%
February 26, 2018	Setting of 12 March 2018 as the Record Date
February 26, 2018	Appointment of Atty. Joseph C. Tan as member of the IT Steering Committee
February 26, 2018	Approval of Internal Restructuring of 2GO Group involving the merger of 2GO with its parent, Negros Navigation Co., Inc., with 2GO as the surviving entity
February 26, 2018	Approval of the Audited Financial Statements of 2GO Group Inc. and its Subsidiaries as of December 31, 2017
February 20, 2018	Clarification on the news article entitled "Merger of Uy’s Udenna, NENACO shareholder declared void by PCC”
January 19, 2018	Notice of Annual Meeting of Stockholders
January 19, 2018	Approval of the Creation of the IT Steering Committee
January 19, 2018	Approval of Change in Principal Office Address
December 1, 2017	Change in Stock Transfer Agent
September 22, 2017	Change in External Auditor

2GO GROUP, INC.

CERTIFIED CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY SCHEDULES FOR THE SECURITIES AND EXCHANGE COMMISSION

TABLE OF CONTENTS

2GO Group, Inc. has consolidated subsidiaries namely:

	Nature of Business	Percentage of Ownership	
		2016	2015
2GO Group, Inc. (2GO)	Transporting passenger and cargoes	**88.3**	88.3
The Supercat Fast Ferry Corporation (SFFC)	Transporting passenger	**100.0**	100.0
Special Container and Value Added Services, Inc. (SCVASI)	Transportation/logistics	**100.0**	100.0
2GO Rush Delivery Inc. (2GO RUSH)	Transportation/logistics	**100.0**	-
2GO Express, Inc. (2GO Express)	Transportation/logistics	**100.0**	100.0
2GO Logistics, Inc. (2GO Logistics)	Transportation/logistics	**100.0**	100.0
Scanasia Overseas, Inc. (SOI)	Sales of goods	**100.0**	100.0
Hapag-Lloyd Philippines, Inc. (HLP)	Transportation/logistics	**100.0**	100.0
WRR Trucking Corporation (WTC)	Transportation	**100.0**	100.0
NN-ATS Logistics Management and Holdings Co., Inc. (NALMHCI)	Holding and logistics management	**100.0**	100.0
J&A Services Corporation (JASC)	Vessel support services	**100.0**	100.0
Red.Dot Corporation (RDC)	Manpower services	**100.0**	100.0
North Harbor Tugs Corporation (NHTC)	Tug assistance	**58.9**	58.9
Super Terminals, Inc. (STI)	Passenger terminal operator	**50.0**	50.0
Sungold Forwarding Corporation (SFC)	Transportation/logistics	**51.0**	51.0
Supersail Services, Inc. (SSI)	Manpower provider and vessel support services	**100.0**	100.0
Astir Engineering Works, Inc. (AEWI)	Engineering services	**100.0**	100.0
Negrense Marine Integrated Services, Inc. (NMISI)	Hotel and allied services	**100.0**	100.0
Brisk Nautilus Dock Integrated Services, Inc. (BNDISI)	Freight and related services	**100.0**	100.0
Sea Merchants, Inc. (SMI)	Hotel and allied services	**100.0**	100.0
Bluemarine Inc. (BMI)	Housekeeping and allied services	**100.0**	100.0
WG&A Supercommerce Incorporated (WSI)	Vessels’ hotel management	**100.0**	100.0

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Manila.

By:

Frederic C. DyBuncio
President and Chief Executive Officer

William Charles Howell
Chief Finance Officer/Treasurer

Elmer B. Serrano
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 10 2018 2018, affiants exhibiting to me their valid and competent proof of identity, as follows:

NAMES	**ID NUMBER**
Frederic C. DyBuncio	TIN 103-192-854
William Charles Howell	TIN 321-579-394
Elmer B. Serrano	TIN 153-406-995

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Page No. 106
Book No. 5
Series of 2018.

NOTARY PUBLIC

CECILE DANICA C. GOTAMCO
Appointment No. 217 (2017-2018)
Notary Public for Pasig City
Until December 31, 2018
Attorney's Roll No. 69769
33rd Floor, The Orient Square
F. Ortigas, Jr. Road, Ortigas Center, Pasig City
PTR OR No. 3859422; 01.04.18; Pasig City
Lifetime IBP No. 002691; 05.13.17; RSM

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **2GO, Group Inc. and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the year ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders for the year ended December 31, 2017, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Dennis A. Uy
Chairman of the Board

Frederic C. Dybuncio
President and Chief Executive Officer

William Howell
Chief Financial Officer and Treasurer

Signed this 23rd day of February 2018.

8th Floor, Tower 1, Double Dragon Plaza, DD Meridian Park corner Macapagal Avenue and EDSA Extension, Bay Area, Pasay City, Metro Manila, Philippines 1300
+632 528 7171 www.2GO.com.ph

SUBSCRIBED AND SWORN TO, before me this February 27, 2018 at Makati City, personally appeared the following persons with their sufficient proof of identification.

DENNIS A. UY	TIN NO. 172-020-135
FREDERIC C. DYBUNCIO	TIN NO. 103-192-854
WILLIAM HOWELL	TIN NO. 321-579-394

Doc. No. 137;
Page No. 28;
Book No. 20;
Series of 2018.

ATTY. REINIER S. QUIAMBAO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
PTR NO. 6657416 / 01.25.18 / MAKATI CITY
IBP NO. 025016 / 01.10.18 / TARLAC CITY
TIN 238-251-699 ROLL NO. 62283
MCLE NO. V - 0011532 / 10.06.15

2GO GROUP, INC.

CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of 2GO Group, Inc. and Subsidiaries as at December 31, 2017, in accordance with *Philippine Financial Reporting Standards* as required by accounting and auditing standards.

In discharging this responsibility, I hereby declare that I am one of the *Financial Controllers* of the Group.

Furthermore, in my compilation services for the preparation of the financial statements and notes to the financial statements, I was not assisted by or did not avail of the services of Sycip Gorres Velayo & Co., which is the external auditor who rendered the audit opinion for the said financial statements and notes to the financial statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

ROMMEL M. RECIO

CPA Certificate No. 0098934
Valid Until May 24, 2019

BOA Accreditation No.4331
Valid Until December 31, 2018

SUBSCRIBED AND SWORN to before me this MAR 12 2018 at Pasig City, affiant exhibiting to me his PRC ID No. 0098934 valid until May 24, 2019.

Doc. No. 283;
Page No. 58;
Book No. I;
Series of 2018.

KATHLEEN MARC. TUASON
Appointment No. 25(2018-2019)
Notary Public for Pasig City
Until December 31, 2019
Attorney's Roll No. 70340
33rd Floor, The Orient Square
F. Ortigas, Jr. Road, Ortigas Center, Pasig City
PTR Receipt No. 3859421; 01.04.18; Pasig City
IBP Lifetime No. 017279; 05.19.17; RSM

2GO Group, Inc. and Subsidiaries

Consolidated Financial Statements
As of and for the Year Ended
December 31, 2017
(With Comparative Figures
As of December 31, 2016 and
January 1, 2016 and Years Ended
December 31, 2016 and 2015)

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
2GO Group, Inc.

Opinion

We have audited the consolidated financial statements of 2GO Group, Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Group as at December 31, 2016 and 2015 and for the years then ended, were audited by another auditor who expressed an unqualified opinion on those statements on April 12, 2017. As part of our audit of the consolidated financial statements as of and for the year ended December 31, 2017, we also audited the adjustments described in Note 33 to the consolidated financial statements that were applied to the 2016 and 2015 annual consolidated financial statements to come up with the consolidated statement of financial position as at January 1, 2016 presented as corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied in accordance with PFRSs. We were not engaged to audit, review, or apply any procedures to the 2016 and 2015 annual consolidated financial statements of the Group other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2016 and 2015 annual consolidated financial statements taken as a whole.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Initial audit considerations

We considered this as a key audit matter as initial audit requires additional planning activities and considerations necessary to establish an appropriate audit plan and strategy, and the performance of audit procedures in addition to those performed in recurring audits. These include (a) gaining an understanding of the Group and its business including its control environment and information systems; (b) evaluation of the selection and consistent application of the accounting policies; and (c) performing audit procedures on the opening balances.

Audit response
We obtained an understanding of the Group and its businesses, including its control environment, key processes, information systems and accounting policies and practices. Based on such understanding, we developed our audit risk assessments, audit strategy and detailed workplan. We engaged in discussions with management to understand their selection and application of accounting policies, focusing on those areas involving significant management estimates and judgments. We also communicated with the auditor of the prior periods. Further, we performed audit procedures on the material opening balances, including prior period adjustments.

Revenue recognition

The Group's revenue from freight, logistics, cold chain and isotank services amounting to ₱10.65 billion and from sale of goods amounting to ₱5.76 billion comprise 49.4% and 26.7%, respectively, of the Group's total consolidated revenues for the year ended December 31, 2017. We considered the recognition of revenue from freight, logistics, cold chain and isotank services and sale of goods as a key audit matter because of the significant amount and volume of the Group's revenue transactions being processed, the risk of recognizing revenue in the improper period or using the inappropriate amount due to numerous manual adjustments, and for the sale of goods, the risk of inappropriate or untimely capture of material revenue-related adjustments such as sales discounts, allowances, returns and bad goods.

Refer to Notes 3 and 4 to the consolidated financial statements for the relevant accounting policies and a discussion of significant judgments related to revenue recognition.

Audit Response

With the involvement of our internal specialist, we obtained an understanding of the Group's revenue recognition process, the relevant controls, and the related information system, including the determination of revenue adjustments. On a sampling basis, we compared the recorded revenue during the year to the revenue details generated from the Group's information system, analysis prepared by management, and actual documents such as proof of deliveries and sales invoices. We reviewed sample manual journal entries related to revenue and inspected the underlying documentation. On a sampling basis, we also obtained and compared the details of discounts, allowances, returns and bad goods to the amounts recorded in the Group's revenue information system and to documents such as the contracts with customers and principals, return slip, bad goods declaration, reconciliation of billings and collections with customers, and other memorandum adjustments.

Recoverability of trade and other receivables

As of December 31, 2017, the Group's trade and other receivables totaling to ₱4.43 billion, net of allowance for doubtful accounts of ₱1.34 billion, account for 26.8% of the consolidated total assets.

We considered the recoverability of trade and other receivables as a key audit matter because the determination of the allowance for doubtful receivables involves significant management's judgment and estimations. It involves the use of several assumptions and consideration of several factors such as the length of the Group's relationship with debtors, their payment behavior, past collection experience, age of receivables, status of subsequent collections and known market factors.

Refer to Notes 3 and 4 to the consolidated financial statements for the relevant accounting policies and a discussion of significant accounting estimates, and Note 7 to the consolidated financial statements for the details of trade and other receivables.

Audit Response

We obtained an understanding of the Group's impairment testing process, including the sources of the underlying data and supporting information systems. For provisions for doubtful receivables that are calculated on an individual basis, we selected samples of impaired receivables and inquired from management their basis of impairment provisioning. We also tested the assumptions underlying the impairment identification and quantification of the provision for doubtful receivables by checking the relevant customers' payment history, including payments made subsequent to period end. For provision for credit losses calculated on a collective basis, we tested the underlying models and the inputs to those models such as the aging profile and the historical loss rates by agreeing the details of the receivable information used in the calculation of loss rates to the Group's records and subsidiary ledgers, checking the age buckets of the past due receivables and re-performing the calculation of the provision for doubtful receivables.

Existence and valuation of inventories

As of December 31, 2017, the related inventory on hand of trading goods amounted to ₱428.01 million, representing 2.6% of the Group's consolidated total assets. The Group-owned inventories and the inventories owned by other principals are stored in different locations in the country. The combined warehousing for the Group-owned and other principal-owned inventories poses a risk on the Group's inventory stock monitoring. We considered the existence and valuation of inventories as a key audit matter because of the materiality of inventories to the consolidated financial statements, the inherent risk on timely and appropriate capture of movements of the inventories in different locations, and the significant judgment and estimates involved in assessing the adequacy of provision for inventory obsolescence.

Refer to Notes 3 and 4 to the consolidated financial statements for the relevant accounting policies and a discussion of significant judgments and estimates, and Note 8 to the consolidated financial statements for the detailed disclosure of inventories.

Audit Response

We obtained an understanding of the Group's inventory management process, including the management's model in estimating the allowance for inventory obsolescence, and the relevant controls. We observed the conduct of inventory count at selected warehouses, including the physical segregation of the Group-owned inventories and the inventories owned by other principals. We traced test counts to the inventory compilation and reviewed the reconciliation of the priced-out inventory compilation with the general ledger account balances. On a sampling basis, we performed the rollback procedures on inventory quantities from the date of inventory count to financial reporting date. We performed cutoff tests on the inventory movements at the date of the inventory taking and at the financial reporting date. Further, we compared the provisioning rates of inventory losses to the historical inventory expiration experience of the Group and recalculated the allowance for inventory obsolescence based on the management's model.

Estimated useful life and impairment of vessels in operations, spare parts and related equipment

As of December 31, 2017, the Group's vessels in operations, spare parts and related equipment amounting to ₱5.45 billion, comprise 33.0% of the Group's consolidated total assets. In accounting for these assets, the Group estimated their useful lives and assessed potential impairment based on the fair value of the assets, physical condition and the cash flows they generate. In evaluating the useful lives of the vessels, spare parts and related equipment, management takes into account the intended life of the vessel fleet being operated, the estimate of the economic life from the date of purchase or manufacture, the fleet deployment plans including the timing of fleet replacements, regulatory developments in the domestic shipping industry, changes in technology, as well as the repairs and maintenance program, among others.

We considered this as a key audit matter because the changes in the estimated useful lives of the Group's vessels in operations, spare parts and related equipment and the recognition of impairment loss involve significant management judgments and estimates and could have a material impact on the consolidated financial position and performance of the Group.

Refer to Notes 3 and 4 to the consolidated financial statements for the relevant accounting policies and a discussion of significant accounting judgment and estimates, and Note 11 to the consolidated financial statements for the detailed disclosures about the carrying amounts of the vessels in operations, spare parts and related equipment.

Audit response

We evaluated management's estimates of the useful lives of the vessels in operations, spare parts and related equipment based on the Group's fleet plan, historical experience on similar assets, useful lives used by comparable shipping companies, regulatory developments affecting the shipping industry and the Group's repairs and maintenance program. With the involvement of our internal specialist, we reviewed the value in use calculation prepared by management to support the recoverability of the carrying value of the vessels in operations, spare parts and related equipment. We tested the mathematical accuracy of the financial model and compared the key assumptions in the financial projection, such as the revenue growth, changes in the costs and expenses relative to revenue growth, capital expenditures and discount rates, to historical experience by the Group and market information.

Estimation and valuation of provisions for contingencies

The Group is involved in legal proceedings and other claims. This matter is significant to our audit because the determination of whether the provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

Refer to Notes 3 and 4 to the consolidated financial statements for the relevant accounting policies and discussion of significant accounting judgment and estimates and Note 20 for the disclosure on provision for contingencies.

Audit Response

We discussed with management the status of the claims and/or assessments, and obtained correspondences with the relevant authorities and opinions from the external legal counsels. We evaluated the position of the Group by considering the relevant laws, rulings and jurisprudence.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Philippine Securities and Exchange Commission (SEC) Form17-A for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 17-A and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2017 are expected to be made available to us after that date.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Josephine H. Estomo.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-4 (Group A),
June 9, 2016, valid until June 9, 2019
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 6621259, January 9, 2018, Makati City

February 23, 2018

2GO GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

(With Comparative Figures as of December 31, 2016 and 2015)

(Amounts in Thousands)

	Note	**December 31, 2017**	December 31, 2016 (As restated, Note 33)	January 1, 2016* (As restated, Note 33)
ASSETS				
Current Assets				
Cash and cash equivalents	*6*	**₱2,095,850**	₱1,412,380	₱1,357,308
Trade and other receivables - net	*7, 17, 21*	**4,428,276**	4,240,360	4,044,765
Inventories	*8*	**555,697**	674,236	513,511
Other current assets	*9*	**1,530,462**	1,274,995	1,308,456
		8,610,285	7,601,971	7,224,040
Asset held for sale	*10*	**–**	–	158,239
Total Current Assets		**8,610,285**	7,601,971	7,382,279
Noncurrent Assets				
Property and equipment	*11, 17, 18*	**7,096,852**	7,219,399	6,125,276
Investments in associates and joint ventures	*12*	**275,676**	282,646	257,229
Deferred tax assets - net	*28*	**82,700**	76,556	112,360
Other noncurrent assets	*14*	**441,596**	493,577	396,304
Total Noncurrent Assets		**7,896,824**	8,072,178	6,891,169
TOTAL ASSETS		**₱16,507,109**	₱15,674,149	₱14,273,448

LIABILITIES AND EQUITY				
Current Liabilities				
Short-term notes payable	*15*	**₱2,644,950**	₱2,324,556	₱2,111,017
Trade and other payables	*16, 21*	**6,506,865**	5,408,255	4,492,459
Income tax payable		**17,174**	14,441	3,999
Current portion of:				
Long-term debt	*17*	**3,121,315**	3,398,474	374,094
Obligations under finance lease	*11, 18*	**97,311**	91,706	65,837
Total Current Liabilities		**12,387,615**	11,237,432	7,047,406
Noncurrent Liabilities				
Long-term debt - net of current portion	*17*	**1,481**	2,877	3,176,330
Obligations under finance lease - net of current portion	*11, 18*	**218,430**	249,995	208,273
Accrued retirement benefits	*27*	**260,115**	246,268	296,773
Other noncurrent liabilities		**6,082**	8,065	2,255
Total Noncurrent Liabilities		**486,108**	507,205	3,683,631
Total Liabilities		**₱12,873,723**	₱11,744,637	₱10,731,037

**The opening balances as of January 1, 2016 are the same as the balance as of December 31, 2015.*

(Forward)

	Note	December 31, 2017	December 31, 2016 (As restated, Note 33)	January 1, 2016* (As restated, Note 33)
Equity	*22*			
Share capital		**₱2,484,653**	₱2,484,653	₱2,484,653
Additional paid-in capital		**910,901**	910,901	910,901
Acquisition of non-controlling interest		**(3,243)**	(3,243)	(3,243)
Excess of cost of investments over net assets of a subsidiary		**(9,835)**	(9,835)	(9,835)
Other comprehensive losses - net		**(89,839)**	(103,287)	(146,353)
Retained earnings		**327,638**	643,412	313,112
Treasury shares		**(58,715)**	(58,715)	(58,715)
Equity Attributable to Equity Holders of the Parent Company		**3,561,560**	3,863,886	3,490,520
Non-controlling Interests		**71,826**	65,626	51,891
Total Equity		**3,633,386**	3,929,512	3,542,411
TOTAL LIABILITIES AND EQUITY		**₱16,507,109**	₱15,674,149	₱14,273,448

**The opening balances as of January 1, 2016 are the same as the balances as of December 31, 2015.*
See Notes to the Consolidated Financial Statements.

2GO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Figures for the Years Ended December 31, 2016 and 2015)
(Amounts in Thousands, Except for Earnings Per Common Share)

		Years Ended December 31		
	Note	**2017**	2016 (As restated, Note 33)	2015 (As restated, Note 33)
REVENUES	*5*			
Shipping	*21*	**₱8,417,376**	₱8,944,742	₱8,487,541
Nonshipping:				
Logistics and other services	*21*	**7,372,295**	6,629,288	4,672,094
Sale of goods		**5,761,828**	3,479,845	3,223,700
		21,551,499	19,053,875	16,383,335
COST OF SERVICES AND GOODS SOLD	*23*	**19,015,540**	15,627,734	13,316,596
GROSS PROFIT		**2,535,959**	3,426,141	3,066,739
GENERAL AND ADMINISTRATIVE EXPENSES	*24*	**2,174,522**	2,340,885	1,696,681
OPERATING INCOME		**361,437**	1,085,256	1,370,058
OTHER INCOME (CHARGES)				
Equity in net earnings (losses) of associates and joint ventures	*12*	**(6,970)**	24,541	58,704
Financing charges	*25*	**(390,070)**	(389,527)	(331,459)
Others - net	*25*	**(25,885)**	28,242	(504,550)
		(422,925)	(336,744)	(777,305)
INCOME (LOSS) BEFORE INCOME TAX		**(61,488)**	748,512	592,753
PROVISION FOR INCOME TAX	*28*			
Current		**265,010**	376,723	163,929
Deferred		**(16,924)**	27,754	319,693
		248,086	404,477	483,622
NET INCOME (LOSS)		**(₱309,574)**	₱344,035	₱109,131
Attributable to:				
Equity holders of the Parent Company		**(₱315,774)**	₱330,300	₱97,034
Non-controlling interests		**6,200**	13,735	12,097
		(₱309,574)	₱344,035	₱109,131
Basic/Diluted Earnings (Loss) Per Share	*29*	**(₱0.1291)**	₱0.1350	₱0.0397

See Notes to the Consolidated Financial Statements.

2GO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Figures for the Years Ended December 31, 2016 and 2015)
(Amounts in Thousands)

			Years Ended December 31	
	Note	**2017**	2016 (As restated, Note 33)	2015 (As restated, Note 33)
NET INCOME (LOSS)		**(₱309,574)**	₱344,035	₱109,131
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax				
Item that will be reclassified subsequently to profit or loss:				
Net changes in unrealized gain on AFS investments	*14*	**–**	171	–
Item that will not be reclassified subsequently to profit or loss:				
Remeasurement gains (losses) on net defined benefit liability	*27*	**19,211**	60,027	(43,221)
Income tax effect	*28*	**(5,763)**	(18,008)	12,966
		13,448	42,190	(30,255)
Share in remeasurement gains on retirement benefits of associates and joint ventures	*12*	**–**	876	5,948
		13,448	43,066	(24,307)
TOTAL COMPREHENSIVE INCOME (LOSS)		**(₱296,126)**	₱387,101	₱84,824
Attributable to:				
Equity holders of the Parent Company		**(₱302,326)**	₱373,366	₱72,727
Non-controlling interests		**6,200**	13,735	12,097
		(₱296,126)	₱387,101	₱84,824

See Notes to the Consolidated Financial Statements.

2GO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Figures for the Years Ended December 31, 2016 and 2015)
(Amounts in Thousands)

	Attributable to Equity Holders of the Parent Company													
					Other Comprehensive Income (Losses)									
	Share Capital (Note 22)	**Additional Paid-in Capital**	**Acquisition of Non-controlling Interests**	**Excess of Cost of Investments Over Net Assets of a Subsidiary** (Note 22)	**Unrealized Gain on Available-for-sale Financial Assets** (Note 14)	**Share in Cumulative Translation Adjustment of Associates**	**Remeasurement Losses on Accrued Retirement Benefits - Net of tax** (Note 27)	**Share in Remeasurement Gains (Losses) on Accrued Retirement Benefits of Associates and Joint Ventures** (Note 11)	**Subtotal**	**Retained Earnings**	**Treasury Shares** (Note 22)	**Total**	**Non-controlling Interests**	**Total Equity**
BALANCES AT DECEMBER 31, 2014 (As restated, Note 33)	**₱2,484,653**	**₱910,901**	**(₱3,243)**	**(₱9,835)**	**₱486**	**₱5,294**	**(₱127,204)**	**(₱622)**	**(₱122,046)**	**₱216,078**	**(₱58,715)**	**₱3,417,793**	**₱39,794**	**₱3,457,587**
Net income for the year	–	–	–	–	–	–	–	–	–	97,034	–	97,034	12,097	109,131
Other comprehensive loss for the year	–	–	–	–	–	–	(30,255)	5,948	(24,307)	–	–	(24,307)	–	(24,307)
Total comprehensive income for the year	–	–	–	–	–	–	(30,255)	5,948	(24,307)	97,034	–	72,727	12,097	84,824
BALANCES AT DECEMBER 31, 2015 (As restated, Note 33)	**2,484,653**	**910,901**	**(3,243)**	**(9,835)**	**486**	**5,294**	**(157,459)**	**5,326**	**(146,353)**	**313,112**	**(58,715)**	**3,490,520**	**51,891**	**3,542,411**
Net income for the year	–	–	–	–	–	–	–	–	–	330,300	–	330,300	13,735	344,035
Other comprehensive income for the year	–	–	–	–	171	–	42,019	876	43,066	–	–	43,066	–	43,066
Total comprehensive income for the year	–	–	–	–	171	–	42,019	876	43,066	330,300	–	373,366	13,735	387,101
BALANCES AT DECEMBER 31, 2016 (As restated, Note 33)	**2,484,653**	**910,901**	**(3,243)**	**(9,835)**	**657**	**5,294**	**(115,440)**	**6,202**	**(103,287)**	**643,412**	**(58,715)**	**3,863,886**	**65,626**	**3,929,512**
Net loss for the year	–	–	–	–	–	–	–	–	–	(315,774)	–	(315,774)	6,200	(309,574)
Other comprehensive income for the year	–	–	–	–	–	–	13,448	–	13,448	–	–	13,448	–	13,448
Total comprehensive loss for the year	–	–	–	–	–	–	13,448	–	13,448	(315,774)	–	(302,326)	6,200	(296,126)
BALANCES AT DECEMBER 31, 2017	**₱2,484,653**	**₱910,901**	**(₱3,243)**	**(₱9,835)**	**₱657**	**₱5,294**	**(₱101,992)**	**₱6,202**	**(₱89,839)**	**₱327,638**	**(₱58,715)**	**₱3,561,560**	**₱71,826**	**₱3,633,386**

See Notes to the Consolidated Financial Statements.

2GO GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Figures for the Years Ended December 31, 2016 and 2015)
(Amounts in Thousands)

			Years Ended December 31	
	Note	**2017**	2016 (As restated, Note 33)	2015 (As restated, Note 33)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		**(₱61,488)**	₱748,512	₱592,753
Adjustments for:				
Depreciation and amortization of property and equipment and software	*11, 14, 23,24*	**1,882,855**	1,441,914	990,120
Financing charges	*25*	**390,070**	389,527	331,459
Interest income	*25*	**(6,187)**	(5,349)	(3,976)
Loss (gain) on disposal and sale of property and equipment	*11, 25*	**(1,623)**	8,104	6,667
Impairment loss on goodwill and vessel in operation	*10, 11,13, 25*	**–**	–	510,854
Equity in net losses (earnings) of associates and joint ventures	*12*	**6,970**	(24,541)	(58,704)
Gain on sale of AFS investments	*25*	**–**	(8,869)	–
Unrealized foreign exchange losses (gains)		**32,431**	(5,854)	126
Retirement benefit cost	*27*	**112,128**	60,862	49,389
Operating cash flows before working capital changes		**2,355,156**	2,604,306	2,418,688
Decrease (increase) in:				
Trade and other receivables		**(187,579)**	35,287	23,143
Inventories		**118,539**	(160,726)	(51,999)
Other current assets		**(184,043)**	(33,736)	(27,054)
Increase (decrease) in trade and other payables and other noncurrent liabilities		**976,287**	744,172	(822,752)
Cash generated from operations		**3,078,360**	3,189,303	1,540,026
Contribution for retirement fund	*27*	**(78,833)**	(53,934)	(12,825)
Interest received		**5,850**	4,414	3,976
Income taxes paid, including creditable withholding taxes		**(322,921)**	(299,085)	(247,557)
Net cash flows provided by operating activities		**2,682,456**	2,840,698	1,283,620
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Property and equipment	*11*	**(1,623,505)**	(2,500,290)	(1,242,997)
Software	*14*	**(7,612)**	(19,310)	(17,112)
Proceeds from:				
Disposal of property and equipment	*11*	**6,710**	1,236	3,482
Redemption of AFS financial assets	*14*	**–**	1,200	1,200
Asset held for sale	*10*	**–**	158,239	–
Receipt (payments for) various deposits	*14*	**44,307**	(76,638)	(74,464)
Net cash flows used in investing activities		**(1,580,100)**	(2,435,563)	(1,329,891)

(Forward)

			Years Ended December 31	
	Note	**2017**	2016 (As restated, Note 33)	2015 (As restated, Note 33)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availments of:				
Short-term notes payable	*15*	**₱2,598,701**	₱2,370,109	₱2,050,757
Long-term debt	*17*	**756,911**	120,339	31,862
Payments of:				
Short-term notes payable	*15*	**(2,278,306)**	(2,114,913)	(1,355,390)
Interest and financing charges	*25*	**(384,935)**	(374,019)	(314,123)
Obligations under finance lease	*18*	**(77,702)**	(87,570)	(17,833)
Long-term debt	*17*	**(1,035,466)**	(269,412)	(90,656)
Redemption of preferred shares	*19*	**–**	–	(11,983)
Net cash flows provided by (used in) financing activities		**(420,797)**	(355,466)	292,634
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**1,911**	5,403	9,442
NET INCREASE IN CASH AND CASH EQUIVALENTS		**683,470**	55,072	255,805
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,412,380**	1,357,308	1,101,503
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**₱2,095,850**	₱1,412,380	₱1,357,308

See Notes to the Consolidated Financial Statements

1. Corporate Information and Approval of the Consolidated Financial Statements

2GO Group, Inc. (2GO or the Company) was incorporated in the Philippines on May 26, 1949. Its corporate life was extended and will expire on May 25, 2045. The Company's registered office address is 15th Floor, Times Plaza Building, United Nations Avenue corner Taft Avenue, Ermita, Manila, while its principal place of business is Pier 2 and Pier 4, North Harbor, Tondo, Manila. On January 18, 2018, the Board of Directors (BOD) approved the change in its principal office address to 8th Floor Tower 1, Double Dragon Plaza, DD Meridian Park corner Macapagal Avenue and EDSA Extension, Bay Area, Pasay City, Metro Manila. The change in principal office address and the corresponding amendment to the Company's Articles of Incorporation will be submitted to the Company's shareholders for approval during the Annual Shareholders' Meeting to be held on April 5, 2018.

2GO and its subsidiaries (collectively referred to as the Group) provide shipping, logistics and distribution services to small and medium enterprises, large corporations, and government agencies throughout the Philippines. The shipping group operates ocean-going freighters, roll-on/roll-off freight and passenger vessels, and fast ferry passenger vessels. The logistics group offers transportation, warehousing and distribution, cold chain solutions, domestic and international ocean and air forwarding services, customs brokerage, project logistics, and express and last mile package and e-commerce delivery. The distribution group leverages 2GO's shipping and logistics services to provide value-added distribution services to principals and customers.

2GO's shares of stock are publicly traded in the Philippine Stock Exchange (PSE). As at December 31, 2017 and 2016, the Company is 88.3%-owned subsidiary of Negros Navigation Co., Inc. ("NN" or the "Parent Company"). NN is a 59.6%-owned subsidiary of KGLI-NM Holdings, Inc. (KGLI-NM). Its ultimate parent is Chelsea Logistics Holdings Corp (Chelsea). KGLI-NM and Chelsea are both incorporated and domiciled in the Philippines.

The accompanying consolidated financial statements as at and for the year ended December 31, 2017, with comparative figures as at and for the years ended December 31, 2016 and 2015, were approved and authorized for issue by the BOD on February 23, 2018.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for quoted available-for-sale (AFS) investments which are measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), which is the Group's functional and presentation currency. All values are presented to the nearest thousands, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional consolidated statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements. An additional consolidated statement of financial position as at January 1, 2016 is presented in the consolidated financial statements due to prior period adjustments discussed in Note 33 to the consolidated financial statements. The opening balances as of January 1, 2016 are presented as December 31, 2015 balances in the notes to the consolidated financial statements.

Statement of Compliance
The consolidated financial statements of the Group are prepared in accordance with Philippine Financial Reporting Standards (PFRS).

3. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are summarized below.

Basis of Consolidation
The consolidated financial statements include the accounts of 2GO and the subsidiaries listed below:

	Nature of Business	Percentage of Ownership
The Supercat Fast Ferry Corporation (SFFC)	Transporting passenger	**100.0**
Special Container and Value Added Services, Inc. (SCVASI)	Transportation/logistics	**100.0**
2GO Express, Inc. (2GO Express)	Transportation/logistics	**100.0**
2GO Logistics, Inc. (2GO Logistics)	Transportation/logistics	**100.0**
Scanasia Overseas, Inc. (SOI)	Sales of goods	**100.0**
Hapag-Lloyd Philippines, Inc. (HLP)	Transportation/logistics	**100.0**
WRR Trucking Corporation (WTC)(2)	Transportation	**100.0**
NN-ATS Logistics Management and Holdings Co., Inc. (NALMHCI)	Holding and logistics management	**100.0**
J&A Services Corporation (JASC)	Vessel support services	**100.0**
Red.Dot Corporation (RDC)	Manpower services	**100.0**
Supersail Services, Inc. (SSI)	Vessel support services	**100.0**
Astir Engineering Works, Inc. (AEWI)	Engineering services	**100.0**
WG&A Supercommerce, Incorporated (WSI)(1)	Vessels' hotel management	**100.0**
North Harbor Tugs Corporation (NHTC)	Tugboat assistance	**58.9**
Sungold Forwarding Corporation (SFC)	Transportation/logistics	**51.0**
Super Terminals, Inc. (STI)(3)	Passenger terminal operator	**50.0**
2GO Rush Delivery, Inc. (RUSH)(4)	Transportation/logistics	**100.0**

1Ceased commercial operations in February 2006
2Ceased commercial operations in 2017
3NALMHCI has control over STI since it has the power to cast the majority of votes at the BOD's meeting and the power to govern the financial and reporting policies of STI.
4Incorporated in December 2016 but has not yet started business operations in 2017

The Group is considered to have control over an investee, if and only if, the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and,
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and,
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of subsidiaries are consistent with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. When the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation adjustments recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

Changes in the controlling ownership interest, i.e., acquisition of noncontrolling interest or partial disposal of interest over a subsidiary that do not result in a loss of control, are accounted for as equity transactions.

Investments in Associates and Joint Ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control wherein each party has rights over the net assets of the joint venture.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and joint ventures (investee companies) are accounted for under the equity method of accounting from the day it becomes an associate or joint venture. The excess of the cost of the investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized. Any excess of the investor's share of the net fair value of the investee's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, the investments in the investee companies are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies, less any impairment loss. The consolidated statement of profit or loss reflects the share of the results of the operations of the investee companies. The Group's share of post-acquisition movements in the investee's equity reserves is recognized directly in equity. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when their investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee companies. When the investee companies subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of profit or loss.

The consolidated financial statements include the significant associates and joint ventures of the Group listed below:

	Nature of Business	Effective Percentage of Ownership
Associate:		
Hansa Meyer Projects (Phils.), Inc. (HMPPI)[1]	Project logistics and consultancy	**50.0**
MCC Transport Philippines (MCCP)	Container transportation	**33.0**
Joint Ventures:		
KLN Logistics Holdings Philippines Inc. (KLN)[2]	Holding company	**78.4**
Kerry Logistics Philippines, Inc. (KLI)	International freight and cargo forwarding	**62.5**

[1]*Ceased commercial operations effective December 31, 2017.*

[2]*KLN is 78.4%-owned by 2GO Express.*

All entities are incorporated in the Philippines.

Interest in a Joint Operation
The Group has an interest in a joint operation which is a jointly controlled entity, whereby the joint venture partners have a contractual arrangement that establishes joint control over the economic activities of the entity. The assets, liabilities, revenues and expenses relating to the Group's interest in the joint operation have been recognized in the consolidated financial statements of the Group.

As at December 31, 2017, 2016 and 2015, the Company has interest in joint operation in United South Dockhandlers, Inc. (USDI).

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of three months or less, and are subject to an insignificant risk of change in value.

Determination of Fair Value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

Assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Financial Instruments
Date of Recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets, recognition and de-recognition, as applicable, that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial Recognition of Financial Instruments
Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those classified as fair value through profit or loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Group classifies its financial instruments in the following categories:

- Loans and receivables
- AFS investments
- Other financial liabilities

The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

"Day 1" Difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statement of profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data that is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

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 are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of profit or loss when the loans and receivables are derecognized and impaired, as well as through the amortization process. Loans and receivables are included under current assets if realizability or collectibility is within twelve months after the reporting period. Otherwise, these are classified as noncurrent assets.

The Group's cash and cash equivalents, trade and other receivables and refundable deposits (presented as part of "Other current assets" account and "Other noncurrent assets" account in the consolidated statement of financial position) are classified under this category.

AFS Investments
AFS investments are non-derivative financial assets that are designated under this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated statement of financial position. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statement of comprehensive income as "Net changes in unrealized gain or loss on AFS financial assets" account until the investment is derecognized or the investment is determined to be impaired. On de-recognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of profit or loss. Interest earned on holding AFS investments is recognized in the consolidated statement of profit or loss using the effective interest method. Assets under this category are classified as current if

expected to be disposed of within 12 months after the reporting period. Otherwise, they are classified as noncurrent.

The Group's investments in quoted and unquoted shares of stocks are classified under this category.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon inception of the liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statement of profit or loss when the liabilities are derecognized, as well as through the amortization process.

The Group's notes payable, trade and other payables excluding provision for cargo losses and damages and unearned revenue, long-term debt, obligations under finance lease and other noncurrent liabilities are classified under this category.

De-recognition of Financial Assets and Liabilities

Financial Assets. A financial asset is derecognized when:
- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or,
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Group assesses at each reporting period whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivable. The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective impairment assessment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the impaired asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. If a future write off is later recovered, the recovery is recognized in the consolidated statement of profit or loss to the extent of the carrying amount that would have been determined had no impairment loss been recognized.

Financial Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments. The Group assesses at each reporting period whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS investments, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Significant decline in fair value is evaluated against the original cost of the investment, while prolonged decline is assessed against the periods in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of profit or loss, is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount of the asset and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" account in the consolidated statement of profit or loss. If in subsequent years, the fair value of a debt instrument should increase and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories
Inventories are valued at the lower of cost and net realizable value. Cost, which includes all costs directly attributable to acquisition, such as purchase price and transport costs, is primarily determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. An allowance for inventory obsolescence is provided for based on the Group's historical inventory expiration experience and physical inspection.

Assets Held for Sale
Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale must be highly probable. For the sale to be highly probable, (a) an appropriate level of management must be committed to a plan to sell the asset, (b) an active program must have been initiated, (c) the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, (d) the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and (e) actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and its depreciation or amortization ceases.

The Group presents assets classified as held for sale and liabilities related to assets held for sale separately from other assets and other liabilities, respectively, in the consolidated statement of financial position. These assets and liabilities shall not be offset and presented as a single amount and the major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the consolidated statement of financial position or in the notes.

Impairment loss is recognized for any subsequent write-down of the asset to fair value less costs to sell. Gain for any subsequent increase in fair value less costs to sell of an asset is also recognized but not in excess of the cumulative impairment loss that has been previously recognized.

If the Group has classified an asset as held for sale but the criteria as set out above are no longer met, the Group ceases to classify the asset as held for sale, the Group measures a noncurrent asset that ceases to be classified as held for sale at the lower of (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale, and (b) its recoverable amount at the date of the subsequent decision not to sell.

Property and Equipment
Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and related interest incurred during the construction.

When significant parts of property and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Land is carried at cost, less accumulated impairment losses.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Drydocking costs, consisting mainly of main engine overhaul, replacement of steel plate of the vessels' hull and related expenditures, are capitalized as a separate component of "Vessels in operations". When significant drydocking costs are incurred prior to the end of the amortization period, the remaining unamortized balance of the previous drydocking cost is derecognized in profit or loss.

Vessels under refurbishment, if any, include the acquisition cost of the vessels, the cost of ongoing refurbishments and other direct costs. Construction-in-progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the refurbishment of vessels and construction of property and equipment are capitalized during the refurbishment and construction period. Vessels under refurbishment and construction in progress are not depreciated until such time the relevant assets are complete and available for use but tested for impairment losses. Refurbishment of existing vessels is capitalized as part of vessel improvements and depreciated at the time the vessels are put back into operation.

Vessel on lay-over, if any, represents vessel for which drydocking has not been done pending availability of the necessary spare parts. Such vessels, included under the "Property and equipment" account in the consolidated statement of financial position are stated at cost, less accumulated depreciation and any impairment in value.

Minor spare parts and service equipment are typically carried as inventory and recognized in profit or loss as consumed. Major spare parts and stand-by equipment are carried as property and equipment when an entity expects to use them during more than one period or when they can be used only in connection with an item of property and equipment.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, namely:

	Note	In Years
Vessels in operations, excluding drydocking costs and vessel equipment and improvements	*4*	30 - 35*
Drydocking costs		2 - 2.5
Vessel equipment and improvements		3 - 5
Containers and reefer vans		5 - 10
Terminal and handling equipment		5 - 10
Furniture and other equipment		3 - 5
Land improvements		5 - 10
Buildings and warehouses		5 - 20
Transportation equipment		5 - 10
Spare parts and service equipment		3 - 5
Leasehold improvements		Shorter of 5 - 20 or lease term

**From the time the vessel was built*

Depreciation or amortization commences when an asset is in its location or condition capable of being operated in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held-for-sale in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period. The carrying values of the assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and accumulated provision for impairment losses are removed from the accounts and any resulting gain or loss is charged to profit or loss.

Investment Property

The Group's investment property consists of a parcel of land of 2GO Express, is measured at cost, less any impairment loss. The Group used the fair value of the land at the date the Company acquired 2GO Express as the cost in the consolidated financial statements.

Expenditures incurred after the investment property has been put in operation such as repairs and maintenance costs are charged to profit or loss.

Investment property is derecognized when disposed or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are charged to profit or loss.

Transfers are made to (from) investment property when there is a change in use evidenced by ending (commencement) of owner-occupation, or, commencement of an operating lease to another party (commencement of development with a view to sell).

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Software

Software is initially recognized at cost. Following initial recognition, software is carried at cost, less accumulated amortization and any accumulated impairment losses.

The software is amortized on a straight-line basis over its estimated useful life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the software is available for use. The amortization period and the amortization method for the software are reviewed at each financial year end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the software.

Property Acquisitions and Business Combinations

Property Acquisitions. When property is acquired through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Business Combinations. Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed in the consolidated statement of profit or loss.

For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations had occurred from the date when the acquired companies first became under the control of the Group. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is recognized under "Equity adjustments from common control transactions" account in the equity section of the consolidated statement of financial position.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* either in profit or loss or as a change to OCI. If the contingent consideration is classified as equity, it should not be re-measured and subsequent settlement is accounted for within equity.

Goodwill

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Group at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase.

Subsequent Measurement of Goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment Testing of Goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and,
- is not larger than an operating segment as defined in PFRS 8, *Operating Segments*, before aggregation.

Frequency of Impairment Testing. Irrespective of whether there is any indication of impairment, the Group tests goodwill acquired in a business combination for impairment at least annually.

Allocation of Impairment Loss. An impairment loss is recognized for a CGU if the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units.

Measurement Period. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. The measurement period ends as soon as the Group receives the information it was seeking as of the acquisition date or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

Impairment of Nonfinancial Assets

The carrying values of the Group's nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGUs are written-down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell or value in use (VIU). The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. In such a case, the recoverable amount is estimated. Any previously recognized impairment loss is reversed only when there is a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Accordingly, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized in prior years. Such reversal is recognized in the consolidated statement of profit or loss. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Share capital is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Additional Paid-in Capital (APIC) is the difference between the proceeds and the par value when the shares are sold at a premium. Contributions received from shareholders are recorded at the fair value of the items received with the credit going to share capital and any excess to APIC.

Treasury Shares are the Group's own equity instruments that are reacquired. Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized as APIC. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them.

Other Comprehensive Income (OCI) comprises items of income and expenses that are not recognized in profit or loss for the year. OCI of the Group includes net changes in fair value of AFS financial assets, share in OCI of associates and remeasurement gains or losses on accrued retirement benefits.

Retained Earnings represents the cumulative balance of net income, net of any dividend declaration and other capital adjustments.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, Value-added Tax (VAT) or duties, if any. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria for each type of revenue are as follows:

Shipping Revenues are recognized when the related services are rendered. Customer payments for services which have not yet been rendered are classified as unearned revenue under "Trade and other payables" account in the consolidated statement of financial position.

Logistics Revenues are recognized when the related services have been rendered. Service fees are also recognized when cargoes are received by either shipper or consignee for export and import transactions. These amounts are presented, net of certain costs which are reimbursed by customers.

Sale of Goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is upon delivery of the goods and acceptance by the buyer.

Interest Income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Rental Income arising from operating leases is recognized on a straight-line basis over the lease term.

Management Fee is recognized when the related services are rendered.

Dividend Income is recognized when the shareholders' right to receive the payment is established.

Costs and Expenses
Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Employee Benefits
Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits
Majority of the subsidiaries of the Group have separate funded, noncontributory retirement plans, administered by the respective trustees, covering their respective permanent employees.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting the net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Defined benefit costs comprise the following:
- Service cost;
- Net interest on the net defined benefit liability or asset; and,
- Re-measurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized on the earlier of the date of the plan amendment or curtailment, and the date the Group recognizes restructuring related costs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Foreign Currency-denominated Transactions and Translations
Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. All differences are taken to the consolidated statement of profit or loss.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not retranslated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires 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.

The Group as a Lessee. Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of profit or loss.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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 are recognized as expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Group as a Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be

required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Borrowing Cost

Borrowing cost is capitalized as part of the cost of the asset if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing cost commences when the activities to prepare the asset are in progress and expenditures and borrowing cost are incurred. Borrowing cost is capitalized until the assets are substantially ready for their intended use. Borrowing cost is capitalized when it is probable that they will result in future economic benefits to the Group. All other borrowing costs are expensed as incurred. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

Taxes

Current Tax. Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the end of each reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to 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 allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at reporting date.

Income tax relating to items recognized directly in the consolidated statement of comprehensive income is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

VAT. Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

CWTs
CWTs, included in "Other current assets" account in the consolidated statement of financial position, are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rule on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve (12) months are classified as current assets.

Basic/Diluted Earnings (Loss) Per Common Share (EPS)
Basic EPS is computed by dividing the net income (loss) for the period attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding, after retroactive adjustment for any stock dividends and stock splits declared during the year.

For the purpose of computing diluted EPS, the net income (loss) for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all dilutive potential ordinary shares.

Dividends
Dividends on common shares are recognized as a liability and deducted from retained earnings when approved by the respective shareholders of the Company and subsidiaries. Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Related Parties
A related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the

reporting enterprise and its key management personnel (KMP), directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Events After Reporting Period
Post yearend events that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post yearend events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's Chief Decision Maker regularly reviews the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Financial information on business segments is presented in Note 5.

Standards Issued But Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2018. The Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

The Group will adopt the following new or revised standards, amendments to standards and interpretations on the respective effective dates, as applicable:

Effective January 1, 2018

- PFRS 9, *Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The Group is assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretation Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standards Interpretation Committee (SIC) 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 15.

- Philippine Interpretation based on IFRIC-22*, Foreign Currency Transactions and Advance Consideration* clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

  The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- *Transfers of Investment Property (*Amendments to PAS 40*, Investment Property)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

Effective January 1, 2019

- PFRS 16*, Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PRFS 16. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

- Deferral of the local implementation of Amendments to PFRS 10, *Events after the Reporting Period* and PAS 28, *Investment in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,* address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

  The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Accounting policies have been applied consistently to all years presented in the consolidated financial statements, except for the changes in accounting policies explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Group has adopted the following amendments to standards starting January 1, 2017. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Group's consolidated financial statements.

- *Disclosure initiative (*Amendments to PAS 7*, Statement of Cash Flows)* addresses financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (*Amendments to PAS 12*, Income Taxes)* clarifies that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

- C*larification of the scope of the standard* (Amendments to PFRS 12*, Disclosure of Interests in Other Entities*) clarifies that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

4. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRSs requires management to make judgments, accounting estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

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

Revenue Recognition

The Group's revenue arises from its shipping and non-shipping business. Revenue from shipping business comprised mainly of freight and passenger services while the revenue from non-shipping business comprised mainly of logistics and sale of goods. These revenue transactions are subject to risk of recognizing revenue in the improper period or inappropriate measurement due to numerous manual adjustments. Further, the sale of goods is also subject to risk of inappropriate or untimely capture of material revenue-related adjustments such as sales discounts, allowances, returns and bad goods. The Group considers these risks over revenue recognition and makes judgment in recognizing and determining appropriate amount of revenue and material revenue-related adjustments in the proper period.

Determining whether the Group is acting as principal or an agent

The Group assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Group has primary responsibility for providing the services;
- whether the Group has inventory risk;
- whether the Group has discretion in establishing prices; and
- whether the Group bears the credit risk.

If the Group has determined it is acting as a principal, the Group recognizes revenue on a gross basis with the amount remitted to the other party being accounted as part of costs and expenses. If the Group has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Group assessed its revenue arrangements and concluded that it is acting as principal in all arrangements.

Classification of Leases - the Group as a Lessee
The Group has entered into commercial property leases on its distribution warehouses, sales outlets, trucking facilities and administrative office locations. Management has determined that all the significant risks and benefits of ownership of these properties remain with the lessor and thus, accounts for these leases as operating leases.

The Group has also entered into finance lease agreements covering certain property and equipment. The Group has determined that it bears substantially all the risks and benefits incidental to ownership of said properties based on the terms of the contracts (such as existence of bargain purchase option and the present value of minimum lease payments amount to at least substantially all of the fair value of the leased asset). Refer to Note 18.

Classification of Leases - the Group as a Lessor
The Group has entered into short-term leases or chartering arrangements, which provide no transfer of ownership to the lessee. The Group has determined that, based on an evaluation of the terms and conditions of the arrangements, it retains all the significant risks and rewards of ownership of these equipment and accounts for these as operating leases.

Evaluation of Events after the Reporting Period
Management exercises judgment in determining whether an event, favorable or unfavorable, occurring between the end of reporting period and the date when the consolidated financial statements are authorized for issue, is an adjusting event or nonadjusting event. Adjusting events provide evidence of conditions that existed at the end of the reporting period whereas nonadjusting events are events that are indicative of conditions that arose after the reporting period. Management evaluated that there are no significant adjusting or nonadjusting events after the reporting period.

Estimates and Assumptions
The following are the key assumptions concerning the future and other key sources of estimation uncertainty, at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Estimation of Allowance for Doubtful Receivables
The Group maintains allowances for doubtful accounts on trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors, their payment behavior and known market factors. The Group reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses would increase the Group's recorded expenses and decrease current assets.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Group assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, nonmoving account receivables, accounts of defaulted agents and accounts from closed stations.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the aging profile of the receivables, historical loss rates and other factors that may affect collectability. Refer to Note 7.

Determination of NRV of Inventories
The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the reporting period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV. In estimating the allowance for inventory obsolescence, the Group also considers the physical condition of inventory stocks and expiration dates of inventories. Management estimates the provisioning rates to be applied to the age brackets of expiring inventories based on the Group's historical expiration experience. Refer to Note 8.

Estimation of Probable Losses on CWTs and Input VAT
The Group makes an estimate of the provision for probable losses on its CWTs and input VAT. Management's assessment is based on historical experience and other developments that indicate that the carrying value may no longer be recoverable. In 2017, 2016 and 2015, the Group assessed that the aggregate carrying values of CWTs, input VAT and deferred input VAT are fully recoverable. Refer to Notes 9 and 14.

Classification and valuation of assets held for sale
Management assessed whether its existing vessels met the criteria as assets held based on the following: (1) the related assets are available for immediate sale; (2) preliminary negotiations with willing buyers were executed; and (3) the sale is expected to be completed within 12 months from the end of reporting period. Refer to Note 10.

Estimation of Useful Lives of Property and Equipment
The useful life of each of the Group's items of property and equipment is estimated based on the period over which the asset is expected to be available for use until it is derecognized. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Specifically, in evaluating the useful lives of the vessels and related assets, management takes into account the intended life of the vessel fleet being operated, the estimate of the economic life from the date purchased or manufactured, development in the domestic shipping regulations, the fleet deployment plans including the timing of fleet replacements, the changes in technology, as well as the repairs and maintenance program, among others.

The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded depreciation expenses and decrease the carrying value of property and equipment. In 2016, based on the review of estimated useful lives of the vessels in operations, the Group shortened the estimated useful lives of the vessels in operations. Refer to Note 11.

Assessment of Impairment and Estimation of Recoverable Amount of Property and equipment and Investments in associates and joint ventures
The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its VIU. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators. In estimating the VIU, the Group is required to make an estimate of the expected future cash flows from the CGU and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment charges under PFRSs.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

		December 31		
	Note	**2017**	2016	2015
			(In Thousands)	
Property and equipment	*11*	**₱7,096,852**	₱7,219,399	₱6,125,276
Investments in associates and joint ventures	*12*	**275,676**	282,646	257,229

As at December 31, 2017, 2016 and 2015, management evaluated the recoverable amount of the property and equipment based on its value in use. No impairment loss was recognized on the Group's property and equipment as the recoverable amount of the assets are higher than their carrying values.

Management determined that there are no impairment indicators on its investments in associates and joint ventures since the associates and joint ventures have profitable operations.

Impairment of Goodwill
The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the VIU of the CGUs to which the goodwill is allocated. Estimating the VIU requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The significant assumptions used in estimating the recoverable amount of CGU are described in Note 13.

In 2015, the Group's CGU to which the goodwill relates incurred net operating loss and is in capital deficiency position. Management determined based on its value-in-use calculation that the recoverable amount of the CGU is lower than its carrying value. Thus, the Group fully impaired its goodwill amounting to ₱250.5 million. Refer to Note 13.

Estimation of Retirement Benefits Costs and Obligation
The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions were described in Note 27 and include, among others, discount rate and future salary increase. While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension and other retirement obligations.

The discount is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled. Refer to Note 27.

Recognition of Deferred Tax Assets
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced 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. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT and NOLCO is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Consequently, only a portion of the Group's deferred tax assets was recognized. Refer to Note 28.

Estimation of Provisions for Contingencies
The Group is involved in certain legal and administrative proceedings arising from the ordinary course of business. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates. These estimates are based on consultations with independent outside parties, historical experience and other available data. The Group does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that significant differences in actual experience or assumption may materially affect the recorded provision. The inherent uncertainty over the outcome of these legal proceedings and other claims is brought about by the difference in the interpretation and implementation of the relevant laws and regulations. Refer to Note 20.

5. Operating Segment Information

The Group has identified two reportable operating segments as follows:

- The shipping segment provides ocean-going transportation of passengers, rolling cargo, and freight cargo.
- The nonshipping segment provides logistics, sale of goods, supply chain management and other services.

The BOD monitors the operating results of its two operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

Segment revenue includes revenue from services between operating segments. Such revenue and related costs are fully eliminated in the consolidation. Further, there were no revenue transactions with a single customer that accounts for 10.0% or more of total revenues.

Revenues, expenses, results of operations, assets, liabilities and other information about the business segments are as follows:

	December 31, 2017			
	Shipping	**Non Shipping**	**Eliminations/ Adjustments**	**Consolidated Balance**
	(In Thousands)			
External customers	**₱8,461,957**	**₱13,089,542**	**₱–**	**₱21,551,499**
Intersegment revenue	**2,054,277**	**537,809**	**(2,592,086)**	**–**
Revenues	**₱10,516,234**	**₱13,627,351**	**(₱2,592,086)**	**₱21,551,499**
Income (loss) before income tax	**₱692,199**	**(₱206,977)**	**(₱546,710)**	**(₱61,488)**
Provision for income tax	**(70,561)**	**(177,525)**	**–**	**(248,086)**
Segment Profit (Loss)	**₱621,638**	**(₱384,502)**	**(₱546,710)**	**(₱309,574)**
Segment Assets	**₱13,655,184**	**₱8,089,480**	**(₱5,237,555)**	**₱16,507,109**
Segment Liabilities	**₱9,170,188**	**₱8,162,782**	**(₱4,459,247)**	**₱12,873,723**
Other Information:				
Capital expenditures	**₱1,581,420**	**₱281,955**	**₱–**	**₱1,863,375**
Depreciation and amortization	**1,699,592**	**183,263**	**–**	**1,882,855**
Provision for doubtful accounts - net	**8,805**	**285,643**	**–**	**294,448**
Provision for cargo losses and inventory write-down	**12,435**	**233,005**	**–**	**245,440**
Dividend income	**(515,000)**	**(31,710)**	**546,710**	**–**
Equity in net losses of associates and joint ventures	**3,530**	**3,440**	**–**	**6,970**

	December 31, 2016			
	Shipping	Non Shipping	Eliminations/ Adjustments	Consolidated Balance
	(In Thousands)			
External customers	₱8,952,984	₱10,100,891	₱–	₱19,053,875
Intersegment revenue	1,493,377	948,345	(2,441,722)	–
Revenues	₱10,446,361	₱11,049,236	(₱2,441,722)	₱19,053,875
Income (loss) before income tax	₱812,682	(₱48,318)	(₱15,852)	₱748,512
Provision for income tax	(212,205)	(192,272)	–	(404,477)
Segment Profit (Loss)	₱600,477	(₱240,590)	(₱15,852)	₱344,035
Segment Assets	₱13,596,095	₱7,640,634	(₱5,562,580)	₱15,674,149
Segment Liabilities	₱9,734,905	₱6,827,148	(₱4,817,416)	₱11,744,637
Other Information:				
Capital expenditures	₱2,343,976	₱304,041	₱–	₱2,648,017
Depreciation and amortization	1,309,617	132,297	–	1,441,914
Provision for doubtful accounts - net	132,760	404,860	–	537,620
Provision for cargo losses and inventory write-down	17,091	68,071	–	85,162
Equity in net losses (earnings) of associates and joint ventures	(31,545)	7,004	–	(24,541)

	December 31, 2015			
	Shipping	Non Shipping	Eliminations/ Adjustments	Consolidated Balance
		(In Thousands)		
External customers	₱8,500,973	₱7,882,362	₱–	₱16,383,335
Intersegment revenue	1,029,336	860,035	(1,889,371)	–
Revenues	₱9,530,309	₱8,742,397	(₱1,889,371)	₱16,383,335
Income before income tax	₱526,272	₱135,429	(₱68,948)	₱592,753
Provision for income tax	(409,650)	(73,972)	–	(483,622)
Segment Profit	₱116,622	₱61,457	(₱68,948)	₱109,131
Segment Assets	₱12,303,508	₱6,407,876	(₱4,437,936)	₱14,273,448
Segment Liabilities	₱8,770,635	₱5,383,334	(₱3,422,932)	₱10,731,037
Other Information:				
Capital expenditures	₱1,614,105	₱187,345	₱–	₱1,801,450
Depreciation and amortization	886,142	103,978	–	990,120
Provision for doubtful accounts - net	153,970	109,899	–	263,869
Provision for cargo losses and inventory write-down	5,367	128,862	–	134,229
Dividend income	(40,000)	–	(40,000)	–
Equity in net earnings of associates and joint ventures	(50,756)	(7,948)	–	(58,704)

6. Cash and Cash Equivalents

This account consists of:

	December 31		
	2017	2016	2015
		(In Thousands)	
Cash on hand and in banks	**₱1,907,953**	₱1,287,907	₱1,228,742
Cash equivalents	**187,897**	124,473	128,566
	₱2,095,850	₱1,412,380	₱1,357,308

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are placements for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at prevailing market rates.

Interest income earned by the Group from cash in banks and cash equivalents amounted to ₱6.2 million, ₱5.3 million and ₱4.0 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 25).

7. Trade and Other Receivables

This account consists of:

	Note	December 31 2017	2016	2015
			(In Thousands)	
Trade		**₱4,213,384**	₱4,095,024	₱3,655,949
Nontrade		**1,291,980**	1,150,000	1,017,734
Due from related parties	*21*	**217,180**	142,163	53,010
Advances to officers and employees		**49,626**	58,067	40,821
		5,772,170	5,445,254	4,767,514
Less allowance for doubtful receivables		**1,343,894**	1,204,894	722,749
		₱4,428,276	₱4,240,360	₱4,044,765

a. Trade receivables are noninterest-bearing and are generally on 30 to 60 days terms. Freight receivables of the Group amounting to ₱601.5 million, ₱968.5 million and ₱1,042.2 million as at December 31, 2017, 2016 and 2015, respectively, have been assigned to secure one of its long-term debts (see Note 17).

b. Nontrade receivables include advances to principals, suppliers and contractors, passage bonds, receivable from trustee fund and insurance from other claims. These receivables are noninterest-bearing and collectible on demand.

The following tables set out the rollforward of the allowance for doubtful receivables as of December 31, 2017, 2016 and 2015:

	Note	**December 31, 2017 Trade**	**Nontrade**	**Total**
			(In Thousands)	
Beginning		**₱758,340**	**₱446,554**	**₱1,204,894**
Provision	*24*	**180,073**	**127,525**	**307,598**
Reversal	*24*	**(11,263)**	**(1,887)**	**(13,150)**
Write-off		**(145,034)**	**(8,380)**	**(153,414)**
Adjustments		**19,987**	**(22,021)**	**(2,034)**
Ending		**₱802,103**	**₱541,791**	**₱1,343,894**

	Note	December 31, 2016 Trade	Nontrade	Total
			(In Thousands)	
Beginning		₱496,305	₱226,444	₱722,749
Provision	*24*	342,484	220,110	562,594
Reversal		(24,974)	–	(24,974)
Write-off		(28,364)	–	(28,364)
Adjustments		(27,111)	–	(27,111)
Ending		₱758,340	₱446,554	₱1,204,894

	Note	December 31, 2015 Trade	Nontrade	Total
			(In Thousands)	
Beginning		₱375,927	₱137,595	₱513,522
Provision	*24*	182,025	87,666	269,691
Reversal		(236)	(5,586)	(5,822)
Adjustments		(61,411)	6,769	(54,642)
Ending		₱496,305	₱226,444	₱722,749

The Group has not provided allowance for doubtful accounts on amounts due from related parties and advances to officers and employees as of December 31, 2017, 2016 and 2015.

The following table sets out the analysis of collective and individual impairment of trade and other receivables:

	December 31, 2017		
	Individually Impaired	**Collectively Impaired**	**Total**
		(In Thousands)	
Trade	**₱521,722**	**₱282,859**	**₱804,581**
Nontrade	**327,849**	**211,464**	**539,313**
	₱849,571	**₱494,323**	**₱1,343,894**

	December 31, 2016		
	Individually Impaired	Collectively Impaired	Total
		(In Thousands)	
Trade	₱420,968	₱337,372	₱758,340
Nontrade	154,438	292,116	446,554
	₱575,406	₱629,488	₱1,204,894

	December 31, 2015		
	Individually Impaired	Collectively Impaired	Total
		(In Thousands)	
Trade	₱260,418	₱235,887	₱496,305
Nontrade	124,023	102,421	226,444
	₱384,441	₱338,308	₱722,749

8. **Inventories**

This account consists of:

	December 31		
	2017	2016	2015
		(In Thousands)	
Trading goods	**₱428,010**	₱527,078	₱406,160
Fuel, oil and lubricants	**95,467**	71,626	56,653
Materials, parts and supplies	**32,220**	75,532	50,698
	₱555,697	₱674,236	₱513,511

The allowance for inventory obsolescence as at December 31, 2017, 2016 and 2015 amounted to ₱41.8 million, ₱51.0 million and ₱69.2 million, respectively.

Cost of inventories were recognized and presented in the following accounts in the consolidated statement of profit or loss (see Notes 23 and 24):

	Years Ended December 31		
	2017	2016	2015
		(In Thousands)	
Cost of services	**₱3,337,688**	₱2,660,785	₱2,914,639
Cost of goods sold	**5,191,146**	2,946,534	2,639,915
General and administrative expenses	**13,310**	21,807	12,856
	₱8,542,144	₱5,629,126	₱5,567,410

The cost of inventories used is presented as "Cost of services" and pertains mainly to fuel, oil and lubricants used in vessels' operation and food and beverages sold by the shipping segment. The cost of inventories expensed and presented as "Cost of goods sold" pertains to the trading goods sold by the nonshipping segment. The cost of inventories presented as "General and administrative expenses" pertain to office supplies.

9. Other Current Assets

This account consists of:

		December 31		
	Note	**2017**	2016	2015
			(In Thousands)	
CWTs		**₱1,052,055**	₱980,632	₱1,047,829
Input VAT		**102,297**	91,509	52,205
Refundable deposits - current portion	*14*	**77,577**	72,896	36,845
Restricted time deposits	*14*	**152,736**	–	–
Prepaid expenses and others		**145,797**	129,958	171,577
		₱1,530,462	₱1,274,995	₱1,308,456

a. CWTs represents creditable tax certificates which can be applied against any related income tax liability of a company in the Group to which the CWTs relate.

b. Prepaid expenses and others include prepaid rent, insurance and taxes, and advances to a supplier.

10. Asset Held for Sale

On September 23, 2015, the BOD approved the sale of one of the Group's passenger/cargo vessel, namely M/V St. Joan of Arc. Accordingly, the Group recognized related impairment loss for the vessel amounting to ₱260.4 million, representing the excess of carrying value of the vessel over its estimated selling price (see Note 25). The carrying value of the vessel, net of impairment, amounting to ₱158.2 million was reclassified from property and equipment to asset held for sale in the consolidated statement of financial position as of December 31, 2015.

In June 2016, the Group sold the vessel for a total consideration of ₱158.2 million, which was paid in full and delivered to the buyer in July 2016.

11. **Property and Equipment**

	December 31, 2017										
	Vessels in Operations	**Containers and Reefer Vans**	**Terminal and Handling Equipment**	**Furniture and Other Equipment**	**Land Improvements**	**Buildings and Warehouses**	**Transportation Equipment**	**Spare parts and Service Equipment**	**Leasehold Improvements**	**Construction-In-Progress**	**Total**
						(In Thousands)					
Cost											
January 1, 2017	**₱9,205,969**	**₱1,941,480**	**₱1,155,577**	**₱759,927**	**₱455,361**	**₱139,127**	**₱626,098**	**₱422,195**	**₱617,187**	**₱731,440**	**₱16,054,361**
Additions	**1,053,294**	**163,005**	**103,038**	**52,888**	**34,909**	**1,987**	**86,816**	**48,370**	**31,657**	**298,190**	**1,874,154**
Disposals/retirements	**(214,633)**	**(13,481)**	**(388)**	**(30,331)**	**–**	**(305)**	**(8,780)**	**(1,574)**	**(7,115)**	**–**	**(276,607)**
Reclassifications/adjustments	**970,690**	**(57,530)**	**45,510**	**(9,684)**	**(406)**	**(1,931)**	**(16,256)**	**(25,957)**	**22,253**	**(958,423)**	**(31,734)**
December 31, 2017	**11,015,320**	**2,033,474**	**1,303,737**	**772,800**	**489,864**	**138,878**	**687,878**	**443,034**	**663,982**	**71,207**	**17,620,174**
Accumulated Depreciation and Amortization											
January 1, 2017	**4,522,633**	**1,315,946**	**993,821**	**660,809**	**143,394**	**90,496**	**532,886**	**86,931**	**488,046**	**–**	**8,834,962**
Depreciation and amortization	**1,535,245**	**69,283**	**41,121**	**53,103**	**9,442**	**4,834**	**43,657**	**32,263**	**78,620**	**–**	**1,867,568**
Disposals/retirements	**(162,525)**	**(13,480)**	**(107)**	**(28,338)**	**–**	**(220)**	**(7,504)**	**(394)**	**(7,115)**	**–**	**(219,683)**
Reclassifications/adjustments	**60**	**40,723**	**(783)**	**328**	**(13)**	**–**	**108**	**(6,669)**	**6,721**	**–**	**40,475**
December 31, 2017	**5,895,413**	**1,412,472**	**1,034,052**	**685,902**	**152,823**	**95,110**	**569,147**	**112,131**	**566,272**	**–**	**10,523,322**
Net carrying amounts	**₱5,119,907**	**₱621,002**	**₱269,685**	**₱86,898**	**₱337,041**	**₱43,768**	**₱118,731**	**₱330,903**	**₱97,710**	**₱71,207**	**₱7,096,852**

	December 31, 2016										
	Vessels in Operations	Containers and Reefer Vans	Terminal and Handling Equipment	Furniture and Other Equipment	Land Improvements	Buildings and Warehouses	Transportation Equipment	Spare parts and Service Equipment	Leasehold Improvements	Construction-In-Progress	Total
						(In Thousands)					
Cost											
January 1, 2016	₱7,764,858	₱1,828,889	₱1,065,751	₱694,006	₱440,622	₱121,187	₱595,858	₱422,195	₱585,746	₱69,346	₱13,588,458
Additions	1,533,932	166,804	107,284	78,646	14,293	18,182	39,847	–	26,935	662,094	2,648,017
Disposals/retirements	(92,492)	–	(121)	(2,188)	–	(226)	(13,261)	–	–	–	(108,288)
Reclassifications/adjustments	(329)	(54,213)	(17,337)	(10,537)	446	(16)	3,654	–	4,506	–	(73,826)
December 31, 2016	9,205,969	1,941,480	1,155,577	759,927	455,361	139,127	626,098	422,195	617,187	731,440	16,054,361
Accumulated Depreciation and Amortization											
January 1, 2016	3,362,302	1,294,167	966,889	627,236	134,936	87,554	519,619	1,041	469,438	–	7,463,182
Depreciation and amortization	1,157,828	74,299	26,938	37,349	8,458	3,033	24,099	85,890	17,676	–	1,435,570
Disposals/retirements	(92,492)	–	(121)	(2,170)	–	(91)	(11,508)	–	–	–	(106,382)
Reclassifications/adjustments	94,995	(52,520)	115	(1,606)	–	–	676	–	932	–	42,592
December 31, 2016	4,522,633	1,315,946	993,821	660,809	143,394	90,496	532,886	86,931	488,046	–	8,834,962
Net carrying amounts	₱4,683,336	₱625,534	₱161,756	₱99,118	₱311,967	₱48,631	₱93,212	₱335,264	₱129,141	₱731,440	₱7,219,399

	December 31, 2015										
	Vessels in Operations	Containers and Reefer Vans	Terminal and Handling Equipment	Furniture and Other Equipment	Land Improvements	Buildings and Warehouses	Transportation Equipment	Spare parts and Service Equipment	Leasehold Improvements	Construction-In-Progress	Total
						(In Thousands)					
Cost											
January 1, 2015	₱7,155,319	₱1,572,280	₱1,007,827	₱666,763	₱432,419	₱113,359	₱571,227	₱–	₱600,862	₱37,798	₱12,157,854
Additions	1,301,928	303,502	66,957	38,630	6,980	11,076	35,237	–	9,908	27,232	1,801,450
Disposals/retirements	(3,649)	(38,092)	(4,520)	(5,728)	–	(22,352)	(7,619)	–	(5,063)	–	(87,023)
Reclassification to assets held for sale	(686,112)	–	–	–	–	–	–	–	–	–	(686,112)
Reclassifications/adjustments	(2,628)	(8,801)	(4,513)	(5,659)	1,223	19,104	(2,987)	422,195	(19,961)	4,316	402,289
December 31, 2015	7,764,858	1,828,889	1,065,751	694,006	440,622	121,187	595,858	422,195	585,746	69,346	13,588,458
Accumulated Depreciation and Amortization											
January 1, 2015	2,836,799	1,279,387	946,253	601,061	125,244	83,777	503,792	–	472,130	–	6,848,443
Depreciation and amortization	807,666	51,357	24,882	33,755	7,560	14,624	29,367	1,041	15,909	–	986,161
Disposals/retirements	(3,451)	(36,369)	(512)	(4,393)	–	(293)	(7,190)	–	(5,057)	–	(57,265)
Reclassification to assets held for sale	(267,469)	–	–	–	–	–	–	–	–	–	(267,469)
Reclassifications/adjustments	(11,243)	(208)	(3,734)	(3,187)	2,132	(10,554)	(6,350)	–	(13,544)	–	(46,688)
December 31, 2015	3,362,302	1,294,167	966,889	627,236	134,936	87,554	519,619	1,041	469,438	–	7,463,182
Net carrying amounts	₱4,402,556	₱534,722	₱98,862	₱66,770	₱305,686	₱33,633	₱76,239	₱421,154	₱116,308	₱69,346	₱6,125,276

Noncash Additions - Property and Equipment under Finance Lease
Containers, reefer vans, isotanks, cargo handling equipment and transportation equipment include units acquired under finance lease arrangements (see Note 18).

Noncash additions include costs of leased assets as of December 31, 2017, 2016 and 2015 amounting to ₱37.4 million, ₱155.2 million and ₱207.6 million, respectively. The related depreciation of the leased containers, reefer vans, isotanks, cargo handling equipment and transportation equipment for the years ended December 31, 2017, 2016 and 2015 amounted to ₱62.9 million, ₱65.3 million and ₱42.4 million, respectively were computed on the basis of the Group's depreciation policy for property and equipment.

Unpaid acquisition costs of property and equipment amounted to ₱74.8 million, ₱149.0 million and ₱55.8 million as of December 31, 2017, 2016 and 2015, respectively.

Vessel Acquisition
In November 2015, the Group acquired additional vessel amounting to ₱303.7 million. Additional costs were incurred in bringing the vessel to its working condition amounting to ₱285.0 million in 2016 and ₱144.4 million in 2015.

Residual Value of Vessels
The Group reviews the residual value of the vessels periodically to ensure that the amount is consistent with the future economic benefits embodied in these vessels at the point of disposal. The residual value for vessels is based on the lightweight and the market price of scrap metals.

Management determined that the changes in the market scrap rates of metals during the period did not result to changes in the residual value of vessels.

Vessels under Construction
In 2016, the Group contracted Austal Philippines Pty Ltd. for the construction of two (2) passenger ferries, M/V St. Camael and M/V St. Sariel. The Group incurred construction cost of ₱198.0 million and ₱190.1 million for the years ended December 31, 2017 and 2016, respectively. Included in this amount are capitalized borrowing costs related to the loans payable amounting to ₱3.6 million in 2017 and ₱0.5 million in 2016, calculated using the interest rate of 6.5% (see Note 17).

Capitalization of Drydocking Costs
Vessels in operations also include capitalized drydocking costs incurred amounting to ₱298.0 million, ₱658.4 million, and ₱419.2 million, for the vessels drydocked as at December 31, 2017, 2016 and 2015, respectively. The related depreciable life of drydocking costs ranges from two years to two-and-a-half years.

Sale and Disposal of Property and Equipment
The Group disposed certain property and equipment for net cash proceeds of ₱6.7 million, ₱1.2 million and ₱3.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Reclassification of Spare Parts and Service Equipment
In 2016, the Group reclassified its spare parts and service equipment from inventory to property and equipment amounting to ₱380.8 million, net of accumulated depreciation of ₱41.4 million in 2016. Management assessed that the spare parts are to be useful for more than a year in rendering maintenance services of vessels.

The balance amounting to ₱344.6 million of the said spare parts and service equipment as at December 31, 2015 was also reclassified from inventory to property and equipment to conform to the current year presentation (see Note 8). The reclassification did not materially affect the previously reported financial position, the results of operations and the cash flows.

Impairment of Property and Equipment
In 2015, the Group recognized impairment loss amounting to ₱260.4 million on one of its vessels that was reclassified to asset held for sale (see Note 10).

Depreciation and Amortization
Depreciation and amortization were recognized and presented in the following accounts in the consolidated statement of profit or loss (see Note 23):

	Years Ended December 31		
	2017	2016	2015
		(In Thousands)	
Cost of services and goods sold	**₱1,806,833**	₱1,397,998	₱942,771
General and administrative expense	**60,735**	37,572	43,390
	₱1,867,568	₱1,435,570	₱986,161

Property and Equipment Held as Collateral
The Group's vessels in operations with total carrying value of ₱3,279.9 million, ₱4,008.0 million and ₱3,960.9 million are mortgaged to secure certain obligations as at December 31, 2017, 2016 and 2015, respectively (see Note 17). Containers and other equipment held as collateral for finance leases as at December 31, 2017, 2016 and 2015 amounted to ₱390.8 million, ₱381.5 million and ₱329.3 million, respectively (see Note 18).

12. **Investments in Associates and Joint Ventures**

Details of investments in associates and joint ventures are as follows:

	December 31		
	2017	2016	2015
		(In Thousands)	
Acquisition - cost	**₱28,175**	₱28,175	₱28,175
Accumulated equity in net earnings:			
Balances at beginning of year	**242,975**	218,434	159,730
Equity in net earnings (losses) during the year	**(6,970)**	24,541	58,704
Balances at end of year	**236,005**	242,975	218,434
Share in remeasurement gain on retirement benefits of associates and joint ventures	**6,202**	6,202	5,326
Share in cumulative translation adjustment of associates	**5,294**	5,294	5,294
	₱275,676	₱282,646	₱257,229

Summarized financial information of the Group's associates and joint ventures, as included in their own financial statements, and reconciliation with the carrying amount of the investment in the interim consolidated financial statements are set out on the next page:

	December 31		
	2017	2016	2015
		(In Thousands)	
Current assets	**₱788,928**	₱1,037,731	₱881,567
Noncurrent assets	**642,034**	757,286	998,574
Current liabilities	**494,679**	726,866	675,410
Noncurrent liabilities	**343,990**	294,284	488,993
Equity	**592,295**	773,867	678,148
Revenue	**2,074,897**	1,976,648	2,168,175
Net income (loss)	**(74,111)**	95,372	171,249
Total comprehensive income (loss)	**(72,706)**	97,174	182,734

13. Goodwill

In 2015, the Group impaired ₱250.5 million of goodwill related to its 2008 acquisition of SOI due to recurring operational loss, challenging market situation, and change in principals and customers since the time of acquisition. The impairment loss recognized in 2015 was determined based on VIU calculations using five-year cash flow projections approved by senior management.

14. Other Noncurrent Assets

	December 31		
	2017	2016	2015
		(In Thousands)	
Deferred input VAT	**₱243,309**	₱186,224	₱115,224
Refundable deposits - net of current portion	**107,036**	68,082	77,685
Restricted time deposit	–	152,736	143,210
Software	**45,134**	52,809	39,843
Investment property	**9,763**	9,763	9,763
Available-for-sale (AFS) financial assets	**3,411**	3,411	4,507
Others	**32,943**	20,552	6,072
	₱441,596	₱493,577	₱396,304

a. Deferred input VAT relates primarily to the major capital expenditures and drydocking of vessels.

b. Refundable deposits consist of amounts paid for rental deposits which can be applied as rental payment at the end of the lease term or can be collected in cash upon termination of the lease.

c. Restricted time deposit pertains to the time deposit collateralized by the Parent Company for the OLSA.

d. The movements in Software are as follows:

	December 31		
	2017	2016	2015
		(In Thousands)	
Cost			
Balances at beginning of year	**₱644,857**	₱625,547	₱608,435
Additions	**7,612**	19,310	17,112
Balances at end of year	**652,469**	644,857	625,547
Accumulated Amortization			
Balances at beginning of year	**592,048**	585,704	580,159
Amortization	**15,287**	6,344	3,959
Retirement/adjustment	–	–	1,586
Balances at end of year	**607,335**	592,048	585,704
Carrying Amount	**₱45,134**	₱52,809	₱39,843

Amortization was recognized and presented in the following accounts in the consolidated statement of profit or loss (see Notes 23 and 24):

	Years ended December 31		
	2017	2016	2015
	(In Thousands)		
Cost of services and goods sold	**₱1,030**	₱203	₱–
General and administrative expenses	**14,257**	6,141	3,959
	₱15,287	₱6,344	₱3,959

e. The Group's investment property as at December 31, 2017, 2016 and 2015 amounting to ₱9.8 million pertains to a parcel of land not currently being used in operations. The fair value of the investment property based on the latest appraisal report dated February 16, 2015 amounted to ₱59.8 million. This was determined based on the valuation performed by independent appraisers using the Market Data Approach.

   The Group assessed that the fair value determination for the investment property was Level 3 since significant unobservable inputs were used in the valuation. Significant changes to the estimated price per square meter in isolation would result in a significantly higher or lower fair value. Management assessed that there was no significant changes on the fair value of investment property as at December 31, 2017.

   For the years ended December 31, 2017, 2016 and 2015, there were no income and expenses arising from the Group's investment property.

f. AFS financial assets consist of unquoted and quoted equity investments. The unquoted shares of stocks amounted to ₱2.6 million as of December 31, 2017 and 2016 and ₱3.9 million as of December 31, 2015.

   Meanwhile, the quoted equity investments of the Group are listed shares of stocks that are carried at market value. The recurring fair value is classified under Level 1. Unrealized gains or losses on AFS financial assets are recognized in other comprehensive income and included in the equity amounting to ₱0.8 million, ₱0.8 million and ₱0.6 million as at December 31, 2017, 2016 and 2015, respectively.

g. Others include advances for future investment amounting to ₱25.0 million.

15. Short-term Notes Payable

As at December 31, 2017, 2016 and 2015, the notes payable amounting to ₱2,645.0 million, ₱2,324.6 million and ₱2,111.0 million, respectively, represent unsecured short-term peso-denominated notes payable obtained by the Group from local banks with annual interest rates ranging from 5.0% to 8.5%. Total interest expense incurred by the Group for short-term notes payable was ₱134.4 million, ₱148.8 million and ₱122.1 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 25).

16. **Trade and Other Payables**

	Note	December 31 **2017**	 2016	 2015
			(In Thousands)	
Trade:				
Third parties		**₱2,369,395**	₱2,071,695	₱1,518,798
Related parties	*21*	**388,927**	426,122	562,089
Nontrade - Third parties		**872,653**	1,096,329	1,230,999
Accrued expenses:				
Third parties		**1,756,201**	1,022,851	902,902
Related parties	*21*	**460,728**	532,273	125,610
Due to related parties	*21*	**457,821**	96,645	8,710
Other payables		**201,140**	162,340	143,351
		₱6,506,865	₱5,408,255	₱4,492,459

a. Trade and other payables are noninterest-bearing and normally have 30 to 45 days terms. Trade payables from related parties are payable on demand.

b. Nontrade payables consists of customers' deposits, advances from principals and contractors, payables due to government agencies and others.

c. Details of accrued expenses are as follows:

	December 31 **2017**	 2016	 2015
		(In Thousands)	
Freight and handling	**₱387,571**	₱192,228	₱158,712
Repairs and maintenance	**293,139**	198,079	47,392
Rent	**247,003**	145,218	62,900
Salaries and wages	**223,881**	171,576	115,527
Fuel and lube	**181,061**	244,408	194,240
Pick-up and delivery	**163,880**	115,770	103,064
Outside services	**148,345**	56,612	98,076
Insurance	**99,446**	25,321	366
Communication, light and water	**78,825**	34,198	22,873
Taxes and licenses	**75,035**	11,347	6,334
Co-loading	**44,790**	128,027	91,956
Advertising and promotions	**40,788**	18,234	7,486
Interest	**37,999**	31,508	28,997
Professional fees	**14,664**	81,677	35,967
Pilotage and berthing	**11,929**	361	5,620
Others	**168,573**	100,560	49,002
	₱2,216,929	₱1,555,124	₱1,028,512

d. Other payables include unearned revenue from ticket sales and provision for cargo losses and damages, and provision for contingencies.

Unearned revenue consists of ticket sales that are not yet used by the passengers and are not yet expired. Tickets expire after a year from the date of scheduled boarding.

Provision for cargo losses and damages refers to the cost of claims for breakages, cargo losses, cargo short weight or passenger claims which are not covered by insurance. Provisions recognized amounted to ₱156.8 million, ₱24.2 million and ₱26.4 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 23). The actual claims amounted to ₱104.4 million, ₱60.9 million and ₱107.8 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Provision for contingencies amounted to ₱47.0 million, ₱49.3 million and ₱49.1 million as of December 31, 2017, 2016 and 2015, respectively (see Note 20).

17. Long-term Debt

Long-term debt consists of:

		December 31		
	Note	**2017**	2016	2015
			(In Thousands)	
Banco de Oro Unibank, Inc. (BDO)	*21*	**₱2,293,161**	₱3,264,558	₱3,533,577
United Coconut Planters Bank (UCPB)		**446,429**	–	–
Development Bank of the Philippines (DBP)		**370,000**	120,339	–
AUB Bank		**13,903**	20,024	25,500
RCBC Savings Bank		**2,472**	3,735	4,649
Unamortized debt arrangement fees		**(3,169)**	(7,305)	(13,302)
		3,122,796	3,401,351	3,550,424
Current portion		**(3,121,315)**	(3,398,474)	(374,094)
Noncurrent portion		**₱1,481**	₱2,877	₱3,176,330

BDO

BDO Omnibus Loan and Security Agreement

On June 11, 2013, the Company (as Borrower and Assignor), BDO (as Lender), NN, SOI, 2GO Express, 2GO Logistics (as Sureties and Assignors), and SFFC (as Assignor), executed an Omnibus Loan and Security Agreement ("OLSA"). Under the OLSA, the Company availed of a ₱3.6 billion term loan (i) to refinance the Company's existing loans and (ii) to fund various capital expenditures such as drydocking and major repairs of vessels, capital expenditures related to the supply chain business, and other general corporate requirements. Interest is fixed for fifty percent (50.0%) of the principal amount, while the remaining fifty percent (50.0%) has a quarterly floating annual interest rate, provided, such floating interest rate shall have a minimum of 5.0% per annum. The principal of the term loan is subject to thirteen (13) quarterly amortizations which commenced in June 2015 through June 2018.

The OLSA is secured by certain vessels, real properties, and trade receivables. As at December 31, 2017, 2016 and 2015, the Company, NN and SFFC collateralized their vessels under Mortgage Trust Indenture (MTI) with carrying values amounting to ₱3,279.9 million, ₱4,008.0 million and ₱3,960.9 million; and certain outstanding customers receivables amounting to ₱601.5 million, ₱968.5 million and ₱1,042.2 million, respectively (see Notes 7 and 11).

In accordance with the Omnibus Loan, the Group is required to maintain the following financial ratios based on NN consolidated financial statements at each testing date: minimum current ratio of 1.0 times; maximum debt-to-equity ratio of 2.2 times; and, minimum DSCR of 2.0 times. Testing date means: (i) with respect to the December 31 consolidated audited financial statements of NN, April 30 of the succeeding year and (ii) with respect to the June 30 consolidated unaudited financial statements of NN, September 30 of the same year.

UCPB
On March 14, 2017, the Company availed of a ₱500.0 million term loan from UCPB payable in 28 quarterly amortizations through March 14, 2024. Interest is fixed at 7.03% in the first year. The succeeding interest rates shall be based on the prevailing market rate of 5-year PDST-R2 plus 2.5%, subject to review and repricing at the option of UCPB. The loan is guaranteed by NN through a continuing suretyship agreement with UCPB.

In accordance with the UCPB term loan agreement, the Company is required to maintain a debt service coverage ratio of at least 1.5:1 and debt to equity ratio not exceeding 2.2:1 based on the latest audited annual consolidated financial statements of the Company.

DBP
On May 20, 2016, SFFC obtained a long-term loan facility from DBP of ₱370 million at 6.5% interest payable up to 15 years to finance the construction of the two (2) vessels (see Note 11).

In accordance with the loan agreement, SFFC is required to maintain debt-to-equity ratio of 2.3:1 and maintain debt service coverage ratio of 2:1 at each testing date. Should SFFC fail to meet the required financial ratios, the parties should use the consolidated financial statements of NN as the basis for determining the said ratios.

Borrowing Costs and Debt Transaction Costs
Interests from long-term borrowings of the Group recognized as expense totaled ₱213.6 million, ₱205.4 million and ₱185.1 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 25).

Amortization of debt transaction costs included under interest and financing charges totaled ₱4.0 million, ₱6.0 million and ₱5.3 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 25).

Compliance with debt covenants
The Group did not meet the minimum current ratio as of December 31, 2017 and 2016 required under the Group's long-term loan agreements. Accordingly, the Group reclassified the noncurrent portion of its long-term debts that are subject to such covenants or has cross-default provision in the loan agreements, from noncurrent liabilities to current liabilities amounting to ₱731.3 million and ₱2,702.1 million as of December 31, 2017 and 2016, respectively. However, the Group has not received a notice of default from its creditors and continues to pay long-term loans based on original credit terms.

18. **Obligations Under Finance Lease**

The Group has various finance lease arrangements with third parties for the lease of containers, reefer vans, isotanks, cargo handling equipment and transportation equipment. The lease agreements provide for a purchase option to the Company, 2GO Express and SCVASI at the end of the lease term, which among other considerations met the criteria for a finance lease. Therefore, the leased assets were capitalized. The lease agreements do not include restrictions, contingent rentals and escalation clauses.

The future minimum lease payments on the obligations under finance lease together with the present value of the net minimum lease payments are as follows:

	Future Minimum Lease Payment			Interest			Present Value of Minimum Lease Payments		
	December 31			December 31			December 31		
	2017	2016	2015	**2017**	2016	2015	**2017**	2016	2015
					(in thousands)				
Less than one year	**₱111,166**	₱105,969	₱75,516	**₱13,855**	₱14,263	₱9,679	**₱97,311**	₱91,706	₱65,837
Between one and five years	**233,674**	266,471	215,709	**15,244**	16,476	14,671	**218,430**	249,995	200,948
More than five years	**–**	–	7,445	**–**	–	120	**–**	–	7,325
	₱344,840	₱372,440	₱298,670	**₱29,099**	₱30,739	₱24,470	**₱315,741**	₱341,701	₱274,110

The net carrying values of the above equipment held by the Group under finance leases under various property and equipment accounts in Note 11 to the consolidated financial statements are summarized as follows.

	December 31		
	2017	2016	2015
		(In Thousands)	
Cost	**₱630,091**	₱530,840	₱444,578
Less accumulated depreciation	**239,338**	149,325	115,267
Net book value	**₱390,753**	₱381,515	₱329,311

The interest expense recognized related to these leases amounted to ₱16.9 million, ₱14.1 million and ₱6.7 million for the years ended December 31, 2017, 2016 and 2015, respectively, under "Financing charges" account in the consolidated statement of profit or loss (see Note 25).

19. Redeemable Preferred Shares (RPS)

In 2003, the Company issued 374,520,487 RPS in the form of stock dividends out of capital in excess of par value at the rate of one share for every four common shares held by the shareholders. The Group retired the outstanding RPS amounting to ₱6.0 million in 2015.

20. Provisions and Contingencies

There are certain legal cases filed against the Group in the normal course of business. Management and its legal counsel believe that the Group has substantial legal and factual bases for its position and are of the opinion that losses arising from these cases, if any, will not have a material adverse impact on the consolidated financial statements. Further certain legal claims against the Group are reimbursable from Aboitiz Equity Ventures, Inc. (AEV) and Aboitiz & Company, Inc. (ACO).

The Group recognized provision for probable losses arising from these legal cases amounting to ₱47.0 million, ₱49.3 million and ₱49.1 million as of December 31, 2017, 2016 and 2015, respectively (see Note 16).

21. **Related Parties**

In the normal course of business, the Group has transacted with the following related parties:

Relationship	**Name**
Parent Company	Negros Navigation Co., Inc. (NN)
Subsidiaries of the Parent Company	Negrense Marine Integrated Services, Inc. (NMISI)
	Brisk Nautilus Dock Integrated Services, Inc. (BNDISI)
	Sea Merchants Inc. (SMI)
	Bluemarine Inc. (BMI)
Subsidiaries	2GO Express, Inc. (2GO Express)
	2GO Logistics, Inc. (2GO Logistics)
	Scanasia Overseas, Inc. (SOI)
	Hapag-Lloyd Philippines, Inc. (HLP)
	WRR Trucking Corporation (WTC)
	Special Container and Value Added Services, Inc. (SCVASI)
	The Supercat Fast Ferry Corporation (SFFC)
	2GO Rush, Inc. (Rush)
	NN-ATS Logistics Management and Holdings Corporation, Inc. (NALMHCI)
	Super Terminals, Inc. (STI)
	J&A Services Corporation (JASC)
	Red.Dot Corporation (RDC)
	North Harbor Tugs Corporation (NHTC)
	Sungold Forwarding Corporation (SFC)
	Supersail Corporation (SSI)
	Astir Engineering Works, Inc. (AEWI)
	United South Dockhandlers, Inc. (USDI)
	WG & A Supercommerce, Inc. (WSI)
Associates	MCC Transport Philippines, Inc. (MCCP)
	Hansa Meyer Projects (Phils.), Inc. (HMPPI)
Joint Ventures	KLN Logistics Holdings Philippines, Inc. (KLN)
	Kerry Logistics (Phils.), Inc. (KLI)
Stockholders of the Parent Company	Chelsea Logistics Holdings Corporation
Other Affiliated Companies	Chelsea Marine Power Resources, Inc.
	Phoenix Petroleum Philippines, Inc.
	Supervalue, Inc.
	BDO Unibank, Inc.

The following are the revenue and income (costs and expenses) included in the consolidated statement of profit or loss with related parties which are not eliminated:

		Years Ended December 31		
	Nature	**2017**	2016	2015
			(In Thousands)	
Parent Company	Vessel leasing	**(₱276,000)**	(₱492,000)	(₱312,000)
	Rent	–	(9,524)	(12,403)
	Other operating expense	–	(21,216)	–
	Other overhead expense	**(293,428)**	(290,924)	(352,081)
Associates	Shared cost	**18,682**	13,449	12,627
	Freight expense	**(33,108)**	(4,306)	(24,585)
Entities under Common Control	Other revenue	**12,128**	5,930	11,457
	Outside services	**(220,132)**	(223,604)	(173,718)
	Steward supplies	**(74,236)**	(81,656)	(73,781)
	Repairs and maintenance	**(36,618)**	(35,093)	(40,915)
	Food and subsistence	**(13,522)**	(10,306)	(6,748)
	Transportation and delivery	–	(228)	–
	Other overhead expense	–	–	(314)
Key Management Personnel	Short-term employee benefits	**(89,365)**	(127,358)	(108,395)
	Post-employment benefits	**(13,891)**	(20,377)	(5,499)
Stockholders of the Parent Company	Co-loading	**34,703**	–	–

(Forward)

	Nature	Years Ended December 31 2017	2016	2015
			(In Thousands)	
Other Affiliated Companies	Fuel and lubricant	**₱1,414,780**	₱–	₱–
	Food and beverage	**90,026**	–	–
	Rent	**48,860**	–	–
	Outside services	**30,338**	–	–
	Office Supplies	**1,257**	–	–

The consolidated statements of financial position include the following amounts with respect to the balances with related parties:

	Financial Statement Account	Terms and Conditions	December 31 2017	2016	2015
				(In Thousands)	
Parent Company	Due from related parties	On demand; noninterest-bearing; no impairment	**₱13,263**	₱7,989	₱3,645
	Trade payables	30 to 60 days; noninterest-bearing	**(239,915)**	(351,216)	(351,216)
	Accrued expenses	30 to 60 days; noninterest-bearing	**(197,645)**	(232,377)	(232,377)
	Due to related parties	30 to 60 days; noninterest-bearing	**(457,751)**	(93,541)	8,710
Associate	Due from related parties	On demand; noninterest-bearing	**179,965**	118,672	–
	Trade payables	30 to 60 days; noninterest-bearing	**(8,314)**	(24,139)	(24,139)
	Accrued expenses	30 to 60 days; noninterest-bearing	**(63,974)**	(29,102)	(29,102)
Entities under Common Control	Due from related parties	On demand; noninterest-bearing	**23,952**	15,502	49,365
	Trade payables	30 to 60 days; noninterest-bearing	**(140,698)**	(217,690)	(217,690)
	Accrued expenses	30 to 60 days; noninterest-bearing	**(199,109)**	(185,807)	(185,807)
	Due to related parties	30 to 60 days; noninterest-bearing	**(70)**	(3,104)	–
Other Affiliated Company	Long-term debt	Based on OLSA as discussed in Note 17	**(2,293,161)**	(3,264,558)	(3,533,577)
	Cash in bank	On demand	**1,247,214**	470,586	458,097
	Trade payables	30 to 60 days; noninterest-bearing	**(42,192)**	–	–
	Accrued expenses	30 to 60 days; noninterest-bearing	**(50,874)**	–	–

The outstanding related party balances are unsecured and settlement is expected to be in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken at each reporting period through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with NN
- The Company entered into vessel leasing arrangements with NN involving four (4) of NN's vessels at a fixed monthly rate for a period of one (1) year, subject to renewal as agreed by the parties (see Note 30).
- NN charges shared cost to the Company and its subsidiaries.

Transactions with Associates and Other Related Parties under Common Control

- Transactions with other associates and related companies consist of shipping services, management services, ship management services, agency fee for manpower services, purchase of steward supplies, availment of stevedoring, arrastre, trucking, and repair services and rental.

Transactions and Balances with Related Parties Eliminated during Consolidation

The following are the transactions and balances among related parties which are eliminated in the consolidated financial statements:

Revenue and Other Income Recognized by:	**Costs and Expenses Recognized by:**	**Nature**	Years Ended December 31 **2017**	2016	2015
			(In Thousands)		
2GO	2GO Express	Freight	**₱269,131**	₱399,296	₱218,756
		Shared cost	**112,134**	80,547	37,708
		Dividend	**480,000**	–	–
	2GO Logistics	Freight	**105,103**	81,736	79,008
		Shared cost	**116,381**	87,022	42,338
	SFFC	Shared cost	**42,790**	49,895	29,496
		Interest	**11,147**	14,754	–
	NALMHCI	Shared cost	**30,002**	26,064	27,604
		Dividend	**21,000**	–	40,000
		Freight	**1,703**	5,249	8,399
	SCVASI	Shared cost	**40,468**	23,602	12,385
		Freight	**425,145**	672,725	395,187
		Dividend	**14,000**	–	–
2GO Express	2GO	Commission	**–**	3	6,279
		Services fees	**36,010**	42,304	31,605
NALMHCI	SSI	Dividend	**10,000**	–	–
	AEWI	Dividend	**11,000**	–	–
JASC/SSI	2GO	Purchase/sale of water	**25,531**	28,059	13,726
		Outside services	**209,176**	311,841	594,717

Amounts owed to:	**Amounts owed by:**	**Terms and Conditions**	December 31 **2017**	2016	2015
			(In Thousands)		
2GO	2GO Express	On demand; noninterest-bearing	**₱76,972**	₱303,840	₱389,699
	SFFC	6.5% interest-bearing	**187,789**	254,726	264,724
	SOI	On demand; noninterest-bearing	**1,075,796**	863,457	143,000
	2GO Express/2GO Logistics/Others	On demand; noninterest-bearing	**1,162,427**	911,139	705,000
AEWI	2GO	30 to 60 days; noninterest-bearing	**17,882**	36,058	36,330
2GO Express	2GO	On demand; noninterest-bearing	**24,223**	100,216	11,161
	SCVASI	30 to 60 days; noninterest-bearing	**724**	3,556	1,140
2GO Logistics	2GO	On demand; noninterest-bearing	**67,650**	123,948	8,087
SOI	2GO	On demand; noninterest-bearing	**44,000**	–	–
SFFC	2GO/2GO Express	30 to 60 days; noninterest-bearing	**442**	543	733
NALMHCI	2GO/2GO Express /2GO Logistics	30 days; noninterest-bearing	**2,144**	10,761	617
JASC	2GO/NHTC	30 days; noninterest-bearing	**3,280**	7,764	8,641
RDC	2GO Logistics/ SOI/NALMHCI	30 days; noninterest-bearing	**49,152**	41,188	33,653
SSI	2GO/2GO Express/ 2GO Logistics	30 days; noninterest-bearing	**97,427**	97,425	67,664

(Forward)

Amounts owed to:	Amounts owed by:	Terms and Conditions	December 31 2017	2016	2015
			(In Thousands)		
STI	2GO	30 days; noninterest-bearing	**₱82**	₱110	₱–
NHTC	2GO/JASC	30 days; noninterest-bearing	**3,777**	1,677	2,492
SCVASI	2GO	On demand; noninterest-bearing	**61,646**	255,224	119,025

- The Company's transactions with 2GO Express Group include shipping and forwarding services, commission and trucking services.

- The Company provided management services to SFFC, 2GO Express, 2GO Logistics, HLP and SOI at fees based on agreed rates.

22. **Equity**

a. Share Capital

Details of share capital as at December 31, 2017, 2016 and 2015 are as follows:

	Number of Shares	Amount
	(In Thousands)	
Authorized common shares at ₱1.00 par value each	4,070,343,670	₱4,070,344
Issued and outstanding common shares	2,446,136,400	₱2,446,136

Movements in issued and outstanding capital stocks follow:

Date	Activity	Issue price	Number of shares Common shares
May 26, 1949	Issued capital stocks as of incorporation date	₱1,000.00	1,002
December 10, 1971 to October 26, 1998	Increase in issued capital stock	1,000.00	1,496,597,636
December 6, 2002	Reclassification of common shares to preferred shares	1.00	40,000,000
February 10, 2003	Issuance of preferred shares before redemption	1.00	–
November 18, 2003	Redemption of preferred shares	6.67	–
September 6, 2004	Issuance of common shares by way of stock dividends	1.00	393,246,555
November 22, 2004	Redemption of preferred shares	6.67	–
December 31, 2004	Issuance of common shares prior to reorganization	1.00	(756)
October 24, 2005	Issuance of common shares through share swap transactions	1.76	414,121,123
August 22 to October 13, 2006	Conversion of redeemable preferred shares to common shares	3.20	140,687,340
December 6 -31, 2012	Redemption of redeemable preference share	6.00	–
			2,484,652,900
December 31, 2001	Treasury shares*	1.50	(38,516,500)
			2,446,136,400

** The carrying value of treasury shares is inclusive of ₱0.9 million transaction cost.*

Issued and outstanding common shares are held by 1,893 and 1,918 equity holders as of December 31, 2017 and 2016 respectively.

b. Retained earnings is net of undistributed earnings amounting to ₱168.2 million, ₱227.2 million and ₱230.9 million as of December 31, 2017, 2016 and 2015, representing accumulated equity in net earnings of subsidiaries and associates, which are not available for dividend declaration until received in the form of dividends from such subsidiaries and associates. Retained earnings is further restricted to the extent of the cost of the shares held in treasury and deferred income tax assets recognized as of December 31, 2017, 2016 and 2015.

c. Excess of cost of investment over net assets pertains to the Group's excess investment cost over the net assets of acquired entities under common control during the time of the acquisition.

23. Cost of Services and Goods Sold

This account consists of the following:

		Years Ended December 31		
	Note	**2017**	2016	2015
		(In Thousands)		
Cost of Services				
Outside services	*21*	**₱3,695,263**	₱3,383,439	₱2,641,530
Fuel, oil and lubricants	*8*	**2,691,882**	2,041,529	2,378,051
Depreciation and amortization	*11, 14*	**1,807,863**	1,398,201	942,771
Personnel costs	*26, 27*	**1,110,533**	961,386	899,235
Rent	*21, 30*	**892,766**	828,395	667,624
Transportation and delivery	*21*	**806,899**	926,021	729,961
Repairs and maintenance	*21*	**437,482**	547,776	439,552
Food and beverage	*8*	**381,888**	372,463	330,544
Vessel leasing	*21,30*	**348,228**	574,340	349,610
Material and supplies used	*8*	**263,918**	246,793	206,044
Arrastre and stevedoring		**251,895**	255,183	152,953
Cargo losses and damages	*7, 16*	**245,440**	85,162	134,229
Insurance		**180,933**	224,065	226,424
Food and subsistence		**124,917**	91,457	69,820
Communication, light and water		**124,741**	127,154	105,379
Sales-related expenses		**123,635**	126,883	127,198
Taxes and licenses		**56,379**	54,683	41,744
Special projects		**2,688**	159,737	2,130
Others		**277,044**	276,533	231,882
		13,824,394	12,681,200	10,676,681
Cost of Goods Sold	*8*	**5,191,146**	2,946,534	2,639,915
		₱19,015,540	₱15,627,734	₱13,316,596

24. General and Administrative Expenses

This account consists of the following:

		Years Ended December 31		
	Note	**2017**	2016	2015
		(In Thousands)		
Personnel costs		**₱571,548**	₱484,053	₱433,743
Provision for doubtful accounts	7	**294,448**	537,620	263,869
Shared cost reimbursable	*21*	**288,658**	315,112	370,822
Outside services	*21*	**205,390**	276,378	45,171
Advertising and promotion		**198,453**	180,564	137,218
Taxes and licenses		**114,162**	47,372	51,323

(Forward)

	Note	2017	2016	2015
			Years Ended December 31	
			(In Thousands)	
Transportation and travel	*21*	**₱98,903**	₱105,656	₱74,017
Depreciation and amortization		**74,992**	43,713	47,349
Communication, light and water		**67,478**	60,097	57,667
Rent		**56,231**	63,001	39,894
Entertainment, amusement and recreation		**52,020**	81,965	68,573
Computer charges		**37,288**	31,772	26,682
Insurance		**18,854**	18,372	11,001
Special projects		**15,905**	19,686	12,292
Office supplies		**13,310**	21,807	12,856
Repairs and maintenance	*21*	**10,360**	14,053	11,607
Others		**56,522**	39,664	32,597
		₱2,174,522	₱2,340,885	₱1,696,681

Others consists of various expenses that are individually immaterial.

25. Other Income (Charges)

Financing Charges

	Note	2017	2016	2015
			Years Ended December 31	
			(In Thousands)	
Interest expense on:				
Long-term debt	*17*	**₱213,631**	₱205,398	₱185,125
Short-term notes payable	*15*	**134,410**	148,785	122,073
Bank charges		**6,429**	5,501	3,550
Amortization of:				
Obligations under finance lease	*18*	**16,884**	14,093	6,676
Debt transaction costs	*17*	**3,990**	5,987	5,321
Other financing charges		**14,726**	9,763	8,714
		₱390,070	₱389,527	₱331,459

Other financing charges comprise of items that are individually immaterial.

Others - net

	Note	2017	2016	2015
			Years Ended December 31	
			(In Thousands)	
Interest income	*6*	**₱6,187**	₱5,349	₱3,976
Gain (loss) on disposal of:				
Property and equipment	*11*	**1,623**	(8,104)	(6,667)
AFS assets		**–**	8,869	–

(Forward)

	Note	Years Ended December 31 2017	2016	2015
			(In Thousands)	
Foreign exchange losses		**(₱34,342)**	(₱3,214)	(₱126)
Write-off of assets		**–**	(3,397)	(8,411)
Impairment loss on vessel held for sale, goodwill and other assets	*10, 11, 13*	**(7,633)**	–	(510,854)
Others - net		**8,280**	28,739	17,532
		(₱25,885)	₱28,242	(₱504,550)

Others - net comprise of prompt payment discount and other items that are individually immaterial.

26. Personnel Costs

Details of personnel costs are as follows:

	Note	Years Ended December 31 2017	2016	2015
			(In Thousands)	
Salaries and wages		**₱1,150,635**	₱1,014,404	₱950,412
Retirement benefit cost	*27*	**112,128**	60,863	49,389
Other employee benefits		**419,318**	370,172	333,161
		₱1,682,081	₱1,445,439	₱1,332,962

27. Retirement Benefits

The Group has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The Group's retirement plans meet the minimum requirement specified under Republic Act No. 7641, *Retirement Pay Law.*

The fund is administered by trustee banks under the supervision of the Board of Trustees who is also responsible for the investment strategy of the plan. The investment strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans. The Group expects to contribute ₱55.3 million to the retirement fund in 2018. The Group's transaction with the plan pertain to contribution and benefit payments.

The following tables summarize the components of retirement benefit cost included in the consolidated statement of profit or loss are as follows:

	Years Ended December 31 2017	2016	2015
		(In thousands)	
Current service cost	**₱96,627**	₱45,655	₱39,094
Net interest cost	**15,501**	15,208	10,295
	₱112,128	₱60,863	₱49,389

The following tables summarize the funded status and amounts recognized in the consolidated statement of financial position:

	December 31, 2017		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Accrued Retirement Benefits**
		(In thousands)	
January 1	**₱407,586**	**(₱161,318)**	**₱246,268**
Net retirement benefits cost in profit or loss:			
Current service cost	**96,627**	**–**	**96,627**
Net interest cost	**22,586**	**(7,085)**	**15,501**
	119,213	**(7,085)**	**112,128**
Benefits paid	**(29,247)**	**23,247**	**(6,000)**
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:			
Financial assumptions	**(29,103)**	**–**	**(29,103)**
Demographic assumptions	**37,100**	**–**	**37,100**
Experience adjustments	**(30,166)**	**8,721**	**(21,445)**
	(22,169)	**8,721**	**(13,448)**
Actual contributions	**–**	**(78,833)**	**(78,833)**
December 31	**₱475,383**	**(₱215,268)**	**₱260,115**

	December 31, 2016		
	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
		(In Thousands)	
January 1	₱418,129	(₱121,356)	₱296,773
Net retirement benefits cost in profit or loss:			
Current service cost	45,655	–	45,655
Net interest cost	12,003	3,205	15,208
	57,658	3,205	60,863
Benefits paid	(37,310)	22,934	(14,376)
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:			
Financial assumptions	(9,641)	–	(9,641)
Demographic assumptions	(10,328)	–	(10,328)
Experience adjustments	(10,922)	–	(10,922)
Return on plan assets	–	(12,167)	(12,167)
	(30,891)	(12,167)	(43,058)
Actual contributions	–	(53,934)	(53,934)
December 31	₱407,586	(₱161,318)	₱246,268

	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
	December 31, 2015		
		(In Thousands)	
January 1	₱356,506	(₱127,002)	₱229,504
Net retirement benefits cost in profit or loss:			
Current service cost	39,094	–	39,094
Net interest cost	15,341	(5,046)	10,295
	54,435	(5,046)	49,389
Benefits paid	(12,625)	19,120	6,495
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:			
Financial assumptions	(13,031)	–	(13,031)
Demographic assumptions	(9,968)	–	(9,968)
Experience adjustments	42,812	–	42,812
Return on plan assets	–	4,397	4,397
	19,813	4,397	24,210
Actual contributions	–	(12,825)	(12,825)
December 31	₱418,129	(₱121,356)	₱296,773

The plan assets available for benefits are as follows:

	December 31		
	2017	2016	2015
		(In Thousands)	
Cash and cash equivalents	**₱21,706**	₱24,505	₱49,347
Receivables	**3,609**	1,368	4,820
Investments in debt securities	**185,556**	133,183	65,016
Others	**4,397**	2,262	2,173
Fair value of plan assets	**₱215,268**	₱161,318	₱121,356

Some debt instruments held have quoted prices in an active market. The remaining plan assets do not have quoted market price in an active market. The plan assets have diverse investments and do not have any concentration risk.

No curtailment gain or loss was recognized for the years ended December 31, 2017, 2016 and 2015. As of December 31, 2017, 2016 and 2015, the Group has no transactions with its retirement funds such as loans, investments, gratuities, or surety. The fund also does not have investments in debt or equity securities of the companies in the Group.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk. Management reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligations.

The cost of defined benefit pension plan as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining DBO for the Group's plans are shown below:

	2017	2016	2015
Discount rate	**5.36% - 5.88%**	5.03% - 5.11%	4.87% - 5.19%
Future salary increase	**5.00% - 6.00%**	5.00% - 6.00%	5.00% - 6.00%
Turnover rate	**0.00% - 17.00%**	0.00% - 17.00%	0.00% - 19.00%

The accrued retirement benefits is subject to several key assumptions. Shown below is the sensitivity analysis of the retirement obligation to reasonably possible changes on each significant assumption as of December 31, 2017:

	Increase (Decrease)	Impact on Accrued Retirement Benefits
	(In Thousands)	
Discount rate	+1%	(₱53,494)
	-1%	64,121
Salary increase rate	+1%	58,681
	-1%	(50,228)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

There were no changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses.

The average duration of the defined benefit obligation at the end of the reporting period is 25 years in 2017, 2016 and 2015.

Maturity analysis of the benefit payments:

	2017	2016	2015
Less than 5 years	**₱97,637**	₱123,832	₱90,320
More than 5 year to 10 years	**260,526**	195,430	132,427
More than 10 years	**3,983,204**	2,058,530	2,759,105

28. Income Taxes

a. The components of provision for income tax are as follows:

	Years Ended December 31		
	2017	2016	2015
		(In Thousands)	
Current:			
RCIT	**₱247,040**	₱365,417	₱114,335
MCIT	**17,970**	11,306	49,594
	265,010	376,723	163,929
Deferred	**(16,924)**	27,754	319,693
	₱248,086	₱404,477	₱483,622

b. The components of the Group's recognized net deferred tax assets and liabilities are as follows:

	For the Years Ended December 31		
	2017	2016	2015
		(In Thousands)	
Directly recognized in profit or loss			
Deferred income tax assets on:			
Allowances for:			
Accrued retirement benefits	**₱44,201**	₱50,156	₱75,272
Past service cost	**9,491**	9,608	7,525
Unrealized foreign exchange loss	**3,438**	3,438	4,957
Accruals and others	**3,064**	7,657	19,198
	60,194	70,859	106,952
Deferred income tax liabilities on other taxable temporary differences	**(7,325)**	(5,158)	(14,021)
	52,869	65,701	92,931
Directly recognized in OCI			
Deferred income tax asset on remeasurement of accrued retirement benefit costs	**29,831**	10,855	19,429
	₱82,700	₱76,556	₱112,360

c. Details of the Group's NOLCO and excess MCIT over RCIT which can be carried forward and claimed as tax credit against regular taxable income and regular income tax due, respectively, are as follows:

NOLCO

					Balances as at December 31, 2017	
Year Incurred	Available Until	Amount	Applied	Expired	Amount	Tax Effect
			(In Thousands)			
2017	2020	₱168,106	₱–	₱–	**₱168,106**	**₱50,432**
2016	2019	30,106	–	–	**30,106**	**9,032**
2015	2018	13	–	–	**13**	**4**
		₱198,225	₱–	₱–	**₱198,225**	**₱59,468**

Excess MCIT over RCIT

Year Incurred	Available Until	Amount	Applied	Expired	**Balances as at December 31, 2017**
			(In Thousands)		
2017	2020	₱18,293	₱–	₱–	**₱18,293**
2016	2019	15,786	–	–	**15,786**
2015	2018	16,497	–	–	**16,497**
2014	2017	43,047	(42,893)	(154)	**–**
		₱93,623	(₱42,893)	(₱154)	**₱50,576**

d. The following are the Group's NOLCO and other deductible temporary differences for which no deferred tax assets have been recognized.

	December 31		
	2017	2016	2015
		(In Thousands)	
Allowance for doubtful accounts	**₱949,016**	₱1,203,776	₱720,715
Allowance for inventory obsolescence	**95,903**	55,265	73,409
NOLCO	**198,225**	30,119	13
Excess of MCIT over RCIT	**50, 576**	79,744	68,438
Impairment of asset held for sale	**–**	–	260,404
Unrealized foreign exchange losses	**17,741**	–	–
Others	**9,683**	–	–

e. Reconciliation between the income tax expense computed at statutory income tax rate of 30% in 2017, 2016 and 2015 to the provision for income tax expense as shown in profit or loss is as follows:

	Years Ended December 31		
	2017	2016	2015
		(In Thousands)	
Tax effect of income at statutory rates	**(₱18,447)**	₱224,554	₱177,826
Income tax effects of:			
Deductible temporary differences for which no deferred tax assets were recognized	**250,860**	249,728	218,920
Nondeductible expense	**11,312**	–	75,135
Interest income already subjected to final tax	**(501)**	(1,172)	(1,193)
Dividend income	**–**	(2,509)	(20,684)
Equity in net losses (earnings) of associates	**2,091**	(7,362)	(17,611)
Income tax holiday incentive on registered activities	**(7,545)**	–	–
Derecognition of deferred tax assets	**(106)**		
Others	**10,422**	(58,762)	51,229
Provision for income tax	**₱248,086**	₱404,477	₱483,622

29. Earnings (Loss) Per Share (EPS)

Basic and diluted earnings per share were computed as follows:

	December 31		
	2017	2016	2015
Net income (loss) for the year attributable to equity holders of the Parent Company	**(₱315,774)**	₱330,300	₱97,034
Weighted average number of common shares outstanding for the year	**2,446,136**	2,446,136	2,446,136
Earnings (Loss) per common share	**(₱0.1291)**	₱0.1350	₱0.0397

There are no potentially dilutive common shares as at December 31, 2017, 2016 and 2015.

30. Agreements and Commitments

a. The Group has entered into various operating lease agreements for its office spaces. The future minimum rentals payable under the noncancellable operating leases are as follows:

	December 31		
	2017	2016	2015
		(In Thousands)	
Within one year	**₱603,143**	₱196,733	₱258,292
After one year but not later than five years	**866,341**	271,684	215,710
	₱1,469,484	₱468,416	₱474,002

The lease agreements did not include restrictions, contingent rentals, purchase options and escalation clauses. Renewal of the lease agreements is at the option of the Group.

b. Rent expense is presented under “Cost of Services and Goods Sold” and “General and Administrative Expenses” as follows:

		Years Ended December 31		
	Note	**2017**	2016	2015
			(In Thousands)	
Cost of services and goods sold	*23*	**₱892,766**	₱828,395	₱667,624
General and administrative expenses	*24*	**56,231**	63,001	39,894
		₱948,997	₱891,396	₱707,518

c. The Group annually enters into several vessel leasing agreements. For the years ended December 31, 2017, 2016 and 2015, vessel lease rates are based on total agreed monthly rent of ₱23.0 million, ₱41.0 million and ₱26.0 million, respectively (see Notes 21 and 23).

31. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, short-term notes payable, long-term debt and obligations under finance lease. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has other various financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from operations.

The main risks arising from the Group's financial instruments are credit risk involving possible exposure to counter-party default, primarily, on its trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments and maturing obligations; foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings; and interest rate risk resulting from movements in interest rates that may have an impact on interest bearing financial instruments.

There has been no change to the Group's exposure to credit, liquidity, foreign exchange, interest rate and equity price risks on the manner in which it manages and measures the risks since prior years.

Credit Risk
To manage credit risk, the Group has policies in place to ensure that all customers that wish to trade on credit terms are subject to credit verification procedures and approval of the Credit Committee. In addition, receivable balances are monitored on an ongoing basis to reduce the Group's exposure to bad debts. The Group has policies that limit the amount of credit exposure to any particular customer.

The Group does not have any significant credit risk exposure to any single counterparty. The Group's exposures to credit risks are primarily attributable to cash and collection of trade and other receivables with a maximum exposure equal to the carrying amount of these financial instruments. As of December 31, 2017, 2016 and 2015, the Group did not hold collateral from any counterparty.

The credit quality per class of financial assets that are neither past due nor impaired is as follows:

December 31, 2017

	High	**Medium**	**Total**
		(In Thousands)	
Loans and receivables:			
Cash in banks	**₱1,835,492**	**₱–**	**₱1,835,492**
Cash equivalents	**187,897**	–	**187,897**
Trade receivables	**6,482**	**1,496,947**	**1,503,429**
Nontrade receivables	–	**86,356**	**86,356**
Due from related parties	**59,473**	–	**59,473**
Advances to officers and employees	**11,129**	–	**11,129**
Refundable deposits	**184,613**	–	**184,613**
Restricted time deposit	**152,736**	–	**152,736**
AFS financial assets	**3,411**	–	**3,411**
Total	**₱2,441,233**	**₱1,583,303**	**₱4,024,536**

December 31, 2016

	High	Medium	Total
		(In Thousands)	
Loans and receivables:			
Cash in banks	₱1,246,963	₱–	₱1,246,963
Cash equivalents	124,472	–	124,472
Trade receivables	42,618	1,397,617	1,440,235
Nontrade receivables	–	39,061	39,061
Due from related parties	1,999		1,999
Advances to officers and employees	53,849	–	53,849
Refundable deposits	140,978	–	140,978
Restricted time deposit	152,736	–	152,736
AFS financial assets	3,411	–	3,411
Total	₱1,767,026	₱1,436,678	₱3,203,704

December 31, 2015

	High	Medium	Total
		(In Thousands)	
Loans and receivables:			
Cash in banks	₱1,189,437	₱ –	₱1,189,437
Cash equivalents	128,566	–	128,566
Trade receivables	19,278	1,502,825	1,522,103
Nontrade receivables	–	262,686	262,686
Due from related parties	53,010	–	53,010
Advances to officers and employees	25,196	–	25,196
Refundable deposits	114,530	–	114,530
Restricted time deposit	143,210	–	143,210
AFS financial assets	4,507	–	4,507
Total	₱1,677,734	₱1,765,511	₱3,443,245

High quality receivables pertain to receivables from related parties and customers with good favorable credit standing. Medium quality receivables pertain to receivables from customers that slide beyond the credit terms but pay a week after being past due. Low quality receivables are accounts that are deemed uncollectible and provided for with a provision. For new customers, the Group has no basis yet as far as payment habit is concerned.

The Group evaluated its cash in banks as high quality financial assets since these are placed in financial institutions of high credit standing. It also evaluated its advances to officers and employees as high grade since these are collected through salary deductions.

The aging per class of financial assets that were past due but not impaired is as follows:

As of December 31, 2017

	Neither Past Due nor Impaired	Past Due but not Impaired					Impaired Financial Assets	Total
		Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 120 Days	121 to over 360 Days		
				(In Thousands)				
Loans and receivables:								
Cash in banks	**₱1,835,492**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,835,492**
Cash equivalents	**187,897**	**–**	**–**	**–**	**–**	**–**	**–**	**187,897**

(Forward)

	Neither Past Due nor Impaired	**Past Due but not Impaired**					**Impaired Financial Assets**	**Total**
		Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**91 to 120 Days**	**121 to over 360 Days**		
				(In Thousands)				
Trade receivables	**₱1,503,429**	**₱731,448**	**₱260,727**	**₱121,624**	**₱363,847**	**₱430,206**	**₱802,103**	**₱4,213,384**
Nontrade receivables	**86,356**	**235,931**	**103,331**	**34,578**	**32,829**	**240,164**	**541,791**	**1,274,980**
Due from related parties	**59,473**	**1,621**	**29,458**	**15,707**	**37,196**	**73,725**	**–**	**217,180**
Advances to officers and employees	**11,129**	**14,056**	**7,140**	**960**	**–**	**16,341**	**–**	**49,626**
Refundable deposits	**184,613**	**–**	**–**	**–**	**–**	**–**	**–**	**184,613**
Restricted time deposit	**152,736**	**–**	**–**	**–**	**–**	**–**	**–**	**152,736**
AFS financial assets	**3,411**	**–**	**–**	**–**	**–**	**–**	**–**	**3,411**
Total	**₱4,024,536**	**₱983,056**	**₱400,656**	**₱172,869**	**₱433,469**	**₱760,839**	**₱1,343,894**	**₱8,119,319**

As at December 31, 2016

	Neither Past Due or Impaired	Past Due but not Impaired					Impaired Financial Assets	Total
		Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 120 Days	121 to over 360 Days		
				(In Thousands)				
Loans and receivables:								
Cash in banks	₱1,246,963	₱–	₱–	₱–	₱–	₱–	₱–	₱1,246,963
Cash equivalents	124,472	–	–	–	–	–	–	124,472
Trade receivables	1,440,235	751,892	100,483	380,429	195,116	468,528	758,340	4,095,023
Nontrade receivables	39,061	65,010	183,533	82,765	175,657	157,420	446,554	1,150,000
Due from related parties	1,999	2,033	6,545	3,395	128,191	–	–	142,163
Advances to officers and employees	53,849	2,131	261	397	1,430	–	–	58,068
Refundable deposits	140,978	–	–	–	–	–	–	140,978
Restricted time deposit	152,736	–	–	–	–	–	–	152,736
AFS financial assets	3,411	–	–	–	–	–	–	3,411
Total	₱3,203,704	₱821,066	₱290,822	₱466,986	₱500,394	₱625,948	₱1,204,894	₱7,113,814

As at December 31, 2015

	Neither Past Due or Impaired	Past Due but not Impaired					Impaired Financial Assets	Total
		Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 120 Days	121 to over 360 Days		
				(In Thousands)				
Loans and receivables:								
Cash in banks	₱1,189,437	₱–	₱–	₱–	₱–	₱–	₱–	₱1,189,437
Cash equivalents	128,566	–	–	–	–	–	–	128,566
Trade receivables	1,522,103	645,412	104,799	285,677	119,097	482,556	496,305	3,655,949
Nontrade receivables	262,686	131,928	48,990	49,732	203,502	94,452	226,444	1,017,734
Due from related parties	53,010	–	–	–	–	–	–	53,010
Advances to officers and employees	25,196	4,539	1,051	386	9,649	–	–	40,821
Refundable deposits	114,530	–	–	–	–	–	–	114,530
Restricted time deposit	143,210	–	–	–	–	–	–	143,210
AFS financial assets	4,507	–	–	–	–	–	–	4,507
Total	₱3,443,245	₱781,879	₱154,840	₱335,795	₱332,248	₱577,008	₱722,749	₱6,347,764

Liquidity Risk

The Group manages its liquidity profile to be able to finance its capital expenditures and service its maturing debt by maintaining sufficient cash during the peak season of the passage business. The Group regularly evaluates its projected and actual cash flows generated from operations.

The Group's existing credit facilities with various banks are covered by the Continuing Suretyship for the accounts of the Group.

The liability of the Surety is primary and solidary and is not contingent upon the pursuit by the bank of whatever remedies it may have against the debtor or collaterals/liens it may possess. If any of the secured obligations is not paid or performed on due date (at stated maturity or by acceleration), the Surety shall, without need for any notice, demand or any other account or deed, immediately be liable therefore and the Surety shall pay and perform the same.

The following table summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual repayment obligations and the Group's cash to be generated from operations and the Group's financial assets:

	December 31, 2017			
	Less than 1 Year	**1 to 5 Years**	**Over 5 Years**	**Total**
		(In Thousands)		
Financial Liabilities				
Trade and other payables*	**₱6,434,298**	**₱–**	**₱–**	**₱6,434,298**
Short-term notes payable	**2,644,950**	**–**	**–**	**2,644,950**
Long-term debt**	**3,121,315**	**1,481**	**–**	**3,122,796**
Obligations under finance lease	**97,311**	**218,430**	**–**	**315,741**
Other noncurrent liabilities	**–**	**6,084**	**–**	**6,084**
	₱12,297,874	**₱225,995**	**₱-**	**₱12,523,869**
Financial Assets				
Cash and cash equivalents	**₱2,095,850**	**₱–**	**₱–**	**₱2,095,850**
Trade and other receivables	**4,428,276**	**–**	**–**	**4,428,276**
Refundable deposits	**–**	**184,613**	**–**	**184,613**
Restricted time deposits	**–**	**152,736**	**–**	**152,736**
	₱6,524,126	**₱337,349**	**₱–**	**₱6,861,475**

** Excludes nonfinancial liabilities amounting to ₱72.6 million as of December 31, 2017.*

*** Noncurrent portion of long-term debt has been classified to current amounting to ₱356.3 million (see Note 17).*

	December 31, 2016			
	Less than 1 Year	1 to 5 Years	Over 5 Years	Total
		(In Thousands)		
Financial Liabilities				
Trade and other payables*	₱4,667,000	₱–	₱–	₱4,667,000
Short-term notes payable	2,324,556	–	–	2,324,556
Long-term debt**	3,398,474	2,877	–	3,401,351
Obligations under finance lease	91,706	249,995	–	341,701
Other noncurrent liabilities	–	8,065	–	8,065
	₱10,481,736	₱260,937	₱–	₱10,742,673
Financial Assets				
Cash and cash equivalents	₱1,412,380	₱–	₱–	₱1,412,380
Trade and other receivables	4,240,360	–	–	4,240,360
Refundable deposits	72,896	68,082	–	140,978
Restricted time deposits	–	152,736	–	152,736
	₱5,725,636	₱220,818	₱–	₱5,946,454

** Excludes nonfinancial liabilities amounting to ₱680 million as at December 31, 2016.*

*** Noncurrent portion of long-term debt has been classified to current amounting to ₱2,702.1 million (see Note 17).*

	December 31, 2015			
	Less than 1 Year	1 to 5 Years	Over 5 Years	Total
		(In Thousands)		
Financial Liabilities				
Trade and other payables*	₱3,832,419	₱–	₱–	₱3,832,419
Short term notes payable	2,111,017	–	–	2,111,017
Long-term debt	374,094	3,176,330	–	3,550,424
Obligations under finance lease	65,837	208,273	–	274,110
Other noncurrent liabilities	–	2,255	–	2,255
	₱6,383,367	₱3,386,858	₱–	₱9,770,225
Financial Assets				
Cash and cash equivalents	₱1,357,308	₱–	₱–	₱1,357,308
Trade and other receivables	4,044,765	–	–	4,044,765
Refundable deposits	36,845	77,685	–	114,530
Restricted time deposits	–	143,210	–	143,210
	₱5,438,918	₱220,895	₱–	₱5,659,813

** Excludes nonfinancial liabilities amounting to ₱660 million as at December 31, 2015.*

Trade and other payables and maturing other liabilities are expected to be settled using cash to be generated from operations, drawing from existing and new credit lines, and additional capital contribution of the shareholders.

Foreign Exchange Risk

Foreign currency risk arises when the Group enters into transactions denominated in currencies other than their functional currency. Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks associated with the financial instruments. To mitigate the risk of incurring foreign exchange losses, the Group maintains cash in banks in foreign currency to match its financial liabilities.

The Group's significant foreign currency-denominated financial assets and financial liabilities as of December 31, 2017, 2016 and 2015 are as follows:

	December 31, 2017		December 31, 2016		December 31, 2015	
	USD[1]	**Total Peso Equivalent**	USD[2]	Total Peso Equivalent	USD[3]	Total Peso Equivalent
			(In Thousands)			
Financial Assets						
Cash in banks	**$126**	**₱6,291**	$860	₱42,759	$301	₱14,165
Trade receivables	**191**	**9,537**	191	9,497	166	7,812
Insurance receivables	**–**	**–**	33	1,640	702	33,036
Restricted time deposits	**3,059**	**152,736**	3,072	152,740	3,043	143,204
	3,376	**168,564**	4,156	206,636	4,212	198,217
Financial Liabilities						
Trade and other payables	**13,449**	**671,509**	993	49,372	152	7,154
Obligations under finance lease	**2,441**	**121,879**	3,584	178,196	140	6,588
	15,890	**793,388**	4,577	227,568	292	13,742
Net foreign currency denominated assets (liabilities)	**($12,514)**	**(₱624,824)**	($421)	(₱20,932)	$3,920	₱184,475

[1]$1 = ₱49.93; [2]$1 = ₱49.72; [3]$1 = ₱47.06

The Group has recognized foreign exchange gain (loss) amounting to (₱32.4 million), ₱5.9 million and ₱0.1 million for the years ended December 31, 2017, 2016 and 2015 respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax for years ended December 31, 2017, 2016 and 2015.

	Appreciation (Depreciation) of Foreign Currency	Effect on Income Before Tax		
		December 2017	December 2016	December 2015
			(In Thousands)	
US Dollar (USD)	1%	**(₱6,248)**	₱10,717	₱8,487
	-1%	**6,248**	(10,717)	(8,487)

There is no other impact on the Group's equity other than those already affecting profit or loss.

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings are subject to fixed interest rates ranging from 5% to 8.5% as at December 31, 2017, 2016 and 2015.

The Group's ₱4.0 billion loans under the OLSA include ₱2.0 billion loans which bear variable interest rates and exposes the Group to cash flow interest rate risk.

The sensitivity of the consolidated statement of profit or loss presented below is the effect of the assumed changes in interest rates on the income before income tax for one year, based on the floating rate of non-trading financial liabilities held as at December 31, 2017, 2016 and 2015, with other variables held constant:

	Changes in Interest Rates	Effect on Income Before Tax		
		2017	2016	2015
			(In Thousands)	
For more than one year	+80 basis points	**(₱24,982)**	(₱27,211)	(₱28,403)
	-80 basis points	**24,982**	27,211	28,403

	Increase (Decrease) in Interest Rates	Effect on Equity		
		2017	2016	2015
			(In Thousands)	
For more than one year	+80 basis points	**(₱17,488)**	(₱19,048)	(₱19,882)
	-80 basis points	**17,488**	19,048	19,882

Capital Risk Management Objectives and Procedures
The Group's capital management objectives are to ensure the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and produce adequate and continuous opportunities to its employees; and to provide an adequate return to shareholders by pricing products/services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. It manages the capital structure and makes adjustments in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. The Group's overall strategy in managing its capital remains unchanged since the prior year.

The Group considers its total equity as its capital. The Group monitors capital on the basis of the carrying amount of equity as presented on the consolidated statement of financial position. The capital ratios are as follows:

	2017	2016	2015
Assets financed by:			
Creditors	**78%**	75%	75%
Stockholders	**22%**	25%	25%

As of December 31, 2017, 2016 and 2015, the Group met its capital management objectives.

32. Fair Values of Financial Instruments and Nonfinancial Assets

The Group's financial assets and liabilities by category and by class, except for those with carrying amounts that are reasonable approximations of fair values, follow:

	December 31					
	2017		2016		2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
			(In Thousands)			
Financial Liabilities						
Long-term debts	**₱3,122,796**	**₱3,200,649**	₱3,401,351	₱3,162,977	₱3,550,424	₱3,550,424
Obligations under finance lease	**315,741**	**288,009**	341,701	311,673	274,110	274,110
	₱3,438,537	**₱3,488,658**	₱3,743,052	₱3,474,650	₱3,824,534	₱3,824,534

The following methods and assumptions are used to estimate the fair value of each class of financial instruments and nonfinancial asset:

Cash and Cash Equivalents, Trade and Other Receivables, Trade and Other Payables, Refundable Deposits
The carrying amounts of these financial instruments approximate their respective fair values due to their relatively short-term maturities.

Short-term Notes Payable
The carrying value of short-term notes payable that reprice every three (3) months, approximates their fair value because of recent and regular repricing based on current market rate. For fixed rate loans, the carrying value approximates fair value due to its short-term maturities, ranging from three months to twelve months.

AFS Financial Assets
The fair values of AFS financial assets are based on quoted market prices, except for unquoted equity shares which are carried at cost since fair values are not readily determinable.

Long-term Debt
Discount rate of 5.8% was used in calculating the fair value of the long-term debt as of December 31, 2017, 2016 and 2015.

Obligations Under Finance Lease
The fair values of obligations under finance lease are based on the discounted net present value of cash flows using the discount rates ranging from 3.5% to 3.7% as of December 31, 2017, 2016 and 2015.

Investment Property
The fair value of the investment property is determined using the Market Data Approach, which is a process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.

33. Effect of Prior Period Adjustments

In 2017, the Group's management determined that the following restatements should be made as of December 31 and January 1, 2016 and for the years ended December 31, 2016 and 2015 to the consolidated financial statements:

Consolidated Statements of Financial Position

		December 31, 2016				January 1, 2016			
	Note	As previously reported	Effect of restatement	Reclassification	As restated	As previously reported	Effect of restatement	Reclassification	As restated
ASSETS									
Current Assets									
Cash and cash equivalents		₱1,416,881	₱–	(₱4,501)	₱1,412,380	₱1,325,355	₱–	₱31,953	₱1,357,308
Trade and other receivables - net	*a, c*	5,444,719	(1,145,421)	(58,938)	4,240,360	4,474,797	(346,947)	(83,085)	4,044,765
Inventories - net	*f*	620,937	(10,716)	64,015	674,236	593,958	3,317	(83,764)	513,511
Other current assets	*g*	1,076,345	151,057	47,593	1,274,995	1,423,396	(7,075)	(107,865)	1,308,456
		8,558,882	(1,005,080)	48,169	7,601,971	7,817,506	(350,705)	(242,761)	7,224,040
Asset held for sale	*e*	–	–	–	–	–	158,239	–	158,239
Total Current Assets		8,558,882	(1,005,080)	48,169	7,601,971	7,817,506	(192,466)	(242,761)	7,382,279
Noncurrent Assets									
Property and equipment	*b, e*	8,045,214	(804,561)	(21,254)	7,219,399	6,698,345	(629,414)	56,345	6,125,276
Investments in associates and joint ventures		282,646	–	–	282,646	257,229	–	–	257,229
Deferred tax assets - net	*g*	236,188	(205,626)	45,994	76,556	318,021	(207,190)	1,529	112,360
Goodwill	*d*	250,450	(250,450)	–	–	250,450	(250,450)	–	–
Other noncurrent assets		525,403	(212,621)	180,795	493,577	400,850	(240,958)	236,412	396,304
Total Noncurrent Assets		9,339,901	(1,473,258)	205,535	8,072,178	7,924,895	(1,328,012)	294,286	6,891,169
TOTAL ASSETS		₱17,898,783	(₱2,478,338)	253,704	₱15,674,149	₱15,742,401	(₱1,520,478)	₱51,525	₱14,273,448

		December 31, 2016				January 1, 2016			
	Note	As previously reported	Effect of restatement	Reclassification	As restated	As previously reported	Effect of restatement	Reclassification	As restated
LIABILITIES AND EQUITY									
Current Liabilities									
Notes payable		₱2,324,556	₱–	₱–	₱2,324,556	₱2,111,017	₱–	₱–	₱2,111,017
Trade and other payables	*f*	5,231,518	(75,111)	251,848	5,408,255	4,553,606	(114,149)	53,002	4,492,459
Current portion of:									
Obligations under finance lease		91,706	–	–	91,706	65,837	–	–	65,837
Long-term debt	*i*	696,343	–	2,702,131	3,398,474	374,094	–	–	374,094
Income tax payable	*g*	15,756	(1,755)	440	14,441	4,687	–	(688)	3,999
Total Current Liabilities		8,359,879	(76,866)	2,954,419	11,237,432	7,109,241	(114,149)	52,314	7,047,406
Noncurrent Liabilities									
Obligations under finance lease - net of current portion		249,995	–	–	249,995	208,273	–	–	208,273
Long-term debt - net of current portion	*i*	2,705,008	–	(2,702,131)	2,877	3,176,330	–	–	3,176,330
Accrued retirement benefits		246,268	–	–	246,268	298,072	–	(1,299)	296,773
Other noncurrent liabilities		8,065	–	–	8,065	2,255	–	–	2,255
Total Noncurrent Liabilities		3,209,336	–	(2,702,131)	507,205	3,684,930	–	(1,299)	3,683,631
Total Liabilities		11,569,215	(76,866)	252,288	11,744,637	10,794,171	(114,149)	51,015	10,731,037
Equity									
Share capital		2,484,653	–	–	2,484,653	2,484,653	–	–	2,484,653
Additional paid-in capital		910,901	–	–	910,901	910,901	–	–	910,901
Acquisitions of noncontrolling interests		(3,243)	–	–	(3,243)	(3,243)	–	–	(3,243)
Excess of cost of investments over net assets		(9,835)	–	–	(9,835)	(9,835)	–	–	(9,835)
Treasury shares		(58,715)	–	–	(58,715)	(58,715)	–	–	(58,715)
Other comprehensive losses - net		(102,914)	(1,789)	1,416	(103,287)	(145,074)	(1,789)	510	(146,353)
Retained earnings	*h*	3,043,095	(2,399,683)	–	643,412	1,717,652	(1,404,540)	–	313,112
Equity Attributable to Owners of the Parent Company		6,263,942	(2,401,472)	1,416	3,863,886	4,896,339	(1,406,329)	510	P3,490,520
Noncontrolling interests		65,626	–	–	65,626	51,891	–	–	51,891
Total Equity		6,329,568	(2,401,472)	1,416	3,929,512	4,948,230	(1,406,329)	510	3,542,411
TOTAL LIABILITIES AND EQUITY		₱17,898,783	(₱2,478,338)	₱253,704	₱15,674,149	₱15,742,401	(₱1,520,478)	₱51,525	₱14,273,448

Consolidated Statements of Profit or Loss

		December 31, 2016			December 31, 2015		
	Note	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
REVENUES							
Shipping:		8,956,438	(11,696)	8,944,742	8,487,541	–	8,487,541
Nonshipping:							
Logistics and other services		6,771,539	(142,251)	6,629,288	4,704,708	(32,614)	4,672,094
Sale of goods		3,547,864	(68,019)	3,479,845	3,225,800	(2,100)	3,223,700
	c	19,275,841	(221,966)	19,053,875	16,418,049	(34,714)	16,383,335
COST OF SERVICES AND GOODS SOLD	*b, c, f*	15,126,015	501,719	15,627,734	13,249,788	66,808	13,316,596
GROSS PROFIT		4,149,826	(723,685)	3,426,141	3,168,261	(101,522)	3,066,739
GENERAL AND ADMINISTRATIVE EXPENSES	*a, b, f*	1,617,161	723,724	2,340,885	1,362,481	334,200	1,696,681
OPERATING INCOME (LOSS)		2,532,665	(1,447,409)	1,085,256	1,805,780	(435,722)	1,370,058
OTHER INCOME (CHARGES)							
Equity in net earnings of associates		24,541	–	24,541	58,330	374	58,704
Financing charges		(389,527)	–	(389,527)	(351,417)	19,958	(331,459)
Income from retirement of redeemable preferred shares		–	–	–	5,988	(5,988)	–
Others - net	*d, e*	(213,658)	241,900	28,242	(1,480)	(503,070)	(504,550)
		(578,644)	241,900	(336,744)	(288,579)	(488,726)	(777,305)
INCOME BEFORE INCOME TAX		1,954,021	(1,205,509)	748,512	1,517,201	(924,448)	592,753
PROVISION FOR INCOME TAX	*g*	614,843	(210,366)	404,477	435,873	47,749	483,622
NET INCOME (LOSS)		₱1,339,178	(₱995,143)	₱344,035	₱1,081,328	(₱972,197)	₱109,131
Attributable to:							
Equity holders of the Parent Company		₱1,325,443	(₱995,143)	₱330,300	₱1,069,231	(₱972,197)	₱97,034
Noncontrolling interests		13,735	–	13,735	12,097	–	12,097
		₱1,339,178	(₱995,143)	₱344,035	₱1,081,328	(₱972,197)	₱109,131
Basic Earnings (Loss) Per Share		₱0.5419	(₱0.4069)	₱0.1350	₱0.4371	(₱0.3974)	₱0.0397

Consolidated Statements of Comprehensive Income

		December 31, 2016			December 31, 2015		
	Note	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
NET INCOME (LOSS)		₱1,339,178	(₱995,143)	₱344,035	₱1,081,328	(₱972,197)	₱109,131
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax							
Items that will be reclassified subsequently to profit or loss							
Net changes in unrealized gain on AFS investments		171	–	171	–	–	–
Items that will not be reclassified subsequently to profit or loss							
Remeasurement gains (losses) on net defined benefit liability		58,733	1,294	60,027	(43,950)	1,262	(42,688)
Income tax effect		(17,620)	(388)	(18,008)	13,185	(379)	12,806
		41,284	906	42,190	(30,765)	883	(29,882)
Share in remeasurement gains on retirement benefits of associates and joint ventures		876	–	876	5,948	(373)	5,575
		42,160	906	43,066	(24,817)	510	(24,307)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		₱1,381,338	(₱994,237)	₱387,101	₱1,056,511	(₱971,687)	₱84,824
Attributable to:							
Equity holders of the Parent Company		₱1,367,603	(₱994,237)	₱373,366	₱1,044,414	(₱971,687)	₱72,727
Noncontrolling interests		13,735	–	13,735	12,097	–	12,097
		₱1,381,338	(₱994,237)	₱387,101	₱1,056,511	(₱971,687)	₱84,824

Consolidated Statements of Changes in Equity

Years Ended December 31, 2016

	Attributable to Equity Holders of the Parent Company				Other Comprehensive Income (Losses)									
	Share Capital (Note 22)	Additional Paid-in Capital	Acquisition of Non-controlling Interests	Excess of Cost of Investments Over Net Assets of a Subsidiary (Note 22)	Unrealized Gain on Available-for-sale Financial Assets (Note 14)	Share in Cumulative Translation Adjustment of Associates (Note 12)	Re-measurement Losses on Accrued Retirement Benefits - Net of tax	Share in Re-measurement Gains (Losses) on Accrued Retirement Benefits of Associates and Joint Ventures (Note 12)	Subtotal	Retained Earnings	Treasury Shares (Note 22)	Total	Non-controlling Interests	Total Equity
BALANCES AT JANUARY 1, 2016, AS PREVIOUSLY REPORTED	**₱2,484,653**	**₱910,901**	**(₱3,243)**	**(₱9,835)**	**₱434**	**₱5,294**	**(₱156,501)**	**₱5,699**	**(₱145,074)**	**₱1,717,652**	**(₱58,715)**	**₱4,896,339**	**₱51,891**	**₱4,948,230**
Effect of prior period adjustments	–	–	–	–	52	–	(958)	(373)	(1,279)	(1,404,540)	–	(1,405,819)	–	**(1,405,819)**
BALANCES AT JANUARY 1, 2016, AS RESTATED	**2,484,653**	**910,901**	**(3,243)**	**(9,835)**	**486**	**5,294**	**(157,459)**	**5,326**	**(146,353)**	**313,112**	**(58,715)**	**3,490,520**	**51,891**	**3,542,411**
Net income for the year, as previously reported	–	–	–	–	–	–	–	–	–	1,325,443	–	1,325,443	13,735	**1,339,178**
Effect of prior period adjustments	–	–	–	–	–	–	–	–	–	(995,143)	–	(995,143)	–	**(995,143)**
Net income for the year, as restated	–	–	–	–	–	–	–	–	–	330,300	–	330,300	13,735	**344,035**
Other comprehensive loss for the year, as previously reported	–	–	–	–	171	–	41,113	876	42,160	–	–	42,160	–	**42,160**
Effect of prior period adjustments	–	–	–	–		–	906		906	–	–	906	–	**906**
Other comprehensive loss for the year, as restated	–	–	–	–	171	–	42,019	876	43,066	–	–	43,066	–	**43,066**
Total comprehensive income for the year, as restated	–	–	–	–	171	–	42,019	876	43,066	330,300	–	373,366	13,735	**387,101**
BALANCES AT DECEMBER 31, 2016, AS RESTATED	**₱2,484,653**	**₱910,901**	**(₱3,243)**	**(₱9,835)**	**₱657**	**₱5,294**	**(₱115,440)**	**₱6,202**	**(₱103,287)**	**₱643,412**	**(₱58,715)**	**₱3,863,886**	**₱65,626**	**₱3,929,512**

Years Ended December 31, 2015														
	Attributable to Equity Holders of the Parent Company													
					Other Comprehensive Income (Losses)									
	Share Capital (Note 22)	Additional Paid-in Capital	Acquisition of Non-controlling Interests	Excess of Cost of Investments Over Net Assets of a Subsidiary (Note 22)	Unrealized Gain on Available-for-sale Financial Assets (Note 14)	Share in Cumulative Translation Adjustment of Associates (Note 12)	Re-measurement Losses on Accrued Retirement Benefits - Net of tax	Share in Re-measurement Gains (Losses) on Accrued Retirement Benefits of Associates and Joint Ventures (Note 12)	Subtotal	Retained Earnings	Treasury Shares (Note 22)	Total	Non-controlling Interests	Total Equity
BALANCES AT JANUARY 1, 2015 AS PREVIOUSLY REPORTED	**₱2,484,653**	**₱910,901**	**(₱3,243)**	**(₱9,835)**	**₱434**	**₱5,294**	**(₱125,736)**	**(₱249)**	**(₱120,257)**	**₱648,421**	**(₱58,715)**	**₱3,851,925**	**₱39,794**	**₱3,891,719**
Effect of prior period adjustments	–	–	–	–	52	–	(1,468)	(373)	(1,789)	(432,343)	–	(434,132)	–	(434,132)
BALANCES AT JANUARY 1, 2015 AS RESTATED	**2,484,653**	**910,901**	**(3,243)**	**(9,835)**	**486**	**5,294**	**(127,204)**	**(622)**	**(122,046)**	**216,078**	**(58,715)**	**3,417,793**	**39,794**	**3,457,587**
Net income for the year, as previously reported	–	–	–	–	–	–	–	–	–	1,069,231	–	1,069,231	12,097	1,081,328
Effect of prior period adjustments	–	–	–	–	–	–	–	–	–	(972,197)	–	(972,197)	–	(972,197)
Net income for the year, as restated	–	–	–	–	–	–	–	–	–	97,034	–	97,034	12,097	109,131
Other comprehensive loss for the year, as previously reported	–	–	–	–	–	–	(30,765)	5,948	(24,817)	–	–	(24,817)	–	(24,817)
Effect of prior period adjustments	–	–	–	–	–	–	510	–	510	–	–	510	–	510
Other comprehensive loss for the year, as restated	–	–	–	–	–	–	(30,255)	5,948	(24,307)	–	–	(24,307)	–	(24,307)
Total comprehensive income for the year, as restated	–	–	–	–	–	–	(30,255)	5,948	(24,307)	97,034	–	72,727	12,097	84,824
BALANCES AT DECEMBER 31, 2015, AS RESTATED	**₱2,484,653**	**₱910,901**	**(₱3,243)**	**(₱9,835)**	**₱486**	**₱5,294**	**(₱157,459)**	**₱5,326**	**(₱146,353)**	**₱313,112**	**(₱58,715)**	**₱3,490,520**	**₱51,891**	**₱3,542,411**

Consolidated Statements of Cash Flows

		Years Ended December 31					
		2016			2015		
	Note	As previously reported	Prior period adjustments	As restated	As previously reported	Prior period adjustments	As restated
Net cash flows from operation activities	*f*	₱2,906,754	₱66,056	₱2,840,698	₱1,270,205	(₱13,415)	₱1,283,620
Net cash used in investing activities	*b*	(2,449,001)	(13,438)	(2,435,563)	(1,231,845)	98,046	(1,329,891)
Net cash used in financing activities		(371,630)	(16,164)	(355,466)	185,634	(107,000)	292,634
Effect of foreign exchange rate changes on cash and cash equivalents		5,403	–	5,403	–	(9,442)	9,442
Net increase in cash and cash equivalents		91,526	36,454	55,072	223,994	(31,811)	255,805
Cash and cash equivalents at beginning of year		1,325,355	(31,953)	1,357,308	1,101,361	(142)	1,101,503
Cash and cash equivalents at end of year		₱1,416,881	₱4,501	₱1,412,380	₱1,325,355	(₱31,953)	₱1,357,308

a. The Group recognized provision for doubtful receivables totaling to ₱552.3 million in 2016 and ₱211.6 million in 2015 based on the Group's application of its specific and collective impairment assessment.

b. The Group adjusted its property and equipment and recognized the related costs and expenses in the consolidated statement of profit or loss, which comprised mainly of: (a) repainting and other repairs and maintenance expenses amounting to ₱190.9 million in 2016 and ₱110.1 million in 2015; (b) additional depreciation of property and equipment in accordance with the Group's depreciation policy totaling to ₱416.5 million in 2016 and ₱6.5 million in 2015; (c) write-off of certain container and reefer vans amounting to ₱5.4 million in 2016.

c. The Group adjusted its consolidated revenue by the amounts that did not meet the revenue recognition criteria amounting to ₱222.0 million in 2016 and ₱34.7 million in 2015.

d. The Group impaired the goodwill on SOI amounting to ₱250.5 million in 2015 (see Note 13).

e. The Group reclassified its vessel from property and equipment to assets held for sale in the December 31, 2015 statement of financial position. Impairment recognized in 2015 amounted to ₱260.4 million (see Note 10).

f. Other restatements to the consolidated financial statements and prior period adjustments include adjustments on additional provision for inventory obsolescence, recognition of provision for contingency, reconciliation of related party transactions and balances, and recognition of certain costs and expenses in proper period.

g. The Group assessed the impact of the above adjustments on the current and deferred income tax expense. Accordingly, the Group reduced its provision for the income tax by ₱210.4 million in 2016 and increased its provision for the income tax by ₱47.7 million in 2015, with corresponding adjustments to creditable withholding taxes, deferred income tax assets and income tax payable.

h. The Group also reduced its retained earnings as of January 1, 2015 by ₱432.4 million due to prior period adjustments in 2014 arising mainly from additional provision for doubtful accounts, recognition of repairs and maintenance expense, reversal of recognized revenue, and derecognition of deferred income tax assets.

i. As discussed in Note 17, the Group breached its financial ratios required under its long-term agreements. Accordingly, the noncurrent portion of Group's long-term debt amounting to ₱2,702.1 million were reclassified to current liabilities in the consolidated statement of financial position as of December 31, 2016.

34. Events after Reporting Period

On February 23, 2018, the BOD approved the internal restructuring of the Group via merger of 2GO with its parent company, NN, with 2GO as the surviving entity. This will simplify the Group's corporate structure and is in line with the Group's efforts to streamline operations, reduce costs and increase shareholder value.

SCHEDULE A

2GO GROUP, INC. AND SUBSIDIARIES
Schedule A - Financial Assets (Noncurrent Marketable Securities, Other Long-term Investments in Stock and Other Investments)
DECEMBER 31, 2017

Name of Issuing Entity and Description of Investment	BEGINNING BALANCE Amount in Pesos	ADDITIONS Equity in Earnings (Losses) of Investees for the Year	DEDUCTIONS Distribution of Earnings by Investees	Others	ENDING BALANCE Number Shares of Principal Amount of Bonds and Notes	Amount in Pesos	Dividends received from investments not accounted for by the equity method
At Cost:							
Harbor Center	₱ 3,800	₱ -	₱ -	₱ (1,200)	-	₱ 2,600	₱ -
Others	641			104		745	
At Equity:							
HMPPI	19,624	(17,359)	-	-	-	2,265	-
MCCP	203,029	(3,530)	-	-	-	199,499	-
At FMV:							
PLDT	66	-	-			66	-
ATI	-	-	-	-		-	-
	₱ 227,160	₱ (20,889)	₱ -	₱ (1,096)	₱ -	₱ 205,175	₱ -

(i) Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.
(ii) State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.
(iii) This column may be omitted if all amounts that would be shown are the same as those in the immediately preceding column.

SCHEDULE B

2GO GROUP, INC. AND SUBSIDIARIES
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
DECEMBER 31, 2017

Name and Designation of Debtor	(in thousands) Balance at Beginning of Year	(in thousands) Additions	Deductions (in thousands) Amounts Collected	Deductions (in thousands) Amounts Written-Off	(in thousands) Current	(in thousands) Noncurrent	(in thousands) Balance at End of Year
Advances to officers and employees	₱ 58,068	₱ 109,495	₱ (117,937)	₱ -	₱ 49,626	₱ -	₱ 49,626
Due from related parties	142,163	1,717,640	(1,642,622)	-	217,180	-	217,180
	₱ 200,230	₱ 1,827,135	₱ (1,760,560)	₱ -	₱ 266,806	₱ -	₱ 266,806

SCHEDULE C

2GO GROUP, INC. AND SUBSIDIARIES
Schedule C - Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
DECEMBER 31, 2017

Name and Designation of Debtor	Balance at Beginning of Year (in thousands)	Additions (in thousands)	Deductions		Current (in thousands)	Noncurrent (in thousands)	Balance at End of Year (in thousands)
			Amounts Collected (in thousands)	Amounts Written-Off (in thousands)			
2GO Group Inc.	₱ 96,500	₱ 178,108	₱ (85,740)	₱	₱ 188,869	₱	₱ 188,869
2GO Express Inc.	388,973	75,474	(235,989)		228,459		228,459
2GO Logistics, Inc.	427,450	471,525	(34,617)		864,357		864,357
Astir Engineering Works, Inc.	19,132	57,858	(49,349)		27,641		27,641
Supersail Services, Inc.	39,829	85,164	(55,340)		69,653		69,653
Super Terminal, Inc.	14	-	-		14		14
Sungold Forwarding Corporation	24	128	(2)		150		150
The Supercat Fast Ferry Corporation	375,996	217,423	(160,910)		432,510		432,510
Red.Dot Corporation	10,942	146,808	(54,858)		102,891		102,891
J&A Services Corporation	6,629	1,446	(716)		7,359		7,359
North Harbor Tugs Corporation	1,681	1,241	(2,853)		70		70
Special Container and Value Added Services, Inc.	96,581	199,437	(104,903)		191,114		191,114
Scanasia Overseas, Inc.	1,104,935	219,638	(10,899)		1,313,673		1,313,673
NN-ATS Logistics Management and Holdings Co., Inc.	173,180	41,652	(19,267)		195,565		195,565
Kerry Logistics Philippines, Inc.	99,381	2,847	(1,749)		100,479		100,479
Hapag-Lloyd Phils., Inc.	22,904	1,953	(3,988)		20,870		20,870
Hansa Meyer Projects (Phils.), Inc.	5,718	13,115	(3,564)		15,269		15,269
United South Dockhandlers, Inc.	14,493	3,821	(2,294)		16,020		16,020
	₱ 2,884,362	₱ 1,717,640	₱ (827,039)	₱ -	₱ 3,774,963	₱ -	₱ 3,774,963

- -

SCHEDULE D

2GO GROUP, INC. AND SUBSIDIARIES
Schedule D - Other Noncurrent Assets
DECEMBER 31, 2017

Description	Beginning Balance (in thousands)	Additions At Cost (in thousands)	Deductions: Charged to Costs and Expenses (in thousands)	Deductions: Charged to Other Accounts (in thousands)	Other Changes- Additions (Deductions) (in thousands)	Ending Balance (in thousands)
A. Software - net	₱ 52,809	₱ 7,612	₱ (15,287)	₱ -	₱ -	₱ 45,134
B. Deferred input VAT	186,828	56,481.39				243,309
C. Refundable deposits	99,303	7,732.98				107,036
D. Others	20,552	12,389.28				32,942
	₱ 359,492	₱ 84,216	₱ (15,287)	₱ -	₱ -	₱ 428,421

SCHEDULE E

2GO GROUP, INC. AND SUBSIDIARIES
Schedule E - Long-term debt
DECEMBER 31, 2017

Title of Issue and Type of Obligation	Amount Authorized by Indenture		Amount Shown Under Caption "Current portion of long-term debt" in Related Balance Sheet (in thousands)		Amount Shown Under Caption "Long-term Debt" in Related Balance Sheet (in thousands)	
Bank loans (Various banks)	₱	3,122,796	₱	3,121,315	₱	1,480
Obligation under capital lease		315,740		97,311		218,430
	₱	3,438,536	P	3,218,626	P	219,910

SCHEDULE F

2GO GROUP, INC. AND SUBSIDIARIES
Schedule F - Indebtedness to Related Parties
DECEMBER 31, 2017

Name of Affiliate		Beginning Balance (in thousands)		Ending Balance (in thousands)
Kerry Logistics Philippines, Inc.	₱	7,505	₱	9,444
Hansa Meyer Projects (Phils.), Inc.		0		0
Negros Navigation Co.		612,913		916,648
2GO Group Inc.		152,845		125,397
2GO Express Inc.		219,104		91,862
2GO Logistics, Inc.		340,986		279,269
Supersail Services, Inc.		88,848		98,370
Super Terminal, Inc.		129		181
Sungold Forwarding Corporation		3,533		473
The Supercat Fast Ferry Corporation		597		1,838
Astir Engineering Works, Inc.		37,466		18,126
Red.Dot Corporation		34,301		51,136
J&A Services Corporation		10,860		14,319
North Harbor Tugs Corporation		1,565		4,287
Special Container and Value Added Services, Inc.		309,411		129,735
Scanasia Overseas, Inc.		21,783		63,850
NN-ATS Logistics Management and Holdings Co., Inc.		114,976		228,943
United South Dockhandlers, Inc.		54,700		26,431
Brisk Nautilus Dock Integrated Services, Inc.		51,526		54,811
Negrense Marine Integrated Services, Inc.		176,454		136,169
Sea Merchants Inc.		7,947		6,952
	₱	2,247,449	₱	2,258,243

Schedule G. Guarantees of Securities of Other Issuers. - This schedule shall be filed with respect to any guarantees of securities of other issuing entities by the issuer for which the statement is filed.

Schedule G. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement is filed	Nature of guarantee (ii)

- not applicable

SCHEDULE H

2GO GROUP, INC. AND SUBSIDIARIES
Schedule H - Capital Stock
DECEMBER 31, 2017

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common	4,070,343,670	2,446,136,400	-	2,160,141,995	14,000	285,980,405
			-	-	-	

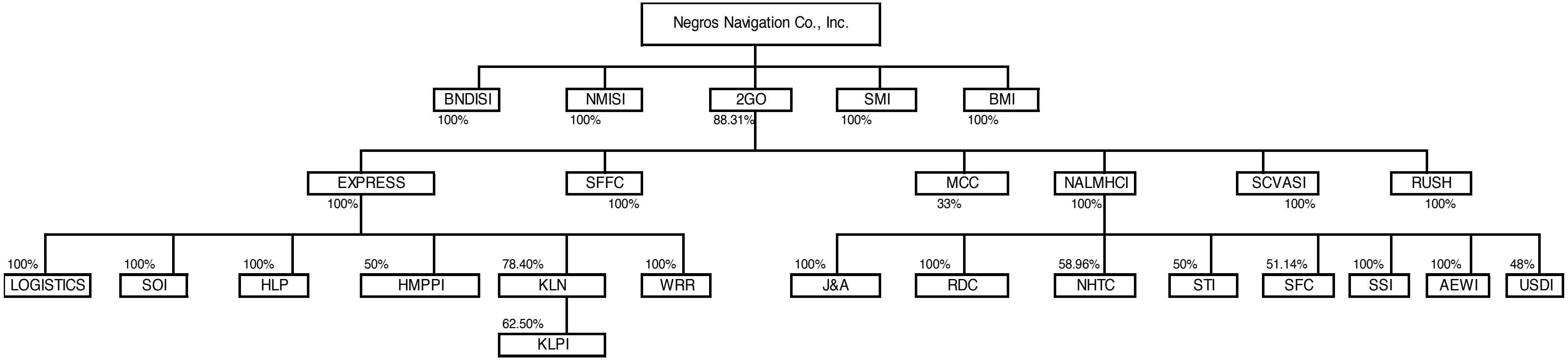
2GO GROUP, INC.
15/F Times Plaza Bldg., cor. Taft, U.N. Ave., Ermita Manila
SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As of December 31, 2017

Unappropriated Retained Earnings, *as adjusted to available for dividend distribution,* beginning		**₱1,405,906**
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings	₱637,538	
Less: Non-actual/ unrealized income, net of tax:		
Adjustment due to deviation from PFRS/ GAAP – gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-	
Sub-total	637,538	
Add: Non-actual losses, net of tax:		
Adjustment due to deviation from PFRS/ GAAP – loss	-	
Net income actually earned during the period	637,538	**2,043,444**
Add (Less):		
Dividend declarations during the period	-	
Distributions paid	-	
Appropriations of retained earnings during the year	-	
Reversal of appropriations	-	
Treasury shares	(58,715)	
	(58,715)	**(58,715)**
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		**₱1,984,729**

2GO GROUP, INC.
15/F Times Plaza Bldg., cor. Taft, U.N. Ave., Ermita Manila
KEY PERFORMANCE INDICATORS
AS OF DECEMBER 31, 2017, AND 2016
(Amounts in Thousands)

	December 31, 2017	December 31, 2016
Total Liabilities	**₱12,873,723**	₱11,744,637
Total Stockholders' Equity	**3,633,386**	3,929,512
Debt-to-Equity	**₱3.54**	₱2.98
Total Current Assets	**₱8,610,285**	₱7,601,971
Total Current Liabilities	**12,387,615**	11,237,432
Current Ratio	**₱0.69**	₱0.67
Total Quick Assets	**₱6,524,126**	₱5,652,740
Total Current Liabilities	**12,387,615**	11,237,432
Quick Ratio	**₱0.52**	₱0.50
Total Assets	**₱16,507,109**	₱15,674,149
Total Liabilities	**12,873,723**	11,744,637
Solvency Ratio	**₱1.28**	₱1.33
Total Liabilities	**₱12,873,723**	₱11,744,637
Total Assets	**16,507,109**	15,674,149
Debt-to-Asset Ratio	**₱0.77**	₱0.74
Total Assets	**₱16,507,109**	₱15,674,149
Total Stockholders' Equity	**3,633,386**	3,929,512
Equity-to-Asset Ratio	**₱4.54**	₱3.98
Net Income (Loss)	**(₱309,574)**	₱344,035
Average Total Assets	**16,090,629**	14,973,799
Return On Assets	**(₱0.02)**	₱0.02
Net Income (Loss)	**(₱309,574)**	₱344,035
Average Total Stockholders' Equity	**3,781,449**	3,735,962
Return on Equity	**(₱0.08)**	₱0.09

	December 31, 2017	December 31, 2016
Sales	**₱21,551,499**	₱19,053,875
Cost of Services and Goods Sold	**19,015,540**	15,627,734
Gross Profit	**2,535,959**	3,426,141
Gross Profit Margin	**₱0.12**	₱0.18
Net Income (Loss)	**(₱309,574)**	₱344,035
Sales	**21,551,499**	19,053,875
Net Profit Margin	**(₱0.01)**	₱0.01
Price Per Share	**₱18.48**	₱7.64
Earnings per Common Share	**(0.13)**	0.14
Price per Earnings Ratio	**(₱142.15)**	₱54.57
EBIT	**₱328,580**	₱1,138,041
Interest Expense	**390,070**	389,527
Interest Coverage Ratio	**₱0.84**	₱2.92



Legend:

BNDISI	*Brisk Nautilus Dock Integrated Services, Inc.*	**MCC**	*MCCP Transport Philippines, Inc.*	**J&A**	*J&A Services Corporation*
NMISI	*Negrense Marine Integrated Services, Inc.*	**NALMHCI**	*NN-ATS Logistics Management & Holdings Co., Inc.*	**RDC**	*Red.Dot Corporation*
2GO	*2GO Group, Inc.*	**SCVASI**	*Special Container and Value Added Services, Inc.*	**NHTC**	*North Harbor Tugs Corporation*
SMI	*Sea Merchants, Inc.*	**LOGISTICS**	*2GO Logistics, Inc.*	**STI**	*Super Terminals, Inc.*
BMI	*Bluemarine (BMI) Inc.*	**SOI**	*Scanasia Overseas, Inc.*	**SFC**	*Sun-Gold Forwarding Corporation*
EXPRESS	*2GO Express, Inc.*	**HLP**	*Hapag Lloyd Philippines, Inc.*	**SSI**	*Supersail Services Inc.*
SFFC	*Supercat Fast Ferry Corporation*	**HMPPI**	*Hansa Meyer Projects Philippines, Inc.*	**AEWI**	*Astir Engineering Works, Inc.*
		KLN	*KLN Logistics Holdings Philippines, Inc.*	**USDI**	*United South Dockhandlers, Inc.*
		WRR	*WRR Trucking Corporation*	**RUSH**	*2GO Rush Delivery Inc.*
		KALI	*Kerry Logistics Philippines, Inc.*		

2GO Group, Inc.

Parent Company Financial Statements
As of and for the Year Ended
December 31, 2017
(With comparative figures as of
December 31, 2016 and January 1, 2016
and Year Ended December 31, 2016)

and

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
2GO Group, Inc.

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of 2GO Group, Inc. (the Company), which comprise the parent company statement of financial position as at December 31, 2017, and the parent company statement of profit or loss, parent company statement of comprehensive income, parent company statement of changes in equity and parent company statement of cash flows for the year then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Other Matter

The parent company financial statements of the Company as at December 31, 2016 and for the year then ended, were audited by another auditor who expressed an unqualified opinion on those statements on April 12, 2017. As part of our audit of the parent company financial statements as of and for the year ended December 31, 2017, we also audited the adjustments described in Note 31 to the parent company financial statements that were applied to the 2016 annual parent company financial statements to come up with the parent company statement of financial position as at January 1, 2016 presented as corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied in accordance with PFRSs. We were not engaged to audit, review, or apply any procedures to the 2016 annual parent company financial statements of the Company other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2016 annual parent company financial statements taken as a whole.

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

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

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

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

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 33 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of 2GO Group, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-4 (Group A),
June 9, 2016, valid until June 9, 2019
Tax Identification No. 102-086-208
BIR Accreditation No. 08-001998-18-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 6621259, January 9, 2018, Makati City

February 23, 2018

2GO GROUP, INC.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017
(With Comparative Figures as of December 31, 2016 and 2015)
(Amounts in Thousands)

	Note	**December 31, 2017**	December 31, 2016 (As restated, Note 31)	January 1, 2016* (As restated, Note 31)
ASSETS				
Current Assets				
Cash	*6*	**₱717,260**	₱269,651	₱456,384
Trade and other receivables - net	*7, 19*	**4,342,427**	4,886,972	3,949,547
Inventories	*8*	**104,690**	119,890	93,062
Other current assets	*9*	**919,272**	722,825	774,106
		6,083,649	5,999,338	5,273,099
Asset held for sale	*10*	**–**	–	158,239
Total Current Assets		**6,083,649**	5,999,338	5,431,338
Noncurrent Assets				
Property and equipment - net	*11*	**5,502,096**	5,879,682	5,061,044
Investments in subsidiaries and an associate - at cost	*12*	**588,128**	438,128	425,628
Deferred tax assets - net	*26*	**38,164**	42,244	51,962
Other noncurrent assets	*13*	**262,596**	368,065	365,470
Total Noncurrent Assets		**6,390,984**	6,728,119	5,904,104
TOTAL ASSETS		**₱12,474,633**	₱12,727,457	₱11,335,442
LIABILITIES AND EQUITY				
Current Liabilities				
Short-term notes payable	*14*	**₱1,414,699**	₱1,770,450	₱1,600,396
Trade and other payables	*15, 19*	**3,793,272**	3,753,871	2,867,545
Current portion of:				
Long-term debt	*16*	**2,736,421**	3,257,253	347,351
Obligations under finance lease	*17*	**32,777**	39,268	28,669
Total Current Liabilities		**7,977,169**	8,820,842	4,843,961
Noncurrent Liabilities				
Long -term debt - net of current portion	*16*	**–**	–	3,172,923
Obligations under finance lease - net of current portion	*17*	**66,160**	98,726	72,695
Accrued retirement benefits	*25*	**105,926**	132,062	151,761
Total Noncurrent Liabilities		**172,086**	230,788	3,397,379
Total Liabilities		**8,149,255**	9,051,630	8,241,340

**The opening balances as of January 1, 2016 are the same as the balances as of December 31, 2015.*

(Forward)

	Note	December 31, 2017	December 31, 2016 (As restated, Note 31)	January 1, 2016*
Equity	*20*			
Share capital		**₱2,484,653**	₱2,484,653	₱2,484,653
Additional paid-in capital		**910,901**	910,901	910,901
Excess of net asset over cost of an investment		**(11,700)**	(11,700)	(11,700)
Remeasurement losses on accrued retirement benefits - net		**(37,673)**	(49,685)	(61,878)
Retained earnings		**1,037,912**	400,373	(169,159)
Treasury shares		**(58,715)**	(58,715)	(58,715)
Total Equity		**4,325,378**	3,675,827	3,094,102
TOTAL LIABILITIES AND EQUITY		**₱12,474,633**	₱12,727,457	₱11,335,442

** The opening balances as of January 1, 2016 are the same as the balances as of December 31, 2015.*
See accompanying Notes to Parent Company Financial Statements.

2GO GROUP, INC.

PARENT COMPANY STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED DECEMBER 31, 2017

(With Comparative Figures for the Year Ended December 31, 2016)

(Amounts in Thousands)

		Years Ended December 31	
	Note	**2017**	2016 (As Restated, Note 31)
REVENUES			
Freight	*19*	**₱5,760,281**	₱6,178,827
Passage		**3,604,962**	3,334,383
Other services	*19*	**452,202**	310,241
		9,817,445	9,823,451
COST OF SERVICES	*21*	**(7,901,922)**	(7,525,923)
GROSS PROFIT		**1,915,523**	2,297,528
GENERAL AND ADMINISTRATIVE EXPENSES	*22*	**(1,387,897)**	(1,250,239)
OPERATING INCOME		**527,626**	1,047,289
OTHER INCOME (CHARGES)			
Financing charges	*23*	**(332,518)**	(346,979)
Dividend income	*19*	**515,000**	–
Others - net	*23*	**(1,774)**	63,309
		180,708	(283,670)
INCOME BEFORE INCOME TAX		**708,334**	763,619
PROVISION FOR INCOME TAX	*26*		
Current		**71,863**	189,595
Deferred		**(1,068)**	4,492
		(70,795)	(194,087)
NET INCOME		**₱637,539**	₱569,532

See accompanying Notes to Parent Company Financial Statements.

2GO GROUP, INC.

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

(With Comparative Figures for the Year Ended December 31, 2016)

(Amounts in Thousands)

		Years Ended December 31	
	Note	**2017**	2016 (As Restated, Note 31)
NET INCOME		**₱637,539**	₱569,532
OTHER COMPREHENSIVE INCOME - Net of tax			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement gain on accrued retirement benefits	*25*	**17,160**	17,419
Income tax effect	*26*	**(5,148)**	(5,226)
		12,012	12,193
TOTAL COMPREHENSIVE INCOME		**₱649,551**	₱581,725

See accompanying Notes to Parent Company Financial Statements.

2GO GROUP, INC.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017

(With Comparative Figures for the Year Ended December 31, 2016)

(Amounts in Thousands)

	Note	Share Capital (Note 20)	Additional Paid-in Capital	Excess of Net Asset Over Cost of an Investment (Note 20)	Remeasurement Losses on Accrued Retirement Benefits - Net of Tax (Note 25)	Retained Earnings (Deficit)	Treasury Shares	Total Equity
BALANCE AT JANUARY 1, 2016, AS PREVIOUSLY REPORTED		₱2,484,653	₱910,901	(₱11,700)	(₱61,877)	₱614,998	(₱58,715)	₱3,878,260
Effect of prior period adjustments	*31*	–	–	–	(1)	(784,157)	–	(784,158)
BALANCE AT DECEMBER 31, 2015, AS RESTATED		2,484,653	910,901	(11,700)	(61,878)	(169,159)	(58,715)	3,094,102
Net income for the year, as previously reported		–	–	–	–	908,338	–	908,338
Effect of prior period adjustments	*31*	–	–	–	–	(338,806)	–	(338,806)
Net income for the year, as restated		–	–	–	–	569,532	–	569,532
Other comprehensive income		–	–	–	12,193	–	–	12,193
Total comprehensive income, as restated		–	–	–	12,193	569,532	–	581,725
BALANCE AT DECEMBER 31, 2016, AS RESTATED		₱2,484,653	₱910,901	(₱11,700)	(₱49,685)	₱400,373	(₱58,715)	₱3,675,827
BALANCE AT DECEMBER 31, 2016, AS PREVIOUSLY REPORTED		₱2,484,653	₱910,901	(₱11,700)	(₱49,684)	₱1,523,336	(₱58,715)	₱4,798,791
Effect of prior period adjustments	*31*	–	–	–	(1)	(1,122,963)	–	(1,122,964)
BALANCE AT DECEMBER 31, 2016, AS RESTATED		2,484,653	910,901	(11,700)	(49,685)	400,373	(58,715)	3,675,827
Net income		–	–	–	–	637,539	–	637,539
Other comprehensive income		–	–	–	12,012	–	–	12,012
Total comprehensive income for the year		–	–	–	12,012	637,539	–	649,551
BALANCE AT DECEMBER 31, 2017		**₱2,484,653**	**₱910,901**	**(₱11,700)**	**(₱37,673)**	**₱1,037,912**	**(₱58,715)**	**₱4,325,378**

See accompanying Notes to Parent Company Financial Statements.

2GO GROUP, INC.

PARENT COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Figures for the Year Ended December 31, 2016)
(Amounts in Thousands)

		Years Ended December 31	
	Note	**2017**	2016 (As Restated, Note 31)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱708,339**	₱763,619
Adjustments for:			
Depreciation and amortization of property and equipment and software cost	*21, 22*	**1,565,611**	1,186,907
Financing charges	*23*	**332,518**	352,966
Losses (gains) on disposal of property and equipment and available for sale (AFS) financial assets	*11, 23*	**(33)**	3,967
Unrealized foreign exchange losses (gains)	*23*	**4,630**	(2,502)
Interest income	*23*	**(16,691)**	(41,021)
Dividend income	*19*	**(515,000)**	–
Retirement benefit cost	*25*	**30,882**	25,283
Operating cash flows before working capital changes		**2,110,251**	2,289,219
Decrease (increase) in:			
Trade and other receivables		**382,894**	(942,753)
Inventories		**15,200**	(26,828)
Prepaid expenses and other current assets		**(148,891)**	51,281
Increase in trade and other payables		**43,623**	908,989
Cash generated from operations		**2,403,078**	2,279,908
Interest received		**21,800**	43,677
Contribution to retirement fund	*25*	**(39,858)**	(27,563)
Income taxes paid, including creditable withholding taxes		**(119,419)**	(189,595)
Net cash provided by operating activities		**2,265,602**	2,106,427
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment	*11*	**(1,184,168)**	(1,915,180)
Software costs	*13*	**(475)**	(6,628)
Investment in a subsidiary	*12*	**–**	(12,500)
Dividends received	*19*	**515,000**	–
Proceeds from sale of:			
Assets held for sale	*10*	**–**	57,412
Property and equipment	*11*	**5,249**	4,671
AFS investments		**–**	7,443
Redemption of AFS financial asset		**–**	1,200
Receipts of (payment for) various deposits		**96,872**	(561)
Net cash used in investing activities		**(567,523)**	(1,864,143)

(Forward)

	Note	2017	2016 (As Restated, Note 31)
		Years Ended December 31	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availments of:			
Short-term notes payable	*14*	**₱1,414,700**	₱1,770,450
Long-term debt	*16*	**500,000**	–
Payments of:			
Short-term notes payable	*14*	**(1,770,450)**	(1,558,739)
Long-term debt	*16*	**(1,032,195)**	(269,008)
Obligations under finance lease	*17*	**(36,962)**	(31,507)
Interest and financing charges	*23*	**(327,473)**	(345,389)
Net cash used in financing activities		**(1,252,380)**	(434,193)
NET INCREASE (DECREASE) IN CASH		**445,699**	(191,908)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH		**1,910**	5,175
CASH AT BEGINNING OF YEAR		**269,651**	456,384
CASH AT END OF YEAR	*6*	**₱717,260**	₱269,651

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information and Approval of the Financial Statements

Corporate Information
2GO Group, Inc., "2GO" or the "Company" was incorporated in the Philippines on May 26, 1949. Its corporate life was renewed on May 12, 1995 and will expire on May 25, 2049. The Company's shares of stocks are listed in the Philippine Stock Exchange (PSE). It is primarily engaged in the business of operating vessels, motorboats and other kinds of watercrafts for purposes of the transportation of cargoes and passengers by sea within the waters and territorial jurisdiction of the Philippines. On August 24, 2011, the Philippine Securities and Exchange Commission (SEC) also approved the amendment to the Company's secondary purpose to include rendering technical services requirements to customers for refrigerated marine container vans related equipment or accessories.

The Company's registered office address business is located at 15th Floor, Times Plaza Building, United Nations Avenue corner Taft Avenue, Ermita, Manila, while its principal place of business is Pier 2 and Pier 4, North Harbor, Tondo, Manila. On January 18, 2018, the Board of Directors (BOD) approved the change in its principal office address to 8th Floor Tower 1, Double Dragon Plaza, DD Meridian Park corner Macapagal Avenue and EDSA Extension, Bay Area, Pasay City, Metro Manila. The change in principal office address and the corresponding amendment to the Company's Articles of Incorporation will be submitted to the Company's shareholders for approval during the Annual Shareholders' Meeting to be held on April 5, 2018.

As at December 31, 2017, 2016 and 2015, the Company is 88.3%-owned subsidiary of Negros Navigation Co., Inc. ("NN" or the "Parent Company"). Its ultimate parent is Chelsea Logistics Holdings Corp. (CLHC). NN and CLHC are both incorporated and domiciled in the Philippines.

Approval of the Parent Company Financial Statements
The accompanying parent company financial statements as at and for the year ended December 31, 2017, with comparative figures as at December 31, 2016 and January 1, 2016 and for the year ended December 31, 2016, were approved and authorized for issue by the BOD on February 23, 2018.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The parent company financial statements have been prepared on the historical cost basis of accounting, except for quoted available-for-sale (AFS) investments which are measured at fair value.

The Company also prepared and issued consolidated financial statements for the same period in which it consolidates all its investments in subsidiaries and associates and interests in joint ventures. Such consolidated financial statements provide information about the economic activities.

The parent company financial statements provide comparative information in respect of the previous periods. In addition, the Company presents an additional parent company statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the separate financial statements. An additional separate statement of financial position as at January 1, 2016 is presented in the parent company financial statements due to prior period adjustments discussed in Note 31. The opening balances as of January 1, 2016 are presented as December 31, 2015 balances in the notes to the parent company financial statements.
The parent company financial statements are presented in Philippine peso, which is the Company's functional currency and presentation currency. All amounts are presented in the nearest peso, except when otherwise indicated.

Statement of Compliance
The parent company financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these parent company financial statements, except for changes in accounting policies as explained below.

Investments in Subsidiaries
Investment is subsidiaries are carried at cost less any accumulated impairment in value. Subsidiaries are all entities over which the Company has control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee, and;
- the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other holders of the investee;
- rights arising from other contractual arrangements; and
- the Company's voting rights and potential voting rights.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Investments in Associate
Investments in associate are accounted for under the cost method less any impairment in value. An associate is an entity in which the Company has significant influence but not control, and which is neither a subsidiary nor a joint venture. This is generally accompanied by a shareholding between 20% to 50% of the voting rights of the investment. Under the cost method, the investment is recognized at cost and rights for dividend payments from the investment are recognized as "Dividend income" in the parent company statement of profit or loss.

The Company determines at the end of each reporting period whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the difference in the parent company statement of profit or loss.

Cash
Cash includes cash on hand and in banks.

Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

Assets and liabilities for which fair value is measured or disclosed in the parent company financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Financial Instruments

Date of Recognition

The Company recognizes a financial asset or a financial liability in the parent company statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets, recognition and de-recognition, as applicable, that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those classified as fair value through profit or loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Company classifies its financial instruments in the following categories:
- Loans and receivables
- AFS investments
- Other financial liabilities

The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the parent company statement of profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data that is not observable, the difference between the transaction price and model value is only recognized in the parent company statement of profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

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 are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the parent company statement of profit or loss when the loans and receivables are derecognized and impaired, as well as through the amortization process. Loans and receivables are included under current assets if realizability or collectibility is within twelve months after the reporting period. Otherwise, these are classified as noncurrent assets.

The Company's cash and cash equivalents, trade and other receivables and refundable deposits (presented as part of "Other current assets" account and "Other noncurrent assets" account in the parent company statement of financial position) are classified under this category.

AFS Investments
AFS investments are non-derivative financial assets that are designated under this category or are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the parent company statement of financial position. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the parent company statement of comprehensive income under "Unrealized gain or loss on AFS financial assets" account until the investment is derecognized or the investment is determined to be impaired. On de-recognition or impairment, the cumulative gain or loss previously reported in parent company statement of comprehensive income is transferred to the parent company statement of profit or loss. Interest earned on holding AFS investments is recognized in the parent company statement of profit or loss using the effective interest method. Assets under this category are classified as current if expected to be disposed of within 12 months after the reporting period. Otherwise, they are classified as noncurrent.

The Company's investments in quoted and unquoted shares of stocks are classified under this category.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon inception of the liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the parent company statement of profit or loss when the liabilities are derecognized, as well as through the amortization process.

The Company's other financial liabilities include short-term notes payable, trade and other payables excluding provision for cargo losses and damages and unearned revenue, long-term debt, obligations under finance lease and other noncurrent liabilities.

De-recognition of Financial Assets and Liabilities

Financial Assets. A financial asset is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or,
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Company assesses at each reporting period whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivable. The Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective impairment assessment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the impaired asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the parent company statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. If a future write off is later recovered, the recovery is recognized in the parent company statement of profit or loss to the extent of the carrying amount that would have been determined had no impairment loss been recognized.

Financial Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments. The Company assesses at each reporting period whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS investments, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Significant decline in fair value is evaluated against the original cost of the investment, while prolonged decline is assessed against the periods in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the parent company statement of profit or loss, is removed from the parent company statement of comprehensive income and recognized in the parent company statement of profit or loss. Impairment losses on equity investments are not reversed through the parent company statement of profit or loss; increases in fair value after impairment are recognized directly in the parent company statement of comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount of the asset and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" account in the parent company statement of profit or loss. If in subsequent years, the fair value of a debt instrument should increase and the increase can be objectively related to an event occurring after the impairment loss was recognized in the parent company statement of profit or loss, the impairment loss is reversed through the parent company statement of profit or loss.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the parent company statement of financial position if, and only if, there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

<u>Inventories</u>
Inventories are valued at the lower of cost and net realizable value. Cost, which includes all costs directly attributable to acquisition, such as purchase price and transport costs, is primarily determined

using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Assets Held for Sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale must be highly probable. For the sale to be highly probable, (a) an appropriate level of management must be committed to a plan to sell the asset, (b) an active program must have been initiated, (c) the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, (d) the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and (e) actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and its depreciation or amortization ceases.

The Company presents assets classified as held for sale and liabilities related to assets held for sale separately from other assets and other liabilities, respectively, in the parent company statement of financial position. These assets and liabilities shall not be offset and presented as a single amount and the major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the parent company statement of financial position or in the notes.

Impairment loss is recognized for any subsequent write-down of the asset to fair value less costs to sell. Gain for any subsequent increase in fair value less costs to sell of an asset is also recognized but not in excess of the cumulative impairment loss that has been previously recognized.

If the Company has classified an asset as held for sale but the criteria as set out above are no longer met, the Company ceases to classify the asset as held for sale, the Company measures a noncurrent asset that ceases to be classified as held for sale at the lower of (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale, and (b) its recoverable amount at the date of the subsequent decision not to sell.

Property and Equipment

Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and related interest incurred during the construction.

When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Drydocking costs, consisting mainly of main engine overhaul, replacement of steel plate of the vessels' hull and related expenditures, are capitalized as a separate component of "Vessels in operations". When significant drydocking costs are incurred prior to the end of the amortization period, the remaining unamortized balance of the previous drydocking cost is derecognized in profit or loss.

Vessels under refurbishment, if any, include the acquisition cost of the vessels, the cost of ongoing refurbishments and other direct costs. Construction-in-progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the refurbishment of vessels and construction of property and equipment are capitalized during the refurbishment and construction period. Vessels under refurbishment and construction in progress are not depreciated until such time the relevant assets are complete and available for use but tested for impairment losses. Refurbishment of existing vessels is capitalized as part of vessel improvements and depreciated at the time the vessels are put back into operation.

Vessel on lay-over, if any, represents vessel for which drydocking has not been done pending availability of the necessary spare parts. Such vessels, included under the "Property and equipment" account in the parent company statement of financial position are stated at cost, less accumulated depreciation and any impairment in value.

Minor spare parts and service equipment are typically carried as inventory and recognized in profit or loss as consumed. Major spare parts and stand-by equipment are carried as property and equipment when an entity expects to use them during more than one period or when they can be used only in connection with an item of property and equipment.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, namely:

	Note	In Years
Vessels in operations, excluding drydocking costs and vessel equipment and improvements	*4*	30 - 35*
Drydocking costs		2 - 2.5
Vessel equipment and improvements		3 - 5
Containers and reefer vans		5 - 10
Terminal and handling equipment		5 - 10
Furniture and other equipment		3 - 5
Land improvements		5 - 10
Buildings and warehouses		5 - 20
Transportation equipment		5 - 10
Spare parts and service equipment		3 - 5
Leasehold improvements		Shorter of 5 - 20 or lease term

**From the time the vessel was built*

Depreciation or amortization commences when an asset is in its location or condition capable of being operated in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held-for-sale in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period. The carrying values of the assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and accumulated provision for impairment losses are removed from the accounts and any resulting gain or loss is charged to profit or loss.

Software
Software is initially recognized at cost. Following initial recognition, software is carried at cost, less accumulated amortization and any accumulated impairment losses.

The software is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the software is available for use. The amortization period and the amortization method for the software are reviewed at each financial year end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the software.

Impairment of Nonfinancial Assets
The carrying values of the Company's nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGUs are written-down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the parent company statement of profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. In such a case, the recoverable amount is estimated. Any previously recognized impairment loss is reversed only when there is a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Accordingly, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized in prior years. Such reversal is recognized in the parent company statement of profit or loss. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity
Share capital is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Additional Paid-in Capital (APIC) is the difference between the proceeds and the par value when the shares are sold at a premium. Contributions received from shareholders are recorded at the fair value of the items received with the credit going to share capital and any excess to APIC.

Treasury Shares are the Company's own equity instruments that are reacquired. Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized as APIC. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them.

Other Comprehensive Income (OCI) comprises items of income and expenses that are not recognized in profit or loss for the year. OCI of the Company includes net changes in fair value of AFS financial assets, share in OCI of associates and remeasurement gains or losses on accrued retirement benefits.

Retained Earnings represents the cumulative balance of net income, net of any dividend declaration and other capital adjustments.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, VAT or duties, if any. The Company assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria for each type of revenue are as follows:

Shipping Revenues are recognized when the related services are rendered. Customer payments for services which have not yet been rendered are classified as unearned revenue under "Trade and other payables" account in the parent company statement of financial position.

Interest Income is recorded using the Effective Interest Rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Rental Income arising from operating leases is recognized on a straight-line basis over the lease term.

Management Fee is recognized when the related services are rendered.

Dividend income is recognized when the shareholders' right to receive the payment is established.

Costs and Expenses

Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits

The Company has funded, noncontributory retirement plan, administered by trustees, covering permanent employees.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting the net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and,
- Re-measurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized on the earlier of the date of the plan amendment or curtailment, and the date the Company recognizes restructuring related costs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Foreign Currency-denominated Transactions and Translations

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. All differences are taken to the parent company statements of profit or loss.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not retranslated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires 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.

The Company as a Lessee. Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the parent company statement of profit or loss.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the parent company statement of profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Company as a Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Borrowing Cost
Borrowing cost is capitalized as part of the cost of the asset if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing cost commences when the activities to prepare the asset are in progress and expenditures and borrowing cost are incurred. Borrowing cost is capitalized until the assets are substantially ready for their intended use. Borrowing cost is capitalized when it is probable that they will result in future economic benefits to the Company. All other borrowing costs are expensed as incurred. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

Taxes
Current Tax. Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the end of each reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to 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 allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at reporting date.

Income tax relating to items recognized directly in the separate statement of comprehensive income is recognized in the parent company statement of comprehensive income and not in the parent company statement of profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

VAT. Revenue, expenses, assets and liabilities are recognized, net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- for receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of “Other current assets”, “Other noncurrent assets” or “Trade and other payables” account in the parent company statement of financial position.

CWTs
CWTs, included in "Other current assets" account in the separate statements of financial position, are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rule on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve (12) months are classified as current assets.

Dividends
Dividends on common shares are recognized as a liability and deducted from retained earnings when approved by the respective shareholders of the Company and subsidiaries. Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

Contingencies
Contingent liabilities are not recognized in the parent company financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but are disclosed when an inflow of economic benefits is probable.

Related Parties
A related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel (KMP), directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Events After Reporting Period
Post yearend events that provide additional information about the Company's financial position at the end of the reporting period (adjusting events) are reflected in the separate financial statements. Post yearend events that are not adjusting events are disclosed in the notes to the parent company financial statements when material.

Segment Reporting
The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Company's Chief Decision Maker regularly reviews the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Financial information on business segments is presented in Note 5.

Standards Issued But Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2018. The Company has not applied the following new or amended standards in preparing these parent company financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the parent company financial statements.

The Company will adopt the following new or revised standards, amendments to standards and interpretations on the respective effective dates, as applicable:

Effective January 1, 2018
- PFRS 9, *Financial Instruments (2014).* PFRS 9 (2014) replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously

published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Company is assessing the potential impact on its separate financial statements resulting from the application of PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, Philippine Accounting Standards (PAS) 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another International Financial Reporting Standards (IFRS), then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The Company is assessing the potential impact on its separate financial statements resulting from the application of PFRS 15.

- Philippine Interpretation based on International Financial Reporting Interpretation Committee (IFRIC) 22*, Foreign Currency Transactions and Advance Consideration* clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

  The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- *Transfers of Investment Property (*Amendments to PAS 40*, Investment Property)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

Effective January 1, 2019

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PRFS 16. The Company is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

- Deferral of the local implementation of Amendments to PFRS 10*, Events after the Reporting Period* and PAS 28*, Investment in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,* address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

  The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Originally, the amendments apply prospectively for annual periods beginning on or after
  January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

  Accounting policies have been applied consistently to all years presented in the separate financial statements, except for the changes in accounting policies explained below.

<u>Adoption of New or Revised Standards, Amendments to Standards and Interpretations</u>
The Company has adopted the following amendments to standards starting January 1, 2017. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the parent company financial statements.

- *Disclosure initiative (*Amendments to PAS 7, *Statement of Cash Flows)* addresses financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (*Amendments to PAS 12, *Income Taxes)* clarifies that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

- *Clarification of the scope of the standard (*Amendments to PFRS 12*, Disclosure of Interests in Other Entities)* clarifies that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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4. **Significant Judgments, Accounting Estimates and Assumptions**

The preparation of the parent company financial statements in compliance with PFRSs requires management to make judgments, accounting estimates and assumptions that affect the amounts reported in the parent company financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as at the date of the parent company financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

<u>Judgments</u>
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the parent company financial statements:

Revenue recognition
The Company's comprised mainly of freight and passenger services . The revenue from freight involved significant volume of data being processed. The Company considers these risks over revenue recognition and makes judgment in recognizing and determining appropriate amount of revenue and material revenue-related adjustments in proper period.

Determination whether the Company is acting as principal or agent
The Company assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Company has primary responsibility for providing the services;
- whether the Company has inventory risk;
- whether the Company has discretion in establishing prices; and
- whether the Company bears the credit risk.

If the Company has determined it is acting as a principal, the Company recognizes revenue on a gross basis with the amount remitted to the other party being accounted as part of costs and expenses. If the Company has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Company assessed its revenue arrangements and concluded that it is acting as principal in all arrangements.

Classification of leases - the Company as a lessee
The Company has entered into vessel leasing arrangement with NN and with a third party, commercial property leases with third parties on its ticketing outlets, trucking facilities, container yards and administrative office locations. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Company does not acquire all the significant risks and rewards of ownership of these properties and so accounts for these as operating leases.

The Company has also entered into finance lease agreements covering certain property and equipment. The Company has determined that it bears substantially all the risks and benefits incidental to ownership of said properties based on the terms of the contracts such as existence of bargain purchase option and the present value of minimum lease payments amount to at least substantially all of the fair value of the leased asset. Refer to Note 17.

Classification of leases - the Company as lessor
The Company has entered into short-term leases or chartering arrangements, which provide no transfer of ownership to the lessee. The Company has determined that, based on an evaluation of the terms and conditions of the arrangements, it retains all the significant risks and rewards of ownership of these equipment and so accounts for these as an operating lease.

Evaluation of Events after the Reporting Period
Management exercises judgment in determining whether an event, favorable or unfavorable, occurring between the end of reporting period and the date when the separate financial statements are authorized for issue, is an adjusting event or nonadjusting event. Adjusting events provide evidence of conditions that existed at the end of the reporting period whereas nonadjusting events are events that are indicative of conditions that arose after the reporting period. Management evaluated that there are no significant adjusting or nonadjusting events after the reporting period.

Estimates and Assumptions
The following are the key assumptions concerning the future and other key sources of estimation uncertainty, at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year:

Estimation of allowance for doubtful accounts
The Company maintains an allowance for doubtful accounts on trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Company on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with debtors, their payment behavior and known market factors. The Company reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for impairment losses on receivables would increase the Company's recorded expenses and decrease current assets.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Company determines allowance for each significant receivable on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, nonmoving account receivables, accounts of defaulted agents and accounts from closed stations.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of receivables, past collection experience and other factors that may affect collectability. Refer to Note 7.

Determination of NRV of Inventories
The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of reporting period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV. Refer to Note 8.

Estimation of Probable Losses on CWTs and Input VAT
The Company makes an estimate of the provision for probable losses on its CWTs and input VAT. Management's assessment is based on historical experience and other developments that indicate that the carrying value may no longer be recoverable. In 2017, 2016 and 2015, the Company assessed that the aggregate carrying values of CWTs, input VAT and deferred input VAT are fully recoverable. Refer to Notes 9 and 13.

Classification and Valuation of Assets Held for Sale
Management assessed whether its existing vessels met the criteria as assets held based on the following: (1) the related assets are available for immediate sale; (2) preliminary negotiations with willing buyers were executed; and (3) the sale is expected to be completed within 12 months from the end of reporting period. Refer to Note 10.

Estimation of Useful Lives of Property and Equipment
The useful life of each of the Company's items of property and equipment is estimated based on the period over which the asset is expected to be available for use until it is derecognized. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Specifically, in evaluating the useful lives of the vessels and related assets, management takes into account the intended life of the vessel fleet being operated, the estimate of the economic life from the date purchased or manufactured, development in the domestic shipping regulations, the fleet deployment plans including the timing of fleet replacements, the changes in technology, as well as the repairs and maintenance program, among others.

The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded depreciation expenses and decrease the carrying value of property and equipment. In 2016, based on the review of estimated useful lives of the vessels in operations, the Company shortened the estimated useful lives of the vessels in operations. Refer to Note 11.

Assessment of Impairment and Estimation of Recoverable Amount of Property and Equipment and Investments in Subsidiaries and an Associate
The Company assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its VIU. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators. In estimating the VIU, the Company is required to make an estimate of the expected future cash flows from the CGU and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the separate financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the unconsolidated financial position and unconsolidated financial performance of the Company.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment charges under PFRSs.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	Note	**2017**	2016	2015
		(In Thousands)		
Property and equipment - net	*11*	**₱5,502,096**	₱5,879,682	₱5,061,044
Investments in subsidiaries and an associate - at cost	*12*	**588,128**	438,128	425,628

As at December 31, 2017, 2016 and 2015, management evaluated the recoverable amount of its property and equipment based on its value in use. No impairment loss was recognized on the Company's property and equipment as the recoverable amount of the assets are higher than their carrying values.

Management determined that there are no impairment indicators on its investments in subsidiaries and an associate since the subsidiaries and associates have profitable operations.

Estimation of Retirement Benefits Costs and Obligation
The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions were described in Note 25 to the parent company financial statements and include among others, discount rate, future salary increase, turnover rate, mortality rate and disability rate. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's pension and other retirement obligations.

The discount rate is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled. Refer to Note 25.

Recognition of Deferred Tax Assets
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences and carry forward benefits of excess MCIT and NOLCO is based on the projected taxable income in future periods. Based on the projections, not all deductible temporary differences and carry forward benefits of excess MCIT and NOLCO will be realized. Consequently, only a portion of the Company's deferred tax asset was recognized. Refer to Note 26.

Evaluation of Provision for Legal Contingencies
The Company is a party to certain lawsuits or claims arising from the ordinary course of business. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates. These estimates are based on consultations with independent outside parties, historical experience and other available data. While management believes that the bases of these estimates are reasonable and appropriate, significant differences in actual experience or assumption may materially affect recorded provision. The inherent uncertainty over the outcome of these legal proceedings and other claims is brought about by the differences in the interpretation and implementation of relevant laws and regulations. Refer to Notes 15 and 27.

5. Operating Segment Information

The Company and its subsidiaries identified two reportable operating segments as follows: shipping and nonshipping.

- The shipping segment provides ocean going transportation of passengers, rolling cargo and freight cargo.
- The non-shipping segment provides logistics services, sales of goods and supply chain management.

The Company's BOD monitors the operating results of its two operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the parent company financial statements.

Segment revenue includes transfer of goods and services between operating segments. Such transfers are eliminated in the consolidation.

There were no revenue transactions with a single customer that accounts for 10.0% or more of total revenues.

Revenues, expenses, results, assets, liabilities and other information about the business segments are as follows:

	December 31, 2017			
	Shipping	**Non Shipping**	**Eliminations/ Adjustments**	**Parent Balance**
		(In Thousands)		
External customer	**₱8,461,957**	**₱13,089,542**	**(₱11,734,054)**	**₱9,817,445**
Intersegment revenue	**2,054,277**	**537,809**	**(2,592,086)**	**–**
Revenues	**₱10,516,234**	**₱13,627,351**	**(₱14,326,140)**	**₱9,817,445**
Income (loss) before income tax	**₱692,199**	**(₱206,977)**	**₱223,112**	**₱708,334**
Provision for income tax	**(70,561)**	**(177,525)**	**177,291**	**(70,795)**
Segment Profit (Loss)	**₱621,638**	**(₱384,502)**	**₱400,403**	**₱637,539**
Segment Assets	**₱13,655,184**	**₱8,089,480**	**(₱9,270,031)**	**₱12,474,633**
Segment Liabilities	**₱9,170,188**	**₱8,162,782**	**(₱9,183,715)**	**₱8,149,255**
Other information:				
Capital expenditures	**₱1,581,420**	**₱281,955**	**(₱644,181)**	**₱1,219,194**
Depreciation and amortization	**1,699,592**	**183,263**	**(317,244)**	**1,565,611**
Provision for doubtful accounts - net	**8,805**	**285,643**	**(285,643)**	**8,805**
Provision for cargo losses and inventory write down	**12,435**	**233,005**	**(233,115)**	**12,325**
Dividend income	**(515,000)**	**(31,710)**	**546,710**	**–**
Equity in net losses of associates and joint ventures	**3,530**	**3,440**	**(6,970)**	**–**

	December 31, 2016 (As restated, Note 31)			
	Shipping	Non Shipping	Eliminations/ Adjustments	Parent Balance
		(In Thousands)		
External customer	₱8,952,984	₱10,100,891	(₱9,230,424)	₱9,823,451
Intersegment revenue	1,493,377	948,345	(2,441,722)	–
Revenues	₱10,446,361	₱11,049,236	(₱11,672,146)	₱9,823,451
Income (loss) before income tax	₱812,682	(₱48,318)	(₱745)	₱763,619
Provision for income tax	(212,205)	(192,272)	210,390	(194,087)
Segment Profit (Loss)	₱600,477	(₱240,590)	₱209,645	₱569,532
Segment Assets	₱13,596,095	₱7,640,634	(₱8,509,272)	₱12,727,457
Segment Liabilities	₱9,734,905	₱6,827,148	(₱7,510,423)	₱9,051,630
Other information:				
Capital expenditures	₱2,343,976	₱304,041	(₱540,150)	₱2,107,867
Depreciation and amortization	1,309,617	132,297	(255,007)	1,186,907
Provision for doubtful accounts - net	132,760	404,860	(430,027)	107,593
Provision for cargo losses and inventory write down	17,091	68,071	(68,461)	16,701
Equity in net losses (earnings) of associates and joint ventures	(31,545)	7,004	24,541	–

December 31, 2015 (As restated, Note 31)

	December 31, 2016 (As restated, Note 31)			
	Shipping	Non Shipping	Eliminations/ Adjustments	Parent Balance
	(In Thousands)			
	Shipping	Non Shipping	Eliminations/ Adjustments	Parent Balance
	(In Thousands)			
Segment Assets	₱12,303,508	₱6,407,876	(₱7,375,942)	₱11,335,442
Segment Liabilities	₱8,770,635	₱5,383,334	(₱5,912,629)	₱8,241,340

6. Cash

This account consists of:

	December 31		
	2017	2016 (As restated, Note 31)	2015
		(In Thousands)	
Cash on hand and in banks	**₱716,980**	₱269,371	₱456,104
Cash equivalents	**280**	280	280
	₱717,260	₱269,651	₱456,384

Cash in banks earn interest at the respective bank deposit rates. Interest income earned by the Company from cash in banks for the years ended December 31, 2017 and 2016 amounted to ₱0.6 million, and ₱2.1 million, respectively (see Note 23).

7. Trade and Other Receivables

This account consists of:

		December 31		
	Note	**2017**	2016 (As restated, Note 31)	2015
			(In Thousands)	
Trade	*19*	**₱1,222,829**	₱2,192,010	₱2,040,726
Due from related parties	*19*	**2,985,237**	2,520,407	1,584,061
Nontrade		**571,212**	670,324	712,859
Advances to officers and employees		**33,884**	15,881	15,958
		4,813,162	5,398,622	4,353,604
Less allowance for doubtful receivables		**470,735**	511,650	404,057
		₱4,342,427	₱4,886,972	₱3,949,547

Trade receivables are unsecured, noninterest-bearing and are normally on a 30 to 60 days terms for both related parties and third parties. Freight receivables of the NN Group amounting to ₱692.1 million, ₱968.5 million and ₱1,042.2 million as at December 31, 2017, 2016 and 2015, respectively, have been assigned to secure long-term debt (see Note 16).

Due from related parties include advances to The Supercat Fast Ferry Corporation (SFFC) which bear an interest rate of 6% per annum and is collectible on demand (see Note 19). In December 2017, the BOD approved the conversion of the Company's advances to SFFC into additional investment in SFFC amounting to ₱150.0 million (see Note 12).

Nontrade receivables include advances to suppliers, passage bonds, receivable from trustee fund and insurance and other claims receivables. These receivables are unsecured, noninterest-bearing and are collectible on demand.

The following tables set out the rollforward of the allowance for doubtful receivables as follows:

	Note	December 31, 2017 Trade	Nontrade	Total
			(In Thousands)	
Beginning		**₱239,860**	**₱271,790**	**₱511,650**
Provision	*22*	**–**	**20,068**	**20,068**
Reversal	*22*	**(11,263)**	**–**	**(11,263)**
Write-off		**(49,719)**	**(1)**	**(49,720)**
Ending		**₱178,878**	**₱291,857**	**₱470,735**

	Note	December 31, 2016 (As restated, Note 31) Trade	Nontrade	Total
			(In Thousands)	
Beginning		₱248,500	₱155,557	₱404,057
Provision	*22*	16,278	116,233	132,511
Reversal	*22*	(24,918)	–	(24,918)
Ending		₱239,860	₱271,790	₱511,650

	Note	December 31, 2015 (As restated, Note 31) Trade	Nontrade	Total
			(In Thousands)	
Beginning		₱200,741	₱98,424	₱299,165
Provision	*22*	47,759	57,133	104,892
Ending		₱248,500	₱155,557	₱404,057

The Company has not provided allowance for doubtful accounts for due from related parties and advances to officers and employees as of December 31, 2017, 2016 and 2015.

The following table sets out the analysis of collective and individual impairment of trade and other receivables as follows:

	December 31, 2017 Individually Impaired	Collectively Impaired	Total
		(In Thousands)	
Trade	**₱171,576**	**₱7,302**	**₱178,878**
Nontrade	**113,069**	**178,788**	**291,857**
	₱284,645	**₱186,090**	**₱470,735**

	December 31, 2016 (As restated, Note 31) Individually Impaired	Collectively Impaired	Total
		(In Thousands)	
Trade	₱221,263	₱18,597	₱239,860
Nontrade	100,420	171,370	271,790
	₱321,683	₱189,967	₱511,650

	December 31, 2015 (As restated, Note 31)		
	Individually Impaired	Collectively Impaired	Total
	(In Thousands)		
Trade	₱244,082	₱4,418	₱248,500
Nontrade	75,342	80,215	155,557
	₱319,424	₱84,633	₱404,057

8. **Inventories**

This account consists of the following:

	December 31		
	2017	2016 (As restated, Note 31)	2015 (As restated, Note 31)
	(In Thousands)		
Fuel and lubricants	**₱87,653**	₱62,366	₱13,536
Trading goods	**14,396**	31,571	29,840
Materials, parts and supplies	**2,641**	25,953	49,686
	₱104,690	₱119,890	₱93,062

The allowance for inventory obsolescence as at December 31, 2017, 2016 and 2015 amounted to ₱20.7 million. The Company did not recognize any write-down of inventories to NRV in 2017 and 2016.

Cost of inventories were recognized and reversed in the following account in the statement of profit and loss:

	Note	**2017**	2016 (As restated, Note 31)
		(In Thousands)	
Cost of services	*21*	**₱2,849,226**	₱2,304,599
General administrative expenses	*22*	**5,447**	10,851
		₱2,854,673	₱2,315,450

The inventories presented as "Cost of services" pertains to fuel, oil and lubricants used in vessels' operation, food and beverages sold by the shipping segment and office supplies. The inventories presented as "General and administrative expenses" pertain to office supplies included in "Others" account.

9. Other Current Assets

This account consists of the following:

	December 31		
	2017	2016 (As restated, Note 31)	2015
		(In Thousands)	
CWTs	**₱713,189**	₱665,634	₱721,318
Restricted time deposits	**152,736**	–	–
Prepaid expenses	**42,148**	54,237	45,158
Refundable deposits - current portion	**11,199**	1,804	7,630
Input vat	–	1,150	–
	₱919,272	₱722,825	₱774,106

a. CWTs represents creditable tax certificates which can be applied against any income tax liability of the Company.

b. Restricted time deposit pertains to money placement collaterized for the OLSA.

c. Prepaid expenses mainly include prepayment of insurance premiums and rent which will be amortized within the next financial year.

10. Assets Held for Sale

On September 23, 2015, the BOD approved the sale of one of the Company's passenger/cargo vessel, namely M/V Joan of Arc. Accordingly, the Company recognized related impairment loss for the vessel amounting to ₱260.4 million, representing the excess of carrying value of the vessel over its estimated selling price. The net carrying value of the vessel, net of impairment, amounting to ₱158.2 million was reclassified from property and equipment to asset held for sale in the parent company statements of financial position as of December 31, 2015.

In June 2016, the Company sold the vessel for a total consideration of ₱158.2 million. The consideration was paid in full and the vessel was delivered to the buyer in July 2016.

11. Property and Equipment

The movements and balances of this account are as follows:

December 31, 2017												
	Note	Vessels in Operation	Containers	Handling Equipment	Furniture and Equipment	Land and Land Improvements	Buildings and Warehouses	Leasehold Improvements	Spare parts and service equipment	Transportation Equipment	Vessels Under Refurbishment and Construction in Progress	Total
							(In Thousands)					
Cost												
January 1, 2017		**₱7,720,303**	**₱1,653,663**	**₱1,360,034**	**₱479,780**	**₱440,565**	**₱133,799**	**₱386,982**	**₱422,195**	**₱72,821**	**₱540,648**	**₱13,210,790**
Additions		**960,869**	**72,943**	**102,593**	**11,613**	**34,909**	**1,760**	**8,352**	**51**	**31**	**25,598**	**1,218,719**
Retirement		**(187,389)**	**(13,481)**	**(388)**	**(27,386)**	**–**	**(305)**	**–**	**(1,574)**	**(5,888)**	**–**	**(236,411)**
Reclassification/adjustment		**508,214**	**31,286**	**14,574**	**5,295**	**(447)**	**(1,932)**	**(2,640)**	**–**	**(105)**	**(496,590)**	**57,655**
December 31, 2017		**9,001,997**	**1,744,411**	**1,476,813**	**469,302**	**475,027**	**133,322**	**392,694**	**420,672**	**66,859**	**69,656**	**14,250,753**
Accumulated Depreciation, Amortization and Impairment Loss												
January 1, 2017		**3,684,698**	**1,246,291**	**1,269,677**	**442,846**	**133,676**	**88,203**	**318,967**	**86,931**	**59,819**	**–**	**7,331,108**
Depreciation and amortization	*21, 22*	**1,382,040**	**27,201**	**30,416**	**22,506**	**7,118**	**4,348**	**7,506**	**71,372**	**4,031**	**–**	**1,556,538**
Disposals/Retirements		**(135,281)**	**(13,480)**	**(107)**	**(25,393)**	**–**	**(220)**	**–**	**(394)**	**(4,613)**	**–**	**(179,488)**
Reclassifications/adjustment		**–**	**41,251**	**(712)**	**(48)**	**(13)**	**(1)**	**47**	**–**	**(25)**	**–**	**40,499**
December 31, 2017		**4,931,457**	**1,301,263**	**1,299,274**	**439,911**	**140,781**	**92,330**	**326,520**	**157,909**	**59,212**	**–**	**8,748,657**
Carrying Value		**₱4,070,540**	**₱443,148**	**₱177,539**	**₱29,391**	**₱334,246**	**₱40,992**	**₱66,174**	**₱262,763**	**₱7,647**	**₱69,656**	**₱5,502,096**

December 31, 2016 (As restated, Note 31)												
	Note	Vessels in Operation	Containers	Handling Equipment	Furniture and Equipment	Land and Land Improvements	Buildings and Warehouses	Leasehold Improvements	Spare parts and service equipment	Transportation Equipment	Vessels Under Refurbishment and Construction in Progress	Total
							(In Thousands)					
Cost												
January 1, 2016		₱6,367,043	₱1,649,834	₱1,311,205	₱453,697	₱425,826	₱116,927	₱371,687	₱422,195	₱68,602	₱68,811	₱11,255,827
Additions		1,247,465	252,829	48,427	33,252	14,293	16,888	10,471	–	5,341	472,273	2,101,239
Disposal		(88,201)	–	–	(1,557)	–	–	–	–	(1,227)	–	(90,985)
Reclassification/adjustment		193,996	(249,000)	402	(5,612)	446	(16)	4,824	–	105	(436)	(55,291)
December 31, 2016		7,720,303	1,653,663	1,360,034	479,780	440,565	133,799	386,982	422,195	72,821	540,648	13,210,790
Accumulated Depreciation, Amortization and Impairment Loss												
January 1, 2016		2,666,404	1,260,388	1,249,842	433,524	127,549	85,595	311,553	1,041	58,887	–	6,194,783
Depreciation and amortization	*21, 22*	1,011,499	37,887	19,836	10,862	6,127	2,608	7,414	85,890	2,159	–	1,184,282
Disposals		(88,201)	–	–	(1,540)	–	–	–	–	(1,227)	–	(90,968)
Reclassifications/adjustment		94,996	(51,984)	(1)	–	–	–	–	–	–	–	43,011
December 31, 2016		3,684,698	1,246,291	1,269,677	442,846	133,676	88,203	318,967	86,931	59,819	–	7,331,108
Carrying Value		₱4,035,605	₱407,372	₱90,357	₱36,934	₱306,889	₱45,596	₱68,015	₱335,264	₱13,002	₱540,648	₱ 5,879,682

Noncash Additions - Property and Equipment under Finance Lease and Unpaid Capital Expenditure
Containers and handling equipment include units acquired under finance lease arrangements (see Note 17). Noncash additions include costs of newly purchased containers and forklifts under lease amounting to nil and ₱89.7 million for the years ended December 31, 2017 and 2016, respectively. The related depreciation of the leased containers and forklifts amounting to ₱25.9 million both for the years ended December 31, 2017 and 2016 were computed on the basis of the Company's depreciation policy for owned assets.

Vessel Acquisition
In November 2015, the Company acquired additional vessel. Additional costs were incurred in bringing the vessel to its working condition amounting to ₱285.0 million in 2016.

Capitalization of Drydocking Costs
Vessels in operation also include capitalized drydocking costs incurred from vessels drydocked in 2017 and 2016 amounting to ₱278.7 million and ₱470.3 million, respectively. The related depreciable life of drydocking costs ranges from two to two and a half years.

Residual Value of Vessels
The Company reviews the residual value of the vessels periodically to ensure that the amount is consistent with the future economic benefits embodied in these vessels at the point of disposal. The residual value for vessels is based on the lightweight and the market price of scrap metals.

Management determined that the changes in the market scrap rates of metals during the period did not result to changes in the residual value of vessels.

Disposal and Retirement of Property and Equipment
For the year ended December 31, 2017 and 2016, the Company disposed certain property and equipment for net cash proceeds of ₱5.2 million and ₱4.7 million, respectively.

Reclassification of Spare parts and Service Equipment
The Company reclassified its spare parts and service equipment from inventory to property and equipment amounting to ₱380.8 million, net of accumulated depreciation of ₱41.4 million. Management assessed that the spare parts are to be consumed more than a year in rendering maintenance services of vessels.

The balance amounting to ₱344.6 million of the said spare parts and service equipment as at December 31, 2015 was also reclassified from inventory to property and equipment to conform to the 2016 presentation. The reclassification did not materially affect Company's previously reported financial position, results of operations and cashflows.

Impairment of Property and Equipment
The Company recognized impairment loss amounting to ₱260.4 million on one of its vessels that was reclassified to asset held for sale as of December 31, 2015 (see Note 10).

Depreciation
Depreciation were recognized and presented in the following accounts in the parent company statements of profit or loss:

	Note	**2017**	2016 (As restated, Note 31)
		(In Thousands)	
Cost of services	*21*	**₱1,528,560**	₱1,170,144
General and administrative expenses	*22*	**27,978**	14,138
		₱1,556,538	₱1,184,282

Property and Equipment Held as Collateral
As at December 31, 2017, 2016 and 2015, the Company's property and equipment held as collateral include vessels in operations with total carrying value of ₱3,279.9 million, ₱4,008.0 million and ₱3,960.9 million and assets under finance lease of ₱179.0 million, ₱206.7 million and ₱144.5 million, respectively. The vessels in operations were used to secure the Company's long-term debts (see Note 16) while the assets under finance lease were held as collateral to the lessor (see Note 17).

12. **Investments in Subsidiaries and an Associate**

As at December 31, 2017 and 2016, the subsidiaries and an associate of the Company, all incorporated in the Philippines, are the following:

	Nature of Business	Percentage of Ownership Direct	Indirect
Subsidiaries:			
2GO Express Inc. (2GO Express) and Subsidiaries:	Transportation/logistics	100.0	–
2GO Logistics, Inc. (2GO Logistics)	Logistics/warehousing	–	100.0
Scanasia Overseas, Inc. (SOI)	Distribution	–	100.0
Hapag-Lloyd Philippines, Inc. (HLP)	Transportation/logistics	–	100.0
WRR Trucking Corporation (WTC)	Transportation	–	100.0
The Supercat Fast Ferry Corp. (SFFC)	Transporting passengers	100.0	–
Special Container and Value Added Services, Inc. (SCVASI)	Transportation/logistics	100.0	–
2GO Rush Delivery, Inc. (RUSH) [2]	Transportation/logistics	100.0	–
WG&A Supercommerce, Inc. (WSI) [3]	Vessels' hotel management	100.0	–
NN-ATS Logistics Management and Holdings Co., Inc. (NALMHCI) and subsidiaries:	Holding company	100.0	–
J&A Services Corporation (J&A)	Vessel support services	–	100.0
Red.Dot Corporation (RDC)	Manpower services	–	100.0
North Harbor Tugs Corporation (NHTC)	Tug assistance	–	59.0
Super Terminals, Inc. (STI) [1]	Passenger terminal operator	–	50.0
Sungold Forwarding Corporation (SFC)	Transportation/logistics	–	51.1
Supersail Services, Inc. (SSI)	Manpower provider	–	100.0
Astir Engineering Works, Inc.	Engineering works	–	100.0
Associate:			
MCC Transport Philippines (MCCP)	Container transportation business	33.0	–

[1] The Company has control in STI since it has the power to cast the majority of votes at the BOD's meeting and the power over the relevant activities that affect STI's returns.
[2] Incorporated in December 2016 but has not yet started business operation in 2017.
[3] Ceased operations in February 2006.

The details of the Company's investments in subsidiaries and an associate accounted for under the cost method are as follows:

	December 31	
	2017	2016
	(In Thousands)	
Subsidiaries:		
2GO Express	**₱260,628**	₱260,628
SFFC	**257,000**	107,000
NALMHCI	**37,500**	37,500
RUSH	**12,500**	12,500
SCVASI	**4,000**	4,000
WSI	**250**	250
	571,878	421,878
Associate - MCCP	**16,500**	16,500
	588,378	438,378
Less allowance for impairment losses	**250**	250
	₱588,128	₱438,128

On December 21, 2016, the Philippine SEC approved the registration of RUSH, which has primary purpose of operating transportation logistics and delivery activities, sorting, handling, processing and warehousing.

Summarized financial information of the Company's subsidiaries and associate, as included in their own financial statements are as follows:

	Subsidiaries								**Associate**	
	Express		**SCVASI**		**SFFC**		**Others**		**MCCP**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Current assets	₱1,559,128	₱1,583,168	₱616,609	₱830,122	₱169,058	₱110,017	₱261,120	₱292,853	₱400,276	₱683,772
Noncurrent assets	704,851	645,233	236,747	251,174	1,018,719	742,558	160,874	153,073	603,775	703,749
Current liabilities	1,723,477	1,307,055	632,213	939,643	667,670	555,056	285,846	326,870	227,807	483,471
Noncurrent liabilities	100,916	74,337	119,122	133,873	360,702	128,219	1,358	550	329,588	285,890
Equity	439,586	847,009	102,021	7,780	159,405	169,300	134,790	118,506	446,656	618,160
Revenue	2,636,283	3,144,939	1,610,129	1,437,501	698,789	607,060	247,400	226,904	1,286,098	1,201,865
Net income (loss)	82,427	149,054	108,981	(11,399)	(12,371)	(16,450)	37,573	20,311	(10,696)	95,593

13. **Other Noncurrent Assets**

	December 31		
		2016	2015
	2017	(As restated, Note 31)	
		(In Thousands)	
Deferred input VAT	**₱167,133**	₱136,736	₱88,843
Refundable deposits - net of current portion	**49,579**	23,008	21,435
Software - net	**27,939**	36,537	32,534
Available-for-sale financial assets	**2,600**	2,600	3,834
Restricted time deposit	–	152,736	143,210
Others	**15,345**	16,448	75,614
	₱262,596	₱368,065	₱365,470

a. Deferred input VAT relates primarily to major capital expenditures of vessels.

b. Refundable deposits consist of amounts paid for rental deposits which can be applied as rental payment at the end of the lease term or can be paid out in cash upon termination of the lease.

c. The movements in Software are as follows:

	Note	**December 31** **2017**	2016
		(In Thousands)	
Cost			
Beginning balance		**₱43,347**	₱36,719
Additions		**475**	6,628
		43,822	43,347
Accumulated Amortization			
Beginning balance		**6,810**	4,185
Amortization	*22*	**9,073**	2,625
		15,883	6,810
Carrying Amount		**₱27,939**	₱36,537

Amortization was recognized as part of "Depreciation and amortization" under "General and administrative expenses" account in the parent company statements of profit or loss.

d. AFS financial assets consist of unquoted equity investments amounting to ₱2.6 million as of December 31, 2017 and 2016.

e. Restricted time deposit pertains to a money placement collateralized for the OLSA.

14. Short-term Notes Payable

As at December 31, 2017 and 2016, the notes payable amounting to ₱1,414.7 million, ₱1,770.5 million and ₱1,600.4 million, respectively, represent unsecured short-term peso-denominated notes payable obtained by the Company from local banks with annual interest rates ranging from 4.50% to 4.75%. Total interest expense incurred by the Company for the notes payable for the years ended December 31, 2017 and 2016 amounted to ₱111.6 million and ₱110.9 million, respectively (see Note 23).

15. Trade and Other Payables

This account consists of:

		December 31		
			2016	2015
	Note	**2017**	(As restated, Note 31)	
			(In Thousands)	
Trade	*19*	**₱1,487,871**	₱1,838,710	₱1,502,140
Accrued expenses	*19*	**1,254,050**	1,125,653	702,083
Due to related parties	*19*	**507,149**	108,425	53,395
Nontrade		**428,076**	540,767	483,232
Other payables		**116,126**	140,316	126,695
		₱3,793,272	₱3,753,871	₱2,867,545

a. Trade and other payables are noninterest-bearing and normally have 30 to 45 days terms. Trade payables to related parties are payable on demand.

b. Details of accrued expenses are as follows:

	December 31		
		2016	2015
	2017	(As restated, Note 31)	
		(In Thousands)	
Repairs and maintenance	**₱350,203**	₱249,774	₱100,964
Outside services	**215,214**	296,618	221,594
Personnel costs	**161,959**	137,372	81,289
Insurance	**95,065**	23,960	9,263
Rent	**92,310**	69,609	9,677
Fuel and lubricants	**80,662**	193,714	139,333
Handling charges	**76,939**	53,492	28,608
Communication, light and water	**53,670**	5,405	4,066
Taxes, licenses and fees	**29,205**	30,659	61,382
Pick-up and delivery	**27,036**	7,599	8,553
Advertising	**22,388**	8,234	344
Pilotage and berthing	**10,925**	5,526	5,355
Interest	**10,841**	8,128	19,301
Others	**27,633**	35,563	12,354
	₱1,254,050	₱1,125,653	₱702,083

c. Nontrade payables consist of customers' deposits and payables due to government agencies.

d. Other payables include unearned revenue from ticket sale and provision for contingencies.

Unearned revenue consists of ticket sales that are not yet used by the passengers and are not yet expired. Tickets expire after a year from the date of scheduled boarding.

Provision for contingencies amounted to ₱46.7 million as of December 31, 2017 and ₱49.1 million as of December 31, 2016 and 2015 (see Note 27).

16. Long-term Debt

	December 31	
	2017	2016 (As restated, Note 31)
		(In Thousands)
Banco de Oro Unibank, Inc. (BDO)	**₱2,257,447**	₱3,264,558
United Coconut Planters Bank (UCPB)	**482,143**	–
Unamortized debt arrangement fees	**(3,169)**	(7,305)
	2,736,421	3,257,253
Current portion	**(2,736,421)**	(3,257,253)
Long-term portion	**₱–**	₱–

BDO Omnibus Loan and Security Agreement
On June 11, 2013, the Company (as Borrower and Assignor), BDO (as Lender), NN, SOI, 2GO Express, 2GO Logistics (as Sureties and Assignors), and SFFC (as Assignor), executed an Omnibus Loan and Security Agreement ("OLSA"). Under the OLSA, the Company availed of a ₱3.6 billion term loan (i) to refinance the Company's existing loans and (ii) to fund various capital expenditures such as drydocking and major repairs of vessels, capital expenditures related to the supply chain business, and other general corporate requirements. Interest is fixed for fifty percent (50.0%) of the principal amount, while the remaining fifty percent (50.0%) has a quarterly floating annual interest rate, provided, such floating interest rate shall have a minimum of 5.0% per annum. The principal of the term loan is subject to thirteen (13) quarterly amortizations which commenced in June 2015 through June 2018.

The OLSA is secured by the Company's vessels, real properties, and accounts receivables. As at December 31, 2017, 2016 and 2015, the Company, NN and SFFC collateralized their vessels under MTI with carrying values amounting to ₱3,279.9 million, ₱4,008.0 million and ₱3,960.9 million; and certain outstanding customers receivables amounting to ₱692.1 million, ₱968.5 million and ₱1,042.2 million, respectively (see Notes 7 and 11).

In accordance with the Omnibus Loan, the Company is required to maintain the following financial ratios based on NN consolidated financial statements at each testing date: minimum current ratio of 1.0 times; maximum debt-to-equity ratio of 2.2 times; and, minimum DSCR of 2.0 times. Testing date means: (i) with respect to the December 31 consolidated audited financial statements of NN, April 30 of the succeeding year and (ii) with respect to the June 30 consolidated unaudited financial statements of NN, September 30 of the same year.

UCPB
On March 14, 2017, 2GO availed of a ₱500.0 million term loan from UCPB payable in 28 quarterly amortizations through March 14, 2024. Interest is fixed at 7.03% in the first year. The succeeding interest rates shall be based on the prevailing market rate of 5-year PDST-R2 plus 2.5%, subject to review and repricing at the option of UCPB. The loan is guaranteed by NN through a continuing suretyship agreement with UCPB.

In accordance with the UCPB term loan agreement, the Company is required to maintain a debt service coverage ratio of at least 1.5:1 and debt to equity ratio not exceeding 2.2:1 based on the latest audited annual consolidated financial statements of the Parent Company.

Borrowing Costs and Debt Transaction Costs
Interest costs from long-term borrowings of the Company recognized as expense totaled ₱199.1 million and ₱204.9 million for the years ended December 31, 2017 and 2016, respectively (see Note 23).

Amortization of these debt transaction costs included under interest and financing charges totaled ₱11.4 million and ₱6.0 million for the years ended December 31, 2017 and 2016, respectively (see Note 23).

Compliance with debt covenants
The Group did not meet the minimum current ratio as of December 31, 2017 and 2016 required under the Company's long-term loan agreements. Accordingly, the Company reclassified the noncurrent portion of its long term debts that are subject to such covenants or has cross-default provision in the loan agreements, from noncurrent liabilities to current liabilities amounting ₱375.0 million and ₱2,582.0 million as of December 31, 2017 and 2016. The Company has not received a notice of default from its creditors and the Company continues to pay the long-term loans based on original credit terms.

17. Obligations Under Finance Lease

The Company has various finance lease arrangements with third parties for the lease of containers and handling equipment. The lease agreements provide for a purchase option to the Company at the end of the lease term, which among other considerations met the criteria for a finance lease. Therefore, the leased assets were capitalized. The lease agreements do not include restrictions, contingent rentals and escalation clauses.

The future minimum lease payments on the obligations under finance lease, together with the present value of the net minimum lease payments are as follows:

	Future Minimum Lease Payments Lease Payments		Interest		Present Value of Minimum Lease Payments	
	2017	**2016**	**2017**	2016	**2017**	2016
Less than one year	**₱37,458**	₱345,827	**₱4,681**	₱6,559	**₱32,777**	₱39,268
Between one and five years	**70,237**	107,476	**4,077**	8,750	**66,160**	98,726
	₱107,695	₱453,303	**₱8,758**	₱15,309	**₱98,937**	₱137,994

The net carrying values of the above containers and handling equipment held by the Company under finance leases under various property and equipment accounts in Note 11 to the parent company financial statements are summarized as follows:

	December 31		
	2017	**2016** (As restated, Note 31)	**2015**
		(In Thousands)	
Containers	**₱144,622**	₱201,154	₱188,315
Handling equipment	**132,560**	70,079	24,045
	277,182	271,233	212,360
Less accumulated depreciation	**98,201**	64,575	67,894
	₱178,981	₱206,658	₱144,466

Interest expense recognized related to these leases amounted to ₱6.6 million and ₱6.9 million in 2017 and 2016, respectively, under "Interest and financing charges" in the parent company statements of profit or loss (see Note 23).

18. Redeemable Preferred Shares (RPS)

In 2013, the Company issued 374,520,487 RPS in the form of stock dividends out of capital in excess of par value at the rate of one share for every four common shares held by the shareholders. The Company retired the outstanding RPS amounting to ₱6.0 million in 2015.

19. **Related Parties**

The Company's related parties are as follows:

Relationship	Name
Parent Company	Negros Navigation Co., Inc. (NN)
Subsidiaries of the Parent Company	Negrense Marine Integrated Services, Inc. (NMISI)
	Brisk Nautilus Dock Integrated Services, Inc. (BNDISI)
	Sea Merchants Inc. (SMI)
	Bluemarine Inc. (BMI)
Subsidiaries of the Company	2GO Express, Inc. (2GO Express)
	2GO Logistics, Inc. (2GO Logistics)
	Scanasia Overseas, Inc. (SOI)
	Hapag-Lloyd Philippines, Inc. (HLP)
	WRR Trucking Corporation (WTC)
	Special Container and Value Added Services, Inc. (SCVASI)
	The Supercat Fast Ferry Corporation (SFFC)
	2GO Rush Delivery Inc. (RUSH)
	WG & A Supercommerce, Inc. (WSI)
	NN-ATS Logistics Management and Holdings Corporation, Inc. (NALMHCI)
	Super Terminals, Inc. (STI)
	J&A Services Corporation (J&A)
	Red.Dot Corporation (RDC)
	North Harbor Tugs Corporation (NHTC)
	Sungold Forwarding Corporation (SFC)
	Supersail Corporation (SSI)
	Astir Engineering Works, Inc. (AEWI)
	United South Dockhandlers, Inc. (USDI)
Associate/Joint ventures	MCC Transport Philippines, Inc. (MCCP)
	Hansa Meyer Projects (Phils), Inc. (HMPPI)
	KLN Logistics Holdings Philippines, Inc. (KLN)
	Kerry Logistics (Phils.), Inc. (KLI)
Stockholders	Chelsea Logistics Holdings Corp. (CLHC)
Other Affiliated Companies	Chelsea Marine Power Resources, Inc.
	Phoenix Petroleum Philippines, Inc.
	Supervalue, Inc.
	BDO Unibank, Inc.

The following are the revenue and income (costs and expenses) included in the parent company statement of profit or loss with related parties:

		December 31	
	Nature	**2017**	2016 (As restated, Note 31)
		(In Thousands)	
Parent Company	Vessel leasing	**(₱276,000)**	(₱492,000)
	Shared cost expense	**(236,395)**	(289,162)
Subsidiaries	Freight revenue	**825,742**	1,165,740
	Shared cost income	**426,209**	291,001
	Dividend income	**515,000**	–
	Management income	–	38,571
	Rent income	**17,456**	4,702
	Interest income	**15,855**	38,882

(Forward)

	Nature	December 31 2017	2016 (As restated, Note 31)
		(In Thousands)	
	Transportation and delivery	**(₱31,560)**	(₱4,323)
	Commission expense	–	(96)
	Sales related expenses	**(36,010)**	(24,223)
	Communication, light and water	**(896)**	(28,865)
	Arrastre and stevedoring	**(23,939)**	(35,210)
	Hustling and shifting	–	(45,814)
	Outside services	**(231,377)**	(161,517)
	Rent expense	**(460)**	(1,021)
	Repair and Maintenance	**(40,074)**	(75,973)
Associate/Joint ventures	Shared cost income	**4,216**	2,406
Entities Under Common Control	Shared cost income	**4,298**	–
	Food and subsistence	**(20,225)**	(10,281)
	Repairs and maintenance	**(36,014)**	(35,988)
	Manpower	**(36,148)**	(36,472)
	Linen	**(67,236)**	(44,839)
	Agency fee	**(75,061)**	(77,727)
	Outside services	**(68,709)**	(52,794)
	Housekeeping	**(82,429)**	(92,996)
Other Affiliated Companies	Rent	**(13,284)**	–
	Outside services	**(30,338)**	–
	Food and beverage	**(90,026)**	–
	Fuel and lubricant	**(1,324,919)**	–

The parent company statement of financial position include the following amounts with respect to the balances with the following related parties:

	Financial Statement Account	Terms and Conditions	December 31 2017	2016 (As restated, Note 31)	2015
			(In Thousands)		
Parent	Due from related parties	30 to 60 days; noninterest-bearing	**₱2,459**	₱6,618	₱–
Subsidiaries	Trade payables	30 to 60 days; noninterest-bearing	**(204,942)**	(191,584)	(107,194)
	Accrued expenses	30 to 60 days; noninterest-bearing	**(162,513)**	(227,923)	(44,360)
	Due to related parties	On demand; noninterest-bearing	**(404,889)**	–	(53,395)
	Trade receivables	30 to 60 days; noninterest-bearing	**278,052**	880,451	661,400
	Due from related parties	On demand; noninterest-bearing/interest-bearing	**2,886,493**	2,441,699	1,584,061
	Nontrade receivables	On demand; noninterest-bearing	**59,183**	76,751	34,794
	Trade payables	30 to 60 days; noninterest-bearing	**(126,899)**	(283,125)	(131,264)
	Accrued expenses	30 to 60 days; noninterest-bearing	**(158,476)**	(67,185)	(14,521)
	Due to related parties	On demand; noninterest-bearing	**(102,260)**	(108,425)	–
Associate	Due from related parties	On demand; noninterest-bearing	**72,626**	56,900	–

(Forward)

	Financial Statement Account	Terms and Conditions	December 31 2017	2016 (As restated, Note 31)	2015
				(In Thousands)	
	Trade payables	30 to 60 days; noninterest-bearing	**(₱32)**	(₱32)	₱–
	Accrued expenses	30 to 60 days; noninterest-bearing	**(2,695)**	(2,695)	–
	Trade receivables	30 to 60 days; noninterest-bearing	**31,176**	31,176	–
Entities Under Common Control	Due from related parties	On demand; noninterest-bearing	**23,659**	15,190	–
	Nontrade receivables	On demand; noninterest-bearing	**88,971**	130,439	99,841
	Trade payables	30 to 60 days; noninterest-bearing	**(39,395)**	(71,469)	(28,828)
	Accrued expenses	30 to 60 days; noninterest-bearing	**(136,959)**	(149,737)	(78,159)
Other Affiliated Companies	Long-term debt	Based on OLSA	**(2,736,421)**	(3,257,253)	(3,520,274)
	Cash	On demand	**446,215**	294,289	426,924

The outstanding related party balances are unsecured and settlement is expected to be in cash, unless otherwise indicated. The Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken at each reporting period through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with NN

- The Company entered into vessel leasing arrangements with NN involving four (4) of NN's vessels for a fixed monthly rate for a period of one year, subject to renewal as agreed by the parties.

- NN charges shared cost to the Company and its subsidiaries.

Transactions with Subsidiaries

- The Company's transactions with SCVASI and 2GO Express Group include shipping and forwarding services, commission and trucking services.

- 2GO Express provides management services to the Company's loose cargo business at fees based upon an agreed rate.

- The Company provides cash advances to SFFC which bear an interest note of 6% per annum and collectible on demand.

- The following subsidiaries declared dividend income to the Company:

	2017	2016
	(In Thousands)	
2GO Express	**₱480,000**	₱–
NALMHCI	**21,000**	–
SCVASI	**14,000**	–
	₱515,000	₱–

Transactions with Associate and Related Parties Under Common Control

- Transactions with associate and other related companies consist of shipping services, management services, ship management services, agency fee for manpower services, purchase of steward supplies, availment of stevedoring, arrastre, trucking and repair services and rental.

Compensation of Key Management Personnel

The Company considers managerial positions up to the president as key management personnel. Compensation of key management personnel follows:

	2017	2016
	(In Thousands)	
Short-term benefits	**₱24,702**	₱46,176
Retirement and other benefits	**3,700**	7,696
	₱28,402	₱53,872

20. **Equity**

a. *Share Capital*

Details of share capital as at December 31, 2017, 2016 and 2015 are as follows:

	Number of Shares	Amount
	(In Thousands)	
Authorized common shares at ₱1.00 per value each	4,070,344	₱4,070,344
Issued and outstanding common shares	2,446,136	₱2,446,136

Movements in issued and outstanding capital stocks follow:

				Number of Shares	
Date	Activity	Issue Price	Common Shares	Preferred Shares (Note 19)	Total
May 26, 1949	Authorized capital stocks as at incorporation date	1,000.00	1,002	–	1,002
December 10,1971 to October 26, 1998	Increase in authorized capital stocks	1,000.00	1,496,597,636	–	1,496,597,636
December 6, 2002	Reclassification of common shares to preferred shares	1.00	40,000,000	374,520,535	414,520,535
February 10, 2003	Increase in authorized capital stocks	1.00	–	(48)	(48)
November 18, 2003	Redemption of preferred shares	6.67	–	(224,712,374)	(224,712,374)
September 6, 2004	Increase in authorized capital stocks	1.00	393,246,555	–	393,246,555
November 22, 2004	Redemption of preferred shares	6.67	–	(74,904,026)	(74,904,026)
December 31, 2004	Increase in authorized capital stocks	1.00	(756)	–	(756)
October 24, 2005	Reclassification of common shares to preferred shares	1.76	414,121,123	–	414,121,123
August 22 to October 13, 2006	Reclassification of common shares to preferred shares	3.20	140,687,340	(70,343,670)	70,343,670
December 6-31, 2012	Redemption of preferred shares	6.00	–	(3,413,467)	(3,413,467)
January 1, 2015	Retirement of redeemable preferred shares			(1,146,950)	(1,146,950)
			2,484,652,900	–	2,484,652,900
December 31, 2001	Treasury shares	1.50	(38,516,500)	–	(38,516,500)
			2,446,136,400	–	2,446,136,400

**The carrying value of treasury shares is inclusive of transaction cost amounting to ₱0.9 million.*

Issued and outstanding common shares are held by 1,893 and 1,909 equity holder as at December 31, 2017 and 2016 respectively.

b. Excess of cost of investment over net assets pertains to the Company's excess investment cost over net assets of acquired entities under common control during the time of the acquisitions.

21. Cost of Services

	Note	**2017**	2016 (As restated, Note 31)
		(In Thousands)	
Fuel, oil and lubricants	*8*	**₱2,303,526**	₱1,762,948
Depreciation and amortization	*11*	**1,528,560**	1,170,144
Co-loading expense		**738,749**	864,176
Food and beverage	*8*	**381,888**	372,463
Repairs and maintenance		**347,518**	505,013
Personnel costs	*24*	**322,443**	305,281
Vessel leasing	*19*	**276,000**	492,000
Arrastre and stevedoring		**258,356**	276,887
Outside services		**231,066**	223,150
Management fee		**207,023**	214,889
Rent	*28*	**169,312**	157,905
Office supplies	*8*	**163,812**	169,188
Insurance		**139,107**	186,715
Manpower services		**136,076**	95,420
Pilotage and berthing		**121,521**	120,761
Food and subsistence		**91,248**	77,888
Sales related expense		**89,375**	95,221
Communication, light and water		**70,704**	80,718
Taxes and licenses		**11,618**	13,215
Others		**314,020**	341,941
		₱7,901,922	₱7,525,923

22. General and Administrative Expenses

	Note	**2017**	2016 (As restated, Note 31)
		(In Thousands)	
Shared cost	*19*	**₱401,539**	₱289,378
Personnel costs	*24*	**396,219**	340,738
Outside services		**142,458**	187,712
Advertising		**122,441**	102,239
Taxes and licenses		**89,816**	33,348
Communication, light and water		**49,187**	41,445
Depreciation and amortization	*11, 13*	**37,051**	16,763
Entertainment, amusement and recreation		**29,905**	46,639
Rent	*28*	**26,811**	19,487
Insurance		**14,273**	13,156
Provision for doubtful accounts	*7*	**8,805**	107,593
Repairs and maintenance		**5,251**	5,873
Others		**64,141**	45,868
		₱1,387,897	₱1,250,239

23. Other Income (Charges)

Financing Charges

	Note	2017	2016 (As restated, Note 31)
Interest expense on:			
Note payable	*14*	**₱111,621**	₱110,900
Long-term debt	*16*	**199,140**	204,894
Amortization of:			
Debt transaction costs	*16*	**11,363**	5,972
Obligations under finance lease	*17*	**6,577**	6,900
Other financing charges		**3,817**	18,313
		₱332,518	₱346,979

Other financing charges comprise of bank charges and other items that are individually immaterial.

Others - net

	Note	2017	2016 (As restated, Note 31)
		(In Thousands)	
Interest income	*6, 19*	**₱16,691**	₱41,021
Management income		–	38,571
Gain (loss) on:			
Sale of scrap		**547**	200
Sale of AFS investments		**–**	4,449
Disposal of property and equipment	*11*	**(514)**	(8,616)
Foreign exchange gains (losses)		**(4,630)**	2,502
Others - net		**(13,870)**	(14,818)
		(₱1,774)	₱63,309

Others - net comprise of storage income and other items that are individually immaterial.

24. Personnel Costs

Details of personnel costs are as follows:

	Note	2017	2016
		(In Thousands)	
Salaries and wages		**₱498,502**	₱445,809
Retirement benefit costs	*25*	**30,882**	25,283
Other employee benefits		**189,278**	174,927
		₱718,662	₱646,019

25. **Retirement Benefits**

The Company has a funded defined benefit pension plan covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The Company's retirement plan meets the minimum requirement specified under Republic Act No. 7641, *Retirement Pay Law.*

The fund is administered by trustee banks under the supervision of the Board of Trustees who is also responsible for the investment strategy of the plan. The investment strategy of the Company's defined benefit plan is guided by the objective of achieving an investment return, which together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans. The Company expects to contribute ₱24.7 million to the retirement fund in 2018. The Company's transactions with the plan pertain to contribution and benefit payments.

The following tables summarize the components of the net retirement benefits cost recognized in the parent company statement of profit or loss and in the parent company statement of comprehensive income and the funded status and amounts recognized in the parent company statement of financial position.

	December 31, 2017		
	Defined Benefit Obligation	**Fair Value of Plan Assets**	**Accrued Retirement Benefits**
		(In Thousands)	
January 1	**₱192,467**	**(₱60,405)**	**₱132,062**
Net retirement benefits cost in profit or loss:			
Current service cost	**24,573**	**(4,007)**	**20,566**
Net interest cost	**10,316**	**–**	**10,316**
	34,889	**(4,007)**	**30,882**
Benefits paid	**(11,150)**	**11,150**	**–**
Remeasurements losses (gains) in other comprehensive income - actuarial changes arising from changes in:			
Financial assumptions	**(21,284)**	**2,752**	**(18,532)**
Experience adjustments	**1,372**	**–**	**1,372**
	(19,912)	**2,752**	**(17,160)**
Actual contributions	**–**	**(39,858)**	**(39,858)**
December 31	**₱196,294**	**(₱90,368)**	**₱105,926**

	December 31, 2016		
	Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Benefits
		(In Thousands)	
January 1	₱202,942	(₱51,181)	₱151,761
Net retirement benefits cost in profit or loss:			
Current service cost	18,382	(3,138)	15,244
Net interest cost	10,039	–	10,039
	28,421	(3,138)	25,283
Benefits paid	(17,493)	17,493	–
Remeasurements losses (gains) in other comprehensive income - actuarial changes arising from changes in:			
Financial assumptions	(10,016)	3,984	(6,032)
Experience adjustments	(11,387)	–	(11,387)
	(21,403)	3,984	(17,419)
Actual contributions	–	(27,563)	(27,563)
December 31	₱192,467	(₱60,405)	₱132,062

The major categories of plan assets are as follows:

	December 31	
	2017	2016
	(In Thousands)	
Investments in:		
Cash and cash equivalents	**₱13,040**	₱5,156
Government securities and other debt services	**72,341**	50,834
Shares of stock	**4,413**	2,345
Receivables	**687**	2,152
Liabilities	**(113)**	(82)
	₱90,368	₱60,405

As at December 31, 2017 and 2016, the Company has no transactions with its retirement funds such as loans, investments, gratuities or surety. The fund also does not have investments in debt or equity securities of the Company.

This defined benefit plan exposes the Company to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk. The management reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligations.

Some debt instruments held have quoted prices in an active market. The remaining plan assets do not have quoted market price in an active market. The plan assets have diverse investments and do not have any concentration risk.

The cost of the defined benefit pension plan as well as the present value of the pension obligation are determined using pension actuarial valuation. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining DBO for the Company's plans are shown below:

	2017	2016
Discount rate	**5.87%**	5.36%
Future salary increases	**6.00%**	6.00%

The accrued retirement benefits is subject to several key assumptions. Shown below is the sensitivity analysis of the retirement obligation to reasonably possible changes on each significant assumption:

	Increase	Impact on Accrued Retirement Benefits	
	(Decrease)	**2017**	2016
		(In Thousands)	
Discount rate	+1%	**(₱23,391)**	(₱18,833)
	-1%	**27,935**	18,833
Salary increase rate	+1%	**25,541**	22,819
	-1%	**(21,944)**	(22,819)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

There were no changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis.

The average duration of the defined benefit obligation in 2017 and 2016is 13.1 years and 18.04 years, respectively.

Maturity analysis of the benefit payments:

	2017	2016
	(In Thousands)	
Less than 5 years	**₱41,478**	₱123,832
More than 5 years to 10 years	**132,749**	195,430
More than 10 years	**1,525,570**	2,058,530

26. **Income Tax**

a. The components of provision for income tax are as follows:

	2017	2016 (As restated, Note 31)
	(In Thousands)	
Current	**₱71,863**	₱189,595
Deferred	**(1,068)**	4,492
	₱70,795	₱194,087

b. The components of the Company's recognized net deferred income tax assets and liabilities as at December 31 are as follows:

	2017	2016	2015
		As restated, Note 31	
		(In Thousands)	
Directly recognized in profit or loss			
Deferred income tax assets on:			
Allowance for impairment losses on receivables	**₱–**	₱–	₱5,031
Accrued retirement benefits	**15,252**	18,328	27,667
Unamortized service cost	**7,720**	4,817	3,204
	22,972	23,145	35,902
Deferred income tax liability on unamortized debt arrangements fees	**(951)**	(2,192)	(3,983)
	22,021	20,953	31,919
Directly recognized in OCI			
Deferred tax asset on remeasurement of accrued retirement benefit costs	**16,143**	21,291	20,043
	₱38,164	₱42,244	₱51,962

c. The following are the Company's other deductible temporary differences for which no deferred tax assets have been recognized in compliance with PFRS.

	2017	2016 (As restated, Note 31)	2015 (As restated, Note 31)
Allowance for doubtful accounts	**₱470,735**	₱511,650	₱404,057
Allowance for inventory obsolescence	**20,730**	20,730	20,730
Unrealized foreign exchange losses	**1,537**	2,857	690
Impairment of investment in subsidiary	**250**	250	250
Accrued retirement benefits	**1,276**	–	–

d. Reconciliation between the income tax expense computed at statutory income tax rate of 30% to the provision for income tax expense as shown in profit or loss is as follows:

	2017	2016 (As restated, Note 31)
	(In Thousands)	
Tax effect of income at statutory rates	**₱212,500**	₱229,086
Income tax effects of:		
Movement in unrecognized deferred income tax assets	**15,443**	(34,622)
Nondeductible interest expense	**69**	265
Interest income already subjected to final tax	**(166)**	(642)
Derecognition of deferred income tax assets on allowance for doubtful accounts	**(2,551)**	–
Dividend income	**(154,500)**	–
Provision for income tax	**₱70,795**	₱194,087

27. **Provisions and Contingencies**

There are certain legal cases filed against the Company in the normal course of business. Management and its legal counsel believe that the Company has substantial legal and factual bases for its position and are of the opinion that losses arising from these cases, if any, will not have a material adverse impact on the consolidated financial statements. Further certain legal claims against the Company are reimbursable from Aboitiz Equity Ventures (AEV) and Aboitiz and Co. (ACO).

The Company recognized provision for probable losses arising from these legal cases amounting to ₱46.7 million as at December 31, 2017 and ₱49.1 million as at December 31, 2016 and 2015 (see Note 15).

28. **Agreements and Commitments**

a. The Company has entered into various operating lease agreements for its office spaces. The future minimum rentals payable under the non-cancellable operating leases are as follows:

	2017	2016
	(In Thousands)	
Within one year	**₱103,239**	₱64,772
After one year but not more than five years	**317,117**	206,287
	₱420,356	₱271,059

The agreements did not include restrictions, contingent rentals, purchase options and escalation clauses. Renewal of the lease agreements is at the option of the Company.

b. The Company entered into several vessel leasing agreements yearly. For the years ended December 31, 2017 and 2016, vessel lease rates are based on total agreed monthly rent of ₱23.0 million and ₱41.0 million, respectively.

Rent expense is presented in the following accounts:

	Note	2017	2016
		(In Thousands)	
Cost of services	*21*	**₱169,312**	₱157,905
General and administrative	*22*	**26,811**	19,487
		₱196,123	₱177,392

29. **Financial Risk Management Objectives and Policies**

Credit Risks Management Objectives and Procedures
The Company's principal financial instruments comprise cash, trade and other receivables, trade and other payables, short-term notes payable, long-term debt and obligations under finance lease. The main purpose of these financial instruments is to raise financing for the Company's operations. The Company has other various financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from operations.

The main risks arising from the Company's financial instruments are credit risk involving possible exposure to counter-party default, primarily, on its trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments and maturing obligations; foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings; and interest rate risk resulting from movements in interest rates that may have an impact on interest bearing financial instruments.

There has been no change to the Company's exposure to credit, liquidity, foreign exchange, interest rate and equity price risks on the manner in which it manages and measures the risks since prior years.

Credit Risk
To manage credit risk, the Company has policies in place to ensure that all customers that wish to trade on credit terms are subject to credit verification procedures and approval of the Credit Committee. In addition, receivable balances are monitored on an ongoing basis to reduce the Company's exposure to bad debts. The Company has policies that limit the amount of credit exposure to any particular customer.

The Company does not have any significant credit risk exposure to any single counterparty. The Company's exposures to credit risks are primarily attributable to cash and collection of trade and other receivables with a maximum exposure equal to the carrying amount of these financial instruments.

As at December 31, 2017, 2016 and 2015, the Company did not hold collateral from any counterparty.

The credit quality per class of financial assets that are neither past due nor impaired as follows:

December 31, 2017

	High	**Medium**	**Total**
		(In Thousands)	
Cash in banks	**₱702,744**	**₱–**	**₱702,744**
Trade	**–**	**484,712**	**484,712**
Due from related parties	**1,224,701**	**–**	**1,224,701**
Nontrade	**–**	**18,113**	**18,113**
Advances to officers and employees	**15,434**	**–**	**15,434**
AFS financial assets	**2,600**	**–**	**2,600**
Refundable deposits	**60,778**	**–**	**60,778**
Restricted time deposit	**152,736**	**–**	**152,736**
	₱2,158,993	**₱502,825**	**₱2,661,818**

December 31, 2016 (As restated, Note 31)

	High	Medium	Total
		(In Thousands)	
Cash in banks	₱255,335	₱–	₱255,335
Trade	–	933,095	933,095
Due from related parties	691,682	–	691,682
Nontrade	–	18,588	18,588
Advances to officers and employees	15,881	–	15,881
AFS financial assets	2,600	–	2,600
Refundable deposits	24,812	–	24,812
Restricted time deposit	152,736	–	152,736
	₱1,143,046	₱951,683	₱2,094,729

December 31, 2015 (As restated, Note 31)

	High	Medium	Total
		(In Thousands)	
Cash in banks	₱438,677	₱–	₱438,677
Trade	–	533,098	533,098
Due from related parties	13,901	–	13,901
Nontrade	–	111,266	111,266
Advances to officers and employees	15,958	–	15,958
AFS financial assets	3,834	–	3,834
Refundable deposits	29,065	–	29,065
Restricted time deposit	143,210	–	143,210
	₱644,645	₱644,364	₱1,289,009

High quality receivables pertain to receivables from related parties and customers with good favorable credit standing. Medium quality receivables pertain to receivables from customers that slide beyond the credit terms but pay a week after being past due. For new customers, the Company has no basis yet as far as payment habit is concerned.

The Company evaluated its cash in banks as high quality financial assets since these are placed in financial institutions of high credit standing. It also evaluated its advances to officers and employees as high grade since these are collected through salary deductions.

The aging per class of financial assets that were past due but not impaired is as follows:

As at December 31, 2017

Account	**Neither Past Due Nor Impaired**	**Past Due but not Impaired**					**Impaired**	
		Less than 30 Days	**31 to 60 Days**	**61 to 90 Days**	**91-120 Days**	**More than 120 Days**	**Financial Assets**	**Total**
					(In Thousands)			
Cash in banks	**₱702,744**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱702,744**
Trade	**484,712**	**314,449**	**96,532**	**33,813**	**28,995**	**85,450**	**178,878**	**1,222,829**
Due from related parties	**1,224,701**	**2,388**	**57,790**	**36,715**	**34,946**	**1,628,697**	**–**	**2,985,237**
Nontrade	**18,113**	**31,515**	**23,858**	**35,824**	**6,604**	**163,441**	**291,857**	**571,212**
Advances to officers and employees	**15,434**	**12,531**	**5,676**	**13**	**30**	**200**	**–**	**33,884**
AFS financial assets	**2,600**	**–**	**–**	**–**	**–**	**–**	**–**	**2,600**
Refundable deposits	**60,778**	**–**	**–**	**–**	**–**	**–**	**–**	**60,778**
Restricted time deposits	**152,736**	**–**	**–**	**–**	**–**	**–**	**–**	**152,736**
	₱2,661,818	**₱360,883**	**₱183,856**	**₱106,365**	**₱70,575**	**₱1,877,788**	**₱470,735**	**₱5,723,020**

As at December 31, 2016 (As restated, Note 31)

Account	Neither Past Due Nor Impaired	Past Due but not Impaired					Impaired	
		Less than 30 Days	31 to 60 Days	61 to 90 Days	91-120 Days	More than 120 Days	Financial Assets	Total
				(In Thousands)				
Cash in banks	₱255,335	₱–	₱–	₱–	₱–	₱–	₱-	₱255,335
Trade	933,095	333,924	164,354	28,773	9,214	482,790	239,860	2,192,010
Due from related parties	691,682	2,660	45,330	48,250	53,969	1,678,516	–	2,520,407
Nontrade	18,588	26,664	69,189	17,656	19,563	246,874	271,790	670,324
Advances to officers and employees	15,881	–	–	–	–	–	–	15,881
AFS financial assets	2,600	–	–	–	–	–	–	2,600
Refundable deposits	24,812	–	–	–	–	–	–	24,812
Restricted time deposits	152,736	–	–	–	–	–	–	152,736
	₱2,094,729	₱363,248	₱278,873	₱94,679	₱82,746	₱2,408,180	₱511,650	₱5,834,105

As at December 31, 2015 (As restated, Note 31)

Account	Neither Past Due Nor Impaired	Past Due but not Impaired: Less than 30 Days	31 to 60 Days	61 to 90 Days	91-120 Days	More than 120 Days	Impaired Financial Assets	Total
					(In Thousands)			
Cash in banks	₱438,677	₱–	₱–	₱–	₱–	₱–	₱–	₱438,677
Trade and other receivables:								
Trade	533,098	357,183	104,426	30,927	766,592	–	248,500	2,040,726
Due from related parties	13,901	3,974	42,889	13,670	1,509,627	–	–	1,584,061
Nontrade	111,266	50,363	42,823	17,876	334,974	–	155,557	712,859
Advances to officers and employees	15,958	–	–	–	–	–	–	15,958
AFS financial assets	3,834	–	–	–	–	–	–	3,834
Refundable deposits	29,065	–	–	–	–	–	–	29,065
Restricted time deposits	143,210	–	–	–	–	–	–	143,210
	₱1,289,009	₱411,520	₱190,138	₱62,473	₱2,611,193	₱–	₱404,057	₱4,968,390

Liquidity Risk

The Company manages its liquidity profile to be able to finance its capital expenditures and service its maturing debt by maintaining sufficient cash during the peak season of the passage business. The Company regularly evaluates its projected and actual cash flows generated from operations.

The Company's existing credit facilities with various banks are covered by the Continuing Suretyship for the accounts of the Company.

The liability of the Surety is primary and solidary and is not contingent upon the pursuit by the bank of whatever remedies it may have against the debtor or collaterals/liens it may possess. If any of the secured obligations is not paid or performed on due date (at stated maturity or by acceleration), the Surety shall, without need for any notice, demand or any other account or deed, immediately be liable therefore and the Surety shall pay and perform the same.

The following table summarizes the maturity profile of the Company's financial assets and financial liabilities based on contractual repayment obligations and the Company's cash to be generated from operations and the Company's financial assets:

	December 31, 2017			
	Less than 1 Year	**1 to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Financial Liabilities				
Trade and other payables*	**₱3,410,447**	**₱–**	**₱–**	**₱3,410,447**
Short-term notes payable	**1,414,699**	**–**	**–**	**1,414,699**
Long-term debt**	**2,736,421**	**–**	**–**	**2,736,421**
Obligations under finance lease	**32,777**	**66,160**	**–**	**98,937**
	7,594,344	**66,160**	**–**	**7,660,504**
Financial Assets				
Cash	**717,260**	**–**	**–**	**717,260**
Trade and other receivables	**4,342,427**	**–**	**–**	**4,342,427**
AFS financial assets	**–**	**2,600**	**–**	**2,600**
Refundable deposits	**11,199**	**49,579**	**–**	**60,778**
Restricted fund	**152,736**	**–**	**–**	**152,736**
	₱5,223,622	**₱52,179**		**₱5,275,801**

**Excludes nonfinancial liabilities amounting to ₱382.8 million.*

***Noncurrent portion of long-term debt has been reclassified to current portion amounting to ₱375.0 million (see Note 16).*

	December 31, 2016 (As restated, Note 31)			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	(In Thousands)			
Financial Liabilities				
Trade and other payables*	₱3,241,628	₱-	₱–	₱3,241,628
Short-term notes payable	1,770,450	–	–	1,770,450
Long-term debt**	3,257,253	–	–	3,257,253
Obligations under finance lease	39,268	98,726	–	137,994
	8,308,599	98,726	–	8,407,325
Financial Assets				
Cash	269,651	–	–	269,651
Trade and other receivables	4,886,972	–	–	4,886,972
AFS financial assets	–	2,600	–	2,600
Refundable deposits	1,804	23,008	–	24,812
Restricted fund	–	152,736	–	152,736
	₱5,158,427	₱178,344	₱–	₱5,336,771

**Excludes nonfinancial liabilities amounting to ₱512.2 million.*
***Noncurrent portion of long term debt has been reclassified to current portion amounting to ₱2,582.0 million (see Note 16).*

	December 31, 2015 (As restated, Note 31)			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	(In Thousands)			
Financial Liabilities				
Trade and other payables*	₱2,431,890	₱ –	₱–	₱2,431,890
Short-term notes payable	1,600,396	–	–	1,600,396
Long-term debt	347,351	3,172,923	–	3,520,274
Obligations under finance lease	28,669	72,695	–	101,364
	4,408,306	3,245,618	–	7,653,924
Financial Assets				
Cash	456,384	–	–	456,384
Trade and other receivables	3,949,547	–	–	3,949,547
AFS financial assets	–	3,834	–	3,834
Refundable deposits	7,630	21,435	–	29,065
Restricted fund	–	143,210	–	143,210
	₱4,413,561	₱168,479	₱–	₱4,582,040

**Excludes nonfinancial liabilities amounting to ₱435.7 million.*

Trade and other payables and maturing other liabilities are expected to be settled using cash to be generated from operations, drawing from existing and new credit lines and additional capital contribution of the shareholders.

Foreign Exchange Risk
Foreign currency risk arises when the Company enters into transactions denominated in currencies other than their functional currency. Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks associated with the financial instruments. To mitigate the risk of incurring foreign exchange losses, the Company maintains cash in banks in foreign currency to match its financial liabilities.

The Company's significant foreign currency-denominated financial assets and financial liabilities are as follows:

	December 31, 2017		December 31, 2016	
	Amount in USD	**Amount in Php**	Amount in USD	Amount in Php
		(In Thousands)		
Financial Assets				
Cash in banks	**5**	**249**	9	447
Restricted time deposits	**3,059**	**152,736**	3,072	152,740
Claims receivables	**–**	**–**	33	1,641
	3,064	**152,985**	3,114	154,828
Financial Liabilities				
Obligations under finance lease	**569**	**28,417**	845	42,013
Net foreign currency denominated asset	**2,495**	**124,568**	2,269	112,815

USD = ₱49.93 and USD = ₱49.72 as of December 31, 2017 and 2016, respectively.

The Company has recognized net foreign exchange gains (losses) under "Other income (charges)" account in the parent company statements of profit and loss amounting to (₱4.6 million) and ₱2.5 million in 2017 and 2016, respectively (see Note 23).

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Company's income before income tax as at December 31, 2017 and 2016.

Increase/Decrease in US Dollar Rate	2017	2016
	(In Thousands)	
5.39%	**₱6,714**	₱6,618
(5.39%)	**(6,714)**	(6,618)

There is no other impact on the Company's equity other than those already affecting profit or loss.

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates.

Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's borrowings are subject to fixed interest rates ranging from 5% to 6.5% in 2017 and 2016, respectively.

The Company's ₱4.0 billion loans under the OLSA includes ₱2.0 billion loans which bear variable interest rates and exposes the Company to cash flow interest rate risk.

The sensitivity of the parent company statements of profit or loss is the effect of the assumed changes in interest rates on the income before income tax for one year, based on the floating rate non-trading financial liabilities held as at December 31, 2017 and 2016 with other variables held constant:

	Changes in Interest Rates	Effect on Income before Tax 2017	2016	Effect on Equity 2017	2016
		(In Thousands)			
For more than	+80 basis points	**(₱21,891)**	(₱26,058)	**(₱15,324)**	(₱18,241)
one year	-80 basis points	**21,891**	26,058	**15,324**	18,241

Capital Risk Management Objectives and Procedures

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for others stakeholders and produce adequate and continuous opportunities to its employees; and to provide an adequate return to shareholders by pricing products/services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. It manages the capital structure and makes adjustments in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company considers its total equity as its capital. The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the parent company statements of financial position. The capital ratios are as follows:

	December 31 2017	2016 (As restated, Note 31)	2015
		(In Thousands)	
Assets financed by:			
Creditors	**65%**	71%	73%
Stockholders	**35%**	29%	27%

As at December 31, 2017, 2016 and 2015, the Company met its capital management objectives.

30. Fair Values of Financial Instruments and Nonfinancial Assets

The table below shows the carrying amounts and fair values of financial assets and liabilities, including their level in the fair value hierarchy. The table below does not include the fair value information for financial assets and liabilities not measured at fair value if the carrying amounts are the reasonable approximation of their fair values.

	2017 Carrying Amount	**2017** Fair Value	2016 Carrying Amount	2016 Fair Value
		(In Thousands)		
Financial Liabilities				
Long-term debts	**₱2,736,421**	**₱2,938,505**	₱3,257,253	₱3,139,873
Obligations under finance lease	**98,937**	**102,323**	137,994	115,013
	₱2,835,358	**₱3,040,828**	₱3,395,247	₱3,254,886

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash, Trade and Other Receivable, Refundable Deposits, Restricted Time Deposits and Trade and Other Payables
The carrying amounts of these financial instruments approximate their respective fair values due to their short-term maturities.

Short-term Notes Payable
The carrying value of notes payable that reprice every three (3) months, approximates their fair value because of recent and regular repricing based on current market rate. For fixed rate loans, the carrying value approximates fair value due to its short-term maturities, ranging from three months to twelve months.

AFS Financial Assets
The fair values of AFS financial assets are based on quoted market prices, except for unquoted equity shares which are carried at cost since fair values are not readily determinable.

Long-term Debt
Discount rate of 5.8% to 7.0% was used in calculating the fair value of the long-term debt as at December 31, 2017 and 2016.

Obligations under Finance Lease
The fair values of obligations under finance lease is based on the discounted net present value using the discount rate of 3.1% to 6.5% as of December 31, 2017 and 2016.

31. Effect of prior period adjustments and restatements

In April 2017, the Company filed with Philippine SEC its parent company financial statements as at December 31, 2016. The Company's management determined the following adjustments should be recognized in the parent company financial statements as of December 31, 2016 and January 1, 2016 and for the year ended December 31, 2016:

		December 31, 2016				January 1, 2016			
	Note	As previously reported	Effect of restatement	Reclassification	As restated	As previously reported	Effect of restatement	Reclassification	As restated
ASSETS									
Current Assets									
Cash and cash equivalents	*f*	₱266,448	₱3,203	₱–	₱269,651	₱456,384	₱–	₱–	₱456,384
Trade and other receivables - net	*a, c, i*	5,194,921	(307,949)	–	4,886,972	4,091,502	(141,955)	–	3,949,547
Inventories - net		119,890	–	–	119,890	170,662	(77,600)	–	93,062
Other current assets	*g*	549,462	173,363	–	722,825	882,288	(108,182)	–	774,106
					5,999,338	5,600,836	(327,737)		5,273,099
Asset held for sale	*e*	–	–	–	–	–	158,239	–	158,239
Total Current Assets		6,130,721	(131,383)	–	5,999,338	5,600,836	(169,498)	–	5,431,338
Noncurrent Assets									
Property and equipment	*b*	6,680,987	(801,305)	–	5,879,682	5,623,917	(562,873)	–	5,061,044
Investments in associates and joint ventures		438,128	–	–	438,128	425,628	–	–	425,628
Deferred tax assets - net	*g*	122,641	(80,397)	–	42,244	131,711	(79,749)	–	51,962
Other noncurrent assets		368,065	–	–	368,065	298,885	66,585	–	365,470
Total Noncurrent Assets		7,609,821	(881,702)	–	6,728,119	6,480,141	(576,037)	–	5,904,104
TOTAL ASSETS		₱13,740,542	(₱1,013,085)	₱–	₱12,727,457	₱12,080,977	(₱745,533)	₱–	₱11,335,442

(Forward)

	Note	December 31, 2016 As previously reported	Effect of restatement	Reclassification	As restated	January 1, 2016 As previously reported	Effect of restatement	Reclassification	As restated
LIABILITIES AND EQUITY									
Current Liabilities									
Notes payable		₱1,770,450	₱–	₱–	₱1,770,450	₱1,600,396	₱–	₱–	₱1,600,396
Trade and other payables	*d, f*	3,643,992	109,879	–	3,753,871	2,828,922	38,623	–	2,867,545
Current portion of:									
Obligations under finance lease		₱39,268	₱–	₱–	₱39,268	₱28,669	₱–	₱–	₱28,669
Long-term debt	*h*	675,461	–	2,581,792	3,257,253	347,351	-	-	347,351
Total Current Liabilities		6,129,171	109,879	–	8,820,842	4,805,338	38,625	–	4,843,961
Noncurrent Liabilities									
Long-term debt	*h*	2,581,792	–	(2,581,792)	–	3,172,923	–	–	3,172,923
Obligations under finance lease - net of current portion		98,726	–	–	98,726	72,695	–	–	72,695
Accrued retirement benefits		132,062	–	–	132,062	151,761	–	–	151,761
Total Noncurrent Liabilities		2,812,580	–	–	230,788	3,397,379	-	–	3,397,379
Total Liabilities		8,941,751	109,879	–	9,051,630	8,202,717	38,623	–	8,241,340
Equity									
Share capital		₱2,484,653	–	–	₱2,484,653	₱2,484,653	–	–	2,484,653
Additional paid-in capital		910,901	–	–	910,901	910,901	–	–	910,901
Excess of cost of investments over net assets		(11,700)	–	–	(11,700)	(11,700)	–	–	(11,700)
Re-measurement losses on accrued retirement benefits - net		(49,684)	(1)	–	(49,685)	(61,877)	(1)	–	(61,878)
Retained earnings		1,523,336	(1,122,963)	–	400,373	614,998	(784,157)	–	(169,159)
Treasury shares		(58,715)	–	–	(58,715)	(58,715)	–	–	(58,715)
Total Equity		4,798,791	(1,122,964)	–	3,675,827	3,878,260	(784,158)	–	3,094,102
Total Liabilities and Equity		₱13,740,542	(₱1,013,085)	₱–	₱12,727,457	₱12,080,977	(₱745,535)	₱–	₱11,335,442

Parent Company Statement of Profit or Loss

		December 31, 2016		
	Note	As previously reported	Effect of restatement	As restated
REVENUES				
Freight	*c*	₱6,180,735	(₱1,908)	₱6,178,827
Passage		3,334,383	–	3,334,383
Others services		323,219	(12,978)	310,241
		9,838,337	(14,886)	9,823,451
COST OF SERVICES AND GOODS SOLD	*b, c, d, i*	6,990,496	535,427	7,525,923
GROSS PROFIT		2,847,841	(550,313)	2,297,528
GENERAL AND ADMINISTRATIVE EXPENSES	*a, f, i*	1,041,489	208,750	1,250,239
OPERATING INCOME		1,806,352	(759,063)	1,047,289
OTHER INCOME (CHARGES)				
Interest and financing charges		(346,979)	–	(346,979)
Others - net	*e*	(149,456)	212,765	63,309
		(496,435)	212,765	(283,670)
INCOME BEFORE INCOME TAX		1,309,917	(546,298)	763,619
PROVISION FOR INCOME TAX	*i*	(401,579)	207,492	(194,087)
NET INCOME		₱908,338	(₱338,806)	₱569,532

Parent Company Statements of Comprehensive Income

	December 31, 2016		
	As previously reported	Effect of restatement	As restated
NET INCOME	₱908,338	(₱338,806)	₱569,532
OTHER COMPREHENSIVE INCOME - Net of tax			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gains (losses) on net defined benefit liability	17,419	–	17,419
Income tax effect	(5,226)	–	(5,226)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	₱920,531	(₱338,806)	₱581,725

Parent Company Statement of Cash Flows

	December 31, 2016		
	As previously reported	Prior period adjustments	As restated
Net cash flows from operating activities	₱2,277,850	(₱171,422)	₱2,106,428
Net cash used in investing activities	(2,027,593)	163,450	(1,864,143)
Net cash used in financing activities	(445,367)	11,174	(434,193)
Effect of foreign exchange rate changes on cash and cash equivalents	5,174	1	5,175
Net increase in cash and cash equivalents	(189,936)	3,203	(186,733)
Cash and cash equivalents at beginning of year	456,384	–	456,384
Cash and cash equivalents at end of year	₱266,448	₱3,203	₱269,651

a. The Company recognized provision for doubtful receivables in 2016 amounting to ₱131.7 million based on the Company's application of its specific and collective impairment assessment.

b. The Group adjusted its property and equipment and recognized the related costs in the consolidated statement of profit or loss mainly to (a) repainting and other repairs and maintenance expenses amounting to ₱190.9 million; (b) additional depreciation of property and equipment in accordance with the Company's depreciation policy amounting to ₱406.9 million in 2016; and (c) write-off of certain container and reefer vans amounting to ₱5.4 million in 2016.

c. The Company adjusted its revenue by the amounts that did not meet the revenue recognition criteria amounting to ₱1.9 million in 2016.

d. The Company accrued the goods received and services rendered by suppliers as of December 31, 2016 amounting to ₱42.4 million.

e. The Company reclassified its vessel from property and equipment to assets held for sale as of December 31, 2015. Impairment recognized in 2015 amounted to ₱260.4 million (see Note 10).

f. Other restatements to the December 31, 2016 and 2015 parent company financial statements include recognition of provision for contingencies, adjustments on reconciliation of related party transaction and balances and recognition of certain cost and expenses in proper period.

g. The Company assessed the impact of the above restatements on the current and deferred income tax expense. Accordingly, the Company reduced its current income tax expense by ₱208.1 million in 2016, with related impact on creditable withholding taxes and deferred income tax assets.

h. As discussed in Note 14, the Company breached its financial ratios required under the OLSA. Accordingly, the noncurrent portion of Company's long-term debt that are subject to such covenants or with cross-default provision in the loan agreements amounting to ₱2,581.8 million was reclassified to current liabilities in the parent company statement of financial position as of December 31, 2016.

i. The Company also reduced its retained earnings as of January 1, 2016 by P784.2 million due to prior period adjustments arising mainly from provision for doubtful accounts, repairs and maintenance expense and depreciation, reversal of recognized revenue, derecognition of deferred income tax and provision for contingencies.

32. Events after Reporting Period

On February 23, 2018 the BOD approved the internal restructuring of the 2GO Group via merger with its parent company, NN, with 2GO as the surviving entity. This will simplify the 2GO Group's corporate structure and is in line with the 2GO Group's efforts to streamline operations, reduce costs and increase shareholder value.

33. Information Required Under Revenue Regulations No. 15-2010 by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the separate financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the separate financial statements which were prepared in accordance with PFRSs. The following are the tax information required for the taxable year ended December 31, 2017:

a. Value Added Tax (VAT)

	Amount
	(In Thousands)
1. Output VAT	**₱1,401,776**
Basis of Output VAT:	
Vatable sales	**₱11,681,468**
Exempt Sales	**208,095**
Zero rated sales	**34,708**
	₱11,924,271
2. Input VAT	
Beginning of the year	**₱119,252**
Current year's domestic purchases:	
Goods other than for resale or manufacture	**300,018**
Capital goods subject to amortization	**65,268**
Services lodged under other accounts	**646,631**
Claims for tax credit/refund and other adjustments	**(1,001,465)**
Balance at the end of the year	**₱129,704**

The Company's sales are subject to output value added tax (VAT) while its importation and purchases from other VAT-registered individuals or corporations are subject to input VAT. The vat rate is 12%.

Zero-rated sales of services consist of sales which were rendered to BOI and PEZA registered enterprises which were paid for in foreign currency and were accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas [Sections 108 (B)(2) and (3) of the NIRC, as amended.

Exempt sales consist of sales made for the transport of senior citizens on actual transportation fare for domestic sea transport [Section 10, Revenue Regulations No. 7-2010].

Sales of services subject to VAT are based on actual collections received since for VAT purposes, the VAT on the sale of services accrues upon actual or constructive receipt of the consideration, whether or not services has been rendered. Hence, amounts may not be the same as the amounts accrued in the separate statements of profit or loss.

b. Withholding Taxes

	Amount
	(In Thousands)
Tax on compensation and benefits	**₱69,653**
Expanded withholding taxes	**168,821**
Final withholding taxes	**15,878**
	₱254,352

c. All Other Taxes (Local and National)

	Amount
	(In Thousands)
Other taxes paid during the year recognized under "Taxes and licenses" account under "Cost of Services" and "General and Administrative Expenses"	
License and permit fees	**₱20,187**
Documentary stamp taxes	**18,490**
Real estate taxes	**6,919**
Others	**55,838**
	₱101,434

Information on the excise taxes are not applicable since there are no Company transactions in the current year that are subject to these taxes.

d. Tax Cases

As at December 31, 2017, the Company has no pending tax court cases.