2GO GROUP, INC.

2017 ANNUAL REPORT


LOGISTICS
2GO EXPRESS
SHIPPING
2GO SHIPPING
2GO LOGISTICS
2GO DISTRIBUTION
2GO GROUP, INC.
2017 ANNUAL REPORT
WAREHOUSE
DISTRIBUTION

CONTENTS

3	Vision, Mission and Core Values
4	Financial Highlights
6	Chairman’s Message
8	President’s Report
10	Business Units
20	Corporate Social Responsibility
24	Corporate Governance
34	Board of Directors
37	Financial Statement

VISION

To be the preferred end-to-end supply chain, go-to-market, and sea travel company in the Philippines.

MISSION

To create value for our customers by helping to grow their businesses through integrated and scalable supply chain and retail solutions.

To provide fun-filled, comfortable, and safe sea travel throughout the Philippines.

To offer rewarding work and opportunities for our employees.

To deliver competitive returns to our partners and shareholders.

To be responsible corporate citizens who look after the environment while winning in business.

CORE VALUES

Customer First
We develop deep and strong relationships that make a positive difference in our customers' and stakeholders' lives.

Good Corporate Citizenship
We are good citizens in our communities and we look after the environment.

Accountability
We hold ourselves accountable in all our dealings and transactions. We do this by delivering on our commitments.

Respect for People
We care for our people, encourage their development and reward their performance.

Quality and Excellence
We provide the highest standards for products and delightful service that together deliver premium value to our customers.

Honesty and Integrity
We uphold the highest standards of honesty and integrity in all our actions.

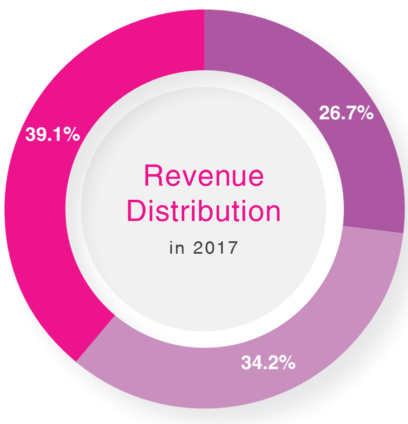
Teamwork and Collaboration
We enjoy working together in order to meet the needs of our customers and to help the company win.

Innovation
We constantly adapt to the changing needs of our customers and continuously innovate the way we work.

FINANCIAL HIGHLIGHTS

in PHP Millions except for Stock Prices and EPS

	2017	2016	2015
INCOME STATEMENT			
Revenue	21,551	19,054	16,383
Operating Income	361	1,086	1,370
Net Income (Loss) After Tax	(310)	344	109
EBITDA	2,211	2,580	1,914
BALANCE SHEET			
Total Assets	16,507	15,674	14,273
Total Liabilities	12,874	11,745	10,731
Total Stockholders Equity	3,633	3,930	3,542
Cash and Cash Equivalents	2,096	1,412	1,357
STOCK INFORMATION			
Market Capitalization — Year End	45,205	18,688	16,829
Stock Price — Year End	18.48	7.64	6.88
Earnings (Loss) Per Common Share	(0.13)	0.14	0.04



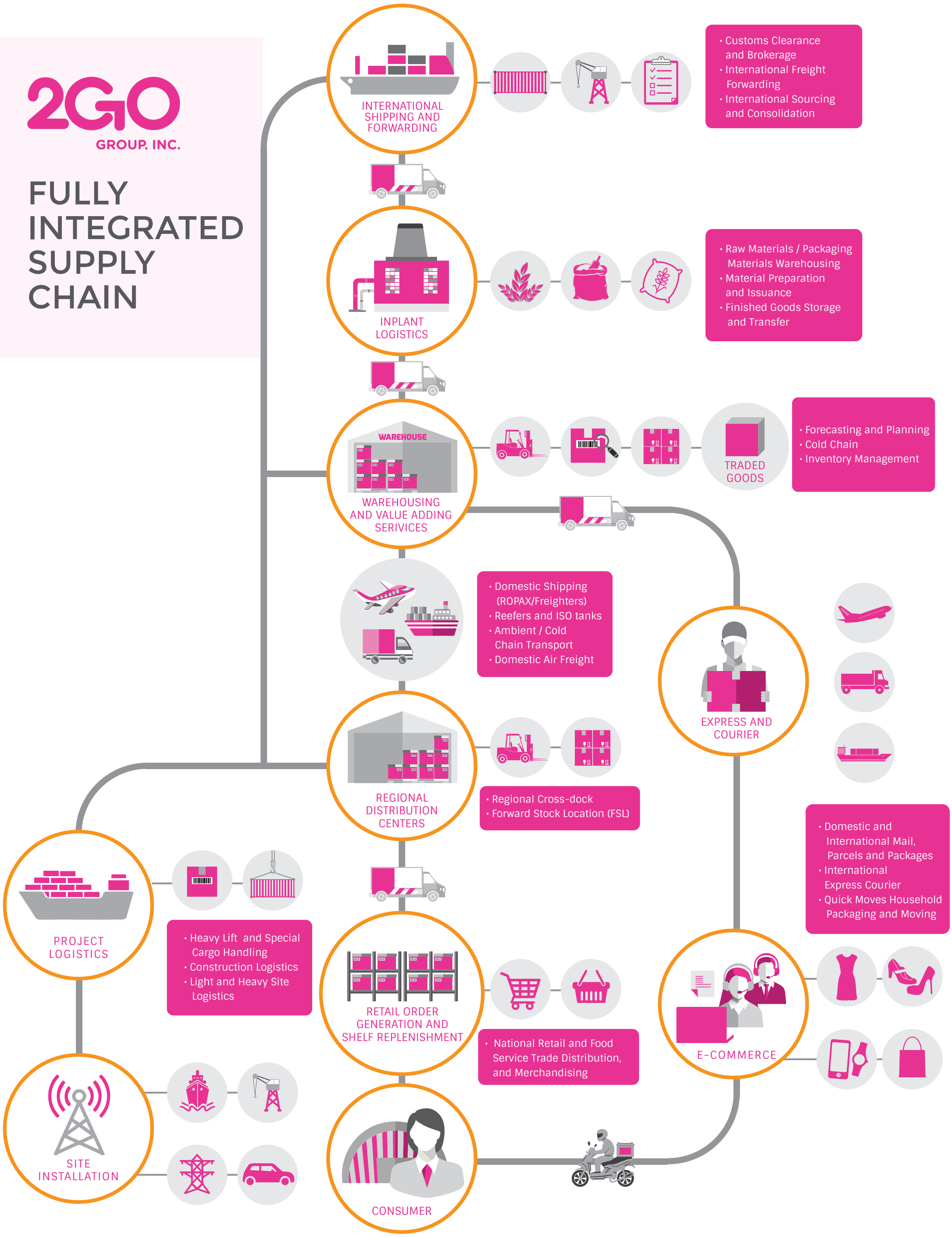
Shipping PHP8.4B ▼ 5.9%

Logistics PHP7.4B ▲ 11.2%

Distribution PHP5.8B ▲ 65.6%

2GO GROUP, INC.

FULLY INTEGRATED SUPPLY CHAIN



MESSAGE FROM THE CHAIRMAN

2017 was an eventful and successful year for 2GO. The Philippine economy continued to be healthy, with buoyant GDP and macroeconomic conditions and business and consumer confidence that remained robust. Against this strong economic backdrop the demand for fast, reliable, safe and efficient movement of people and goods across the country continued to expand. Your company recognized this significant opportunity and took steps to position 2GO to grow the Philippine shipping and logistics sector in the future and, in turn, to create significant value for our shareholders.

Your company undertook changes in the Board, adding two new directors, increasing the number of independent directors. 2GO's Board committee structure was reorganized and a Related Party Transaction Committee was created to ensure that all transactions are done on arm's-length commercial terms. It is our commitment to continuously elevate the level of corporate governance in 2GO and to guarantee adherence to global best practices.

Your company also undertook a reorganization of the business and made changes in

management in order to execute our future growth plans. I would like to welcome Mr. Frederic DyBuncio as the President and CEO of 2GO. At the operating level, 2GO's business units have been streamlined into three main units: Shipping, Logistics and Distribution, each of which has their own strategy for expansion to be driven by new management leadership.

Against these changes your company delivered strong results, reporting record revenues and robust recurring net income in 2017. Non-shipping activities continued to grow and account for a greater share of revenue, in line with our intentions to grow our logistics and distribution businesses even as your company maintains local leadership in the shipping industry.

It is with high confidence that I believe the changes your company made in 2017 will enable the future success of 2GO. Along with the Board of Directors, I would like to thank you for your unwavering support for 2GO as your company continues to grow.

Sincerely,

DENNIS A. UY
Chairman

PRESIDENT'S REPORT

Dear Shareholders,

2017 was a year of change for 2GO, with new management in place, supported by strong shareholders and business partners. The new team intends to run 2GO in line with the highest management standards and to capture the long term opportunities that exist in the strong and growing Philippine market.

During the year, we reviewed all of our businesses, their plans and our financial and management practices. We took steps to develop our long term strategy, enhance management strength and build our governance standards.

2GO today is well positioned for long term future growth. We will continue to maintain our leadership in Shipping and to grow our Logistics and Distribution businesses, reflecting the need for end-to-end solutions across the country. We will also drive synergies between our business units and look for opportunities to work with our partners to drive our expansion.

To enable this strategy we undertook a number of personnel changes in 2017, including bringing in a new Chief Finance Officer and management heads to lead our major business divisions. Together the new team has conducted a full business review and identified the opportunities and actions necessary to deliver growth.

Revenue

PHP21.6B

+13.1%

Shipping	Non-Shipping
PHP8.4B	PHP13.1B
-5.9%	+29.9%

In 2017 we also engaged Sycip, Gorres, Velayo & Company (SGV) to launch an independent audit of the company's financial position and accounting practices. This led to a significant restatement of our 2015 and 2016 financial statements and we have adopted in full their recommendations regarding 2GO's future accounting policies. SGV will continue as the external auditor for the company going forward.

Against these changes we delivered a strong underlying performance last year. In 2017, consolidated revenues increased to PHP21.6 billion, 13.1% higher than the previous year. The company reported a net loss of PHP309.6 million compared to a net profit of PHP344.0 million in 2016. Without restructuring costs and other costs relating to the financial restatement however, 2GO's net profit remained positive at PHP314.0 million.

Top line growth was primarily driven by our non-shipping businesses, Logistics and Distribution, which grew by a combined 29.9% as service offerings were increased to existing customers and new customers were actively targeted.

In Shipping, freight volumes remained relatively stable compared to the prior year against an intense competitive environment. As a result the business experienced a contraction in revenues by 5.9%.

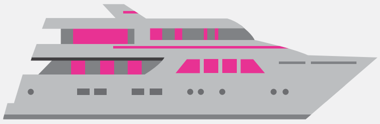
Moving forward, the economic growth of the Philippines and the potential to expand our services remain bright. With rising income levels across the country and planned government-driven investments in infrastructure, we see opportunities to serve greater numbers of customers across many regional destinations. As the Philippines' largest end-to-end logistics provider we intend to help drive the development of the sector and to ensure we deliver an excellent overall customer experience as we do so.

On behalf of the Board I would like to extend our gratitude to all of our customers, business partners, suppliers and other stakeholders and to you, our shareholders, for your cooperation and unwavering support in 2017 and for the journey ahead.

Yours truly,

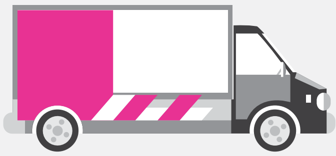
FREDERIC C. DyBUNCIO
President and Chief Executive Officer

BUSINESS UNITS



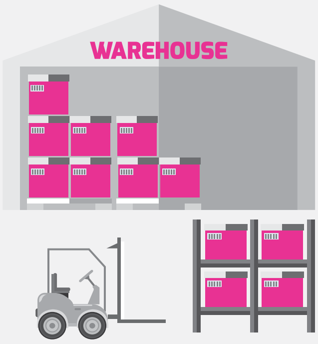
SHIPPING

Containerized cargo services including: cargo handling for Full Container Load, Less-than-Full Container Load, rolling cargo and perishable goods, inter-island travel, hotel services, tours, events, food and beverage.



LOGISTICS

Services: import and export, customs release, freight forwarding, multi-temp warehousing, multi-modal transportation, domestic freight, general cargo, rush, e-commerce, courier, quick move and project logistics. Official Philippine agent of companies such as FedEx, Hansa-Meyer, Kerry Logistics and Hapag-Lloyd.



DISTRIBUTION

One of the leading importers and distributors of consumer products in the Philippine market, representing over 20 renowned international brands. Services include: warehousing, distribution, trade marketing and merchandising.

322,684
TEUs for 2017

4.5M
Passengers in 2017

26
Vessels

22
Ports of Call

MARKET SHARE

90%
Passage

27%
Freight

18,135
Containers

14.6K
TEUs of Full and Less-than-Full Container Load deliveries in 2017

3.6M
e-Commerce Deliveries in 2017

2,014
Company-owned and subconracted trucks

599
riders

1.8K
Branch Network

67
Warehouses

59,846
Pallet positions

164,264
sqm. of Warehousing

6
Multinational FMCGs

Servicing:

1.1K
Retail Outlets

473
Food Service Establishments

1.1K
Pharmacies

SHIPPING

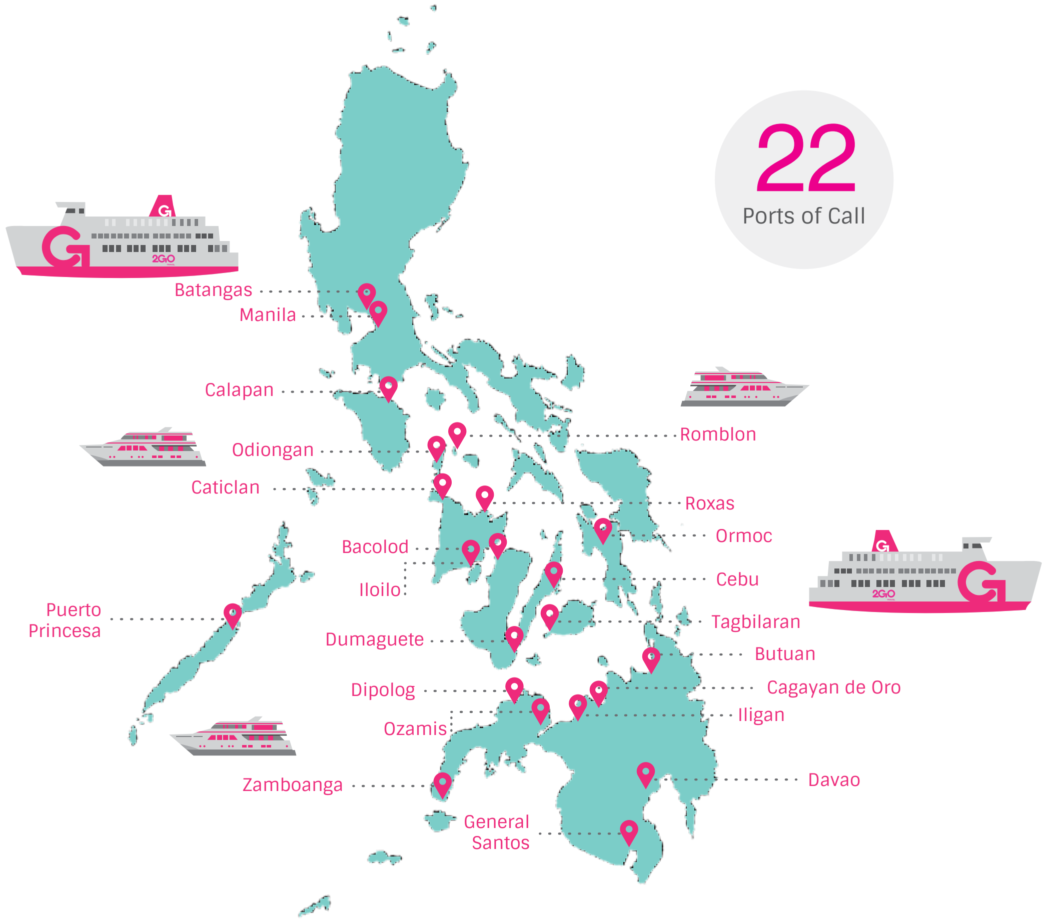
2GO Shipping Group is the largest passenger and cargo sea transport company in the Philippines today. With the widest network of 22 ports of call covering Luzon, Visayas, and Mindanao, 2GO Shipping offers the general public a wise alternative in travelling and commuting from one island to another as well as moving containerized, breakbulk, less-than-container-load, livestock and perishable cargoes with unparalled reliability, frequency, and fastest possible transit time.

2017 was a challenging year for the 2GO Shipping group. Under new management, reducing the operating costs of both at land and at sea was the priority by thoroughly reviewing the group's strategy and direction. Redundant container yards were closed, while purchasing strategies were improved on ship maintenance and tighter pricing controls. However, the increase in global fuel prices pulled down profitability, notwithstanding major efforts to reduce variable and fixed costs.

VESSEL FLEET

As of December 31, 2017, 2GO and its subsidiaries has a total fleet of 26 vessels, of which 21 are company-owned ships. The fleet consists of 10 fast crafts, eight RoRo/Pax vessels and eight freighters. The Company's operating vessel fleet has a combined Gross Registered Tonnage of approximately 128,690 metric tons, translating to a total passenger capacity of approximately 14,161 passengers per day and an aggregate cargo capacity of approximately 3,724 twenty-foot equivalent units (TEUs) per day. To expand our service area, two fast craft vessels were constructed and deployed to the Ormoc - Cebu route.

Vessel Fleet	Count
Fast Crafts	10
Roro/Pax	8
Freighters	8
Total	**26**


22
Ports of Call
Batangas
Manila
Calapan
Odiongan
Caticlan
Romblon
Roxas
Ormoc
Bacolod
Iloilo
Cebu
Puerto Princesa
Tagbilaran
Dumaguete
Butuan
Dipolog
Cagayan de Oro
Ozamis
Iligan
Zamboanga
Davao
General Santos

4.5M

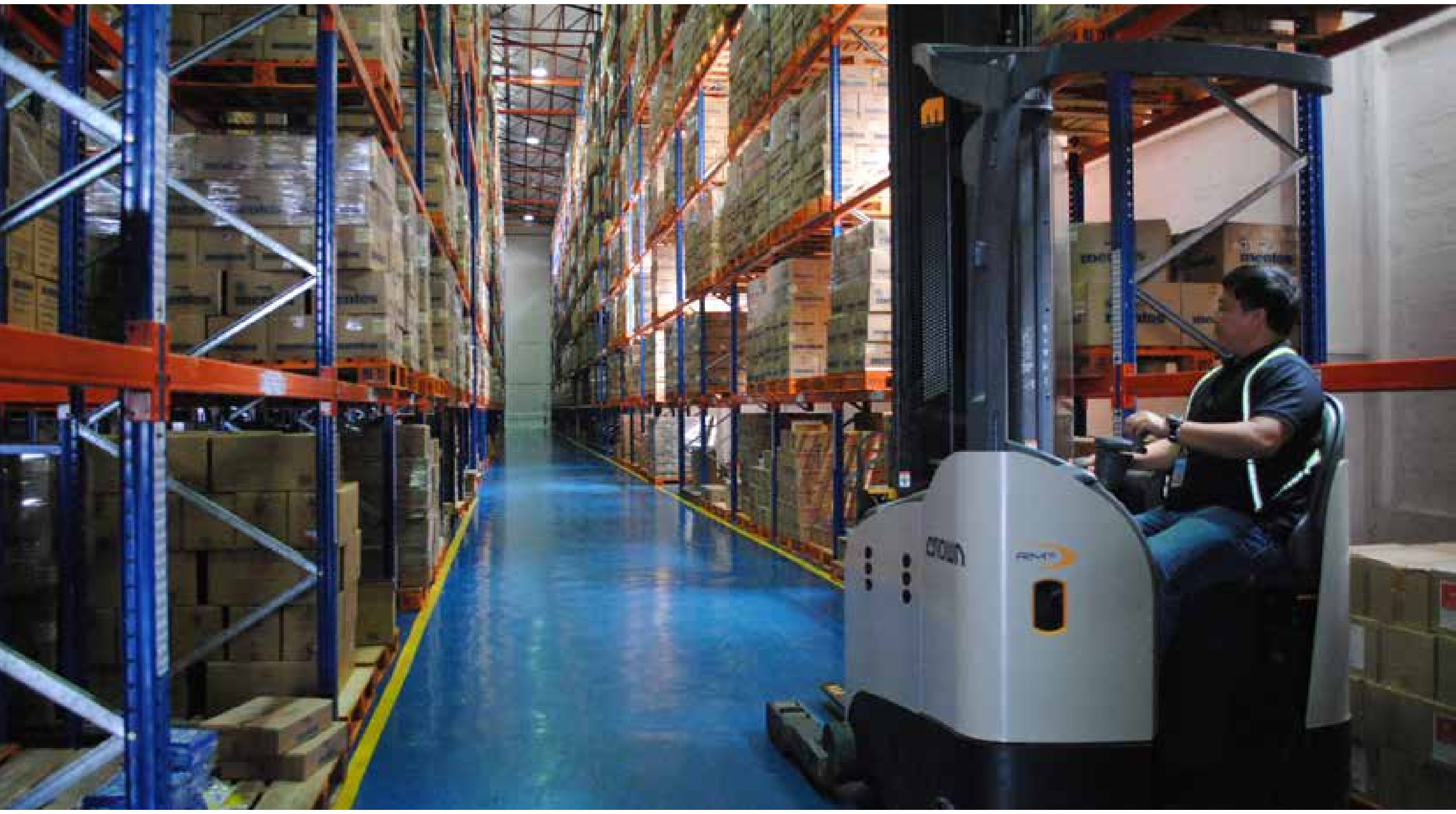
total number of passengers in 2017

323K

TEUs transported in 2017

The company's extensive presence throughout the country is carried out through its branch operations and agency networks. Clustering vessel port calls with minimal nautical mileage maximizes efficiencies in network coverage. 2GO's ports of call are located primarily in Bacolod, Batangas, Butuan, Cagayan de Oro, Calapan, Caticlan, Cebu, Davao, Dipolog, Dumaguete, General Santos, Iligan, Iloilo, Manila, Odiongan, Ormoc, Ozamis, Puerto Princesa, Romblon, Roxas, Tagbilaran and Zamboanga. This has resulted in the company leading in Philippine sea travel with 90% passage market share in and out of Manila. In commercial freight, 2GO's market share is 27%, a leader even with the intensifying competitive landscape.

The Shipping group is positioned to grow its travel and freight business in 2018 by improving yields, cost efficiency, reliability and safety in its various activities. Six vessels will be dry-docked for repairs and upgrades. On the port side, new handling equipment such as forklifts and top-lifters, are slated to be procured. New 20 foot and 40 foot containers will be purchased to increase shipping capacity while replacing ageing units. Two fast crafts will be refitted with brand new engines to enhance fuel efficiency.



LOGISTICS

The 2GO Logistics group is the leading integrated, end-to-end and scalable logistics solutions provider in the country, managing and enabling the growth of its customers. It offers services ranging from import and export, customs release, freight forwarding, multi-temp warehousing, multi-modal transportation, domestic freight, general cargo, rush, e-commerce, courier, quick move and project logistics. We serve as the official Philippine agent of companies such as FedEx, Hansa-Meyer, Kerry Logistics and Hapag-Lloyd.

In line with the changes in management, the group focused on addressing key organizational areas to improve service capacity. In addition, the group also addressed internal audit issues; by cleaning up contracts and claims, recovering clients through service efficiency, process standardization, controls and compliance.

At present, the 2GO Logistics group has 67 warehouses across the country, totaling 59,846 pallet positions, covering 164,264 square meters. Our fleet stands at 2,014 company owned and sub-contracted trucks, 599 riders and 647 special containers. It has 1,071 retail stores across the country. In addition, our international partner Hapag-Lloyd contributes 2,175 TEUs of volume on a daily basis.

In 2017, the Logistics Division continued to monitor key metrics related to service, inventory management, remittances, quality, health and safety. To improve on-time delivery, the availability of third-party trucking providers was ensured and consolidated warehouses and hubs. New technological improvements were introduced to improve inventory management, in addition to retraining of our personnel.

Moving forward, 2GO Logistics will boost its capabilities to serve its customers better. Plans are in motion to expand warehouses, trucking fleets and store network to continue capturing the rising demand for logistics services. System enhancements are underway to update our systems especially in our 2GO Express services, Logistics and Special Containers and Value Added Services, Inc. (SCVASI). It will continue focusing on people engagement, competency development and promoting a culture of excellence. Along with these changes the group will take a closer look in ensuring cost efficiency while maintaining service reliability.

DISTRIBUTION

ScanAsia Overseas, Inc., is one of the leading importers and distributors of consumer products in the Philippine market, representing over 20 renowned international brands. The Distribution business has an extensive network that caters to all key cities nationwide. It serves over two thousand retail outlets and institutions via a sales force that executes its customers' marketing strategies, utilizing its in-house logistics and back-end support team.

As at end-2017, ScanAsia serves 6 multinational FMCG companies and delivers to 1,100 retail outlets, 473 food service establishments and 1,069 pharmacies across the country.

Since the change in management, the ScanAsia team has introduced new policies and processes to effect tighter controls in its operations. New policies on inventory management were implemented, while product returns were managed more actively in 2017. More controls on store promotions were deployed, making sure that adequate approvals and evaluations were done prior to execution. Proactive measures to decrease receivables were executed, raising sales team collection efficiency. Finally, contract terms were rationalized to the benefit of both ScanAsia and its clients. These measures and the addition of two new clients grew revenues by 65.6% compared to the previous year.

Moving forward, the Distribution group aims to grow the business both organically and by targeting more clients. The key to success is through salesforce effectiveness, efficient and wide-reaching logistics and value-adding trade marketing services.

CSR

CORPORATE SOCIAL RESPONSIBILITY

2GO moves forward with its Corporate Social Responsibility that is anchored on Environmental Protection, Education and Social Advocacy. With passion to drive change, the company provides vast opportunities for employees to give back to the society, touch other people's lives and make a difference through its various programs.

The company has launched various initiatives that are geared towards encouraging employee engagement and partnering with the community towards nation building.

Together with the Labor-Management Council, 2GO has continuously embarked on Brigada Eskwela, a program aimed at helping a chosen school in its clean up drive by painting its walls, refurbishing its chairs and tables and making the entire school premises conducive to learning. In partnership with the Department of Education (DepEd), Ramon Magsaysay Science High School along España, Manila has been chosen as the beneficiary of this program with no less than the 2GO employees who personally volunteered to do the clean up as part of their community service.

2GO also partnered with Children's Joy Foundation, a non-government organization that provides for neglected and abandoned children. The program entails patronizing products made by their members, while the children showcase their talents as thanksgiving for the support. During the Christmas season, the children sings carols to raise funds for their needs in the foundation.

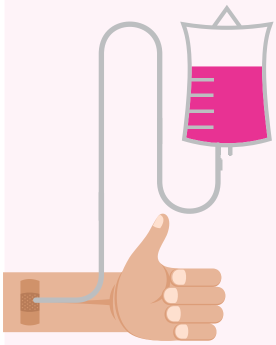
In partnership with the Philippine National Red Cross, the Company also participated in their Blood Donation Program. An estimate of 600 employees selflessly volunteered in the program in different office sites of 2GO.

In addition, 2GO also looks at promoting the overall spiritual welfare of the employees by sponsoring monthly First Friday masses and annual Stations of the Cross. The regular Townhall meetings, Sports Festival and Employees' Day, fulfills the company's objective in driving employee engagement. The corporate social responsibility initiatives of 2GO have enabled the employees to become socially-relevant to the community in its quest for sustained partnership towards growth and development.

BRIGADA ESKWELA

To support Department of Education (DepEd) programs of providing quality basic education for all Filipino learners by making schools environmentally sustainable and conducive to learning.

Ramon Magsaysay Science High School located at Espana, Manila was the chosen school that we helped in cleaning and painting of walls, ceilings, chairs and tables of 2 Class rooms.



BLOOD DONATION

To encourage employees to save lives through blood donation while preserving their own health. Collection of blood has been done in selected 2GO Manila offices.

Times Plaza, SMI, Pier 2, Hangar, Elisco, Edan, Multinational, SCVASI, Pier 18: Container Freight Station, Kerry Logistics

LMC CHARTER DAY / EMPLOYEES' DAY

To strengthen camaraderie through Sports / LMC Charter Day celebration

Sports Fest (Basketball, Volleyball, Badminton, Bowling and Swimming). Search for Mr. & Ms. LMC is the highlight of the activity during the awarding of winners.

CHILDREN'S JOY FOUNDATION CAROLING

To support the vision/mission of the Children's Joy Foundation, Inc. by helping them to raise funds through caroling.

Members of the Children's Joy Foundation shared their talents to 2GO employees through dancing and singing Christmas songs.

CORPORATE GOVERNANCE

2GO and its subsidiaries, in its pursuit of attaining corporate objectives and goals, commit themselves to the principles and best practices of corporate governance and resolve to foster a company that adopts best practices in the areas of systems, integrity, and discipline.

BOARD STRUCTURE

The 2GO Board of Directors is responsible for the long-term sustainability of the Company, and ensures that it balances its corporate objectives with the best interest of its shareholders and other stakeholders. The 2GO Board is composed of nine (9) highly respectable professionals, five (5) of whom, including the Vice Chairman, are non-executive independent directors. In line with corporate governance best practice, the Company's independent directors are free from management responsibilities, substantial shareholdings and material relations, all of which are perceived to impede independent judgment. Likewise, the roles of the Chairman of the Board and the Chief Executive Officer are held by separate individuals to promote a balanced Board and increase accountability and controls.

2GO Group, Inc. Board of Directors				
Director	Age	Designation	Directorship	Year First Elected
Mr. Dennis A. Uy	44	Chairman of the Board	Non-Executive Director	Feb. 2017
Mr. Francis C. Chua	68	Vice Chairman	Independent Director	Jan. 2011
Mr. Frederic C. DyBuncio	58	President/Chief Executive Officer	Executive Director	Apr. 2017
Atty. Elmer B. Serrano	50	Director/Corporate Secretary/ Corporate Information Officer	Executive Director	Feb. 2017
Ms. Ma. Concepcion F. de Claro	59	Director	Non-Executive Director	Apr. 2017
Atty. Joseph C. Tan	59	Lead Independent Director	Independent Director	Feb. 2017
Amb. Raul Ch. Rabe	77	Independent Director	Independent Director	Dec. 2010
Atty. Monico V. Jacob	73	Independent Director	Independent Director	Dec. 2011
Mr. Laurito E. Serrano	58	Independent Director	Independent Director	Apr. 2017

BOARD RESPONSIBILITIES

The Board promotes the highest standard of excellence throughout the organization and conducts itself with utmost honest and integrity in the discharge of its duties, functions, and responsibilities which includes, among others, the following:

- Ensure a sufficient process of selection is in place to guarantee a mix of competent directors and officers, each of whom add value to the Company and contribute independently to the formulation of sound corporate strategies and policies.

- Foster a professional development program for officers and employees and ensure that succession planning is in place for Management.
- Determine the Company's purpose, vision, mission and strategies to carry out its objectives and review it annually, or sooner should the need arise.
- Determine the Company's strategic objectives, policies and procedures that may guide and direct the activities of 2GO and the means to attain the same as well as the mechanism for monitoring Management's performance. While management of the day-to-day affairs of the Company is the responsibility of Management, the Board is, however, responsible for monitoring and overseeing Management's actions and performance.
- Develop an in-depth understanding of the arenas in which the various businesses play, and the range of external factors, opportunities and risks, that each business may face.
- Periodically seek the insights and recommendations of Management on goals and strategies going forward.
- Adopt long-term goals and objectives for the Company, including the formulated strategies necessary to achieve those objectives.
- Review key matters impacting the external reputation and standing of the Company and the 2GO name, including any perceived failure to consistently adhere to corporate values, beliefs and standards of ethical conduct.
- Ensure that each elected director, shall before assumption of office, be required to attend a seminar on corporate governance conducted by a duly recognized private or governance institution.
- Ensure that each director shall annually attend relevant continuing education programs conducted by a regulatory body accredited training provider.
- As and when appropriate, seek expert advice from external providers for specific needs for which internal expertise is unavailable, or for which an independent perspective is considered valuable.
- Ensure that the Company complies with all relevant laws, regulations and codes of best business practices.
- Ensure that the members of the Board exercise their powers and discharge their responsibilities honestly, in good faith, in the best interests of the Company and for the wellbeing of all stakeholders of 2GO.
- Identify the Company's stakeholders and formulate a clear policy on communicating or relating with them effectively through an investor relations program. As a best practice, the Chief Executive Officer (CEO) or Chief Financial Officer (CFO) should have oversight of this program and should actively participate in public activities.
- Adopt a system of internal checks and balances, which may be applied in the first instance to the Board. A regular review of the effectiveness of such system must be conducted so that the decision-making capability and the integrity of corporate operations and reporting systems are maintained at a high level at all times.
- Identify key risk areas which will prevent the Company from achieving its objectives and design key financial and operational performance indicators and monitor these factors with due diligence.
- Ensure that the Company's Code of Business Conduct, which provides the standards for professional and ethical behavior, as well as articulates acceptable and unacceptable conduct and practices in internal and external dealings, is properly disseminated to the Board, Management and employees, and is available to the public via the Company's website.

- Properly discharge Board functions by meeting a minimum of six (6) times annually. Independent views during Board meetings should be given due consideration and all such meetings should be duly minuted.

- Keep Board authority within the powers of the Company as prescribed in the Articles of Incorporation and By-Laws, and in existing laws, rules and regulation.

BOARD PERFORMANCE

Special board meetings may be called by the Chairman, the President or Corporate Secretary at the request of any two (2) directors. A director's absence or non-participation for whatever reason in more than 50% of all meetings, both regular and special, in a year may be a ground for temporary disqualification in the succeeding election. Board meetings are scheduled a year in advance to encourage higher participation. Board papers and other materials used during Board meetings are distributed to the relevant parties at least one (1) week before the actual meeting.

Director	Special	Special	Special	Special	Special	Special	Special	Special	Regular	Org.	Regular	Special	%
	2/6/17	2/13/17	4/7/17	4/19/17	5/15/17	6/6/17	7/7/17	8/14/17	9/20/17	9/20/17	11/9/17	12/1/17	
Dennis A. Uy*	N/A	√	√	√	√	√	√	√	√	√	√	√	100
Francis C. Chua	√	√	√	√	√	√	√	√	X	X	X	√	75
Frederic C. DyBuncio*	N/A	N/A	N/A	√	√	√	√	√	√	√	√	√	100
Elmer B. Serrano*	N/A	√	√	√	√	√	√	√	√	√	√	√	100
Ma. Concepcion F. de Claro*	N/A	N/A	N/A	√	√	√	√	√	√	√	√	√	100
Joseph C. Tan*	N/A	√	√	√	√	√	√	√	X	X	√	√	75
Raul Ch. Rabe	√	√	√	√	√	√	√	√	√	√	√	√	100
Monico V. Jacob	√	X	√	√	√	√	X	√	√	√	√	√	83
Laurito E. Serrano*	N/A	N/A	N/A	√	√	√	√	√	√	√	√	√	100

** Please note that the marked directors were first elected to the Board of Directors in 2017.*

BOARD COMMITTEES

To focus on specific tasks and responsibilities, the Board adopted six (6) Board Committees, namely the Executive Committee, Audit Committee, Corporate Governance Committee, Compensation and Remuneration Committee, Risk Oversight Committee and Related Party Transactions Committee.

EXECUTIVE COMMITTEE

The Executive Committee acts on behalf of the Board during the interim periods between Board meetings. The Committee is tasked to assist the Board in overseeing the implementation of strategies, set and monitor the Company's performance goals and foster the sharing and dissemination of best practices in all areas of the business.

Executive Committee	
Office	Director
Chairman (Executive Director)	Frederic C. DyBuncio
Member (Non-Executive Director)	Dennis A. Uy
Member (Executive Director)	Elmer B. Serrano

AUDIT COMMITTEE

The Audit Committee exercises the Board's oversight function over internal controls and procedures, as well as the audit activities performed by the Company's internal and external auditors. (Please see the Audit Committee Report for more information on the Committee's roles and activities.)

Audit Committee	
Office	Director
Chairman (Independent Director)	Laurito E. Serrano
Member (Independent Director)	Joseph C. Tan
Member (Non-Executive Director)	Ma. Concepcion F. de Claro

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee takes the lead in the promotion of the principles of corporate governance throughout the organization via the regular review and development of the Company's various governance related policies and programs. The Committee is also responsible for establishing the criteria used in the selection of directors and key officers and the recommendation of the former for membership of the Board and/or Board Committees. Further to this, the Committee regularly reviews the Company's policies on management development and succession. The Committee is composed entirely of independent non-executive directors.

Corporate Governance Committee			
Office	Director	9/20/17	11/9/17
Chairman (Independent Director)	Joseph C. Tan	X	√
Member (Independent Director)	Monico V. Jacob	√	√
Member (Independent Director)	Raul Ch. Rabe	√	√

The Corporate Governance Committee also determines the number of directorships which a member of the Board may hold simultaneous to their 2GO board seat.

Director	Reporting Company	Nature of Directorship
Mr. Dennis A. Uy	Phoenix Petroleum Philippines, Inc.	President/CEO/Director
	Chelsea Logistics Holdings Corp.	Chairman
	Apex Mining Company, Inc.	Independent Director
Mr. Francis C. Chua	Basic Energy Corp.	Vice Chairman
	Global Ferronickel Holdings, Inc.	Director
Mr. Frederic C. DyBuncio	SM Investments Corp.	President/CEO/Director
	Phoenix Petroleum Philippines, Inc.	Director
	Atlas Consolidated Mining and Development Corp.	Vice Chairman
Atty. Joseph C. Tan	LMG Chemicals Corp.	Independent Director
	Pacific Online Systems Corp.	Independent Director
Amb. Raul Ch. Rabe	Vivant Corp.	Independent Director
Atty. Monico V. Jacob	Jollibee Foods Corp.	Independent Director
	Lopez Holdings Corp.	Independent Director
	Rockwell Land Corp.	Independent Director
	Phoenix Petroleum Philippines, Inc.	Independent Director
	DFNN, Inc.	Independent Director
	STI Education Systems Holdings, Inc.	President/CEO/Director
	Asian Terminals, Inc.	Director
Mr. Laurito E. Serrano	Atlas Consolidated Mining and Development Corp.	Lead Independent Director
	APC Group, Inc.	Independent Director
	MJC Investments Corp.	Independent Director
	Pacific Online Systems Corp.	Independent Director
	United Paragon Mining Corp.	Independent Director

Annual Board Evaluation

To ensure the Board's optimum performance, an annual Board evaluation process was adopted. The Board, through the Corporate Governance Committee, conducts an annual performance evaluation of the collective Board, individual directors, Board Committee and the Company's President. The criteria used in the evaluation is based on the duties and responsibilities of those being evaluated as provided for by the Company's By-Laws, Manual on Corporate Governance and respective Board Committee Charters. Directors are also asked to identify areas for improvement, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings, and their accessibility to Management as well as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. Once directors have submitted their accomplished evaluation forms, the data provided is collated and analyzed and reported to the Board in the succeeding meeting. The Board then reviews the results of the evaluation and agree on action plans to address the issues raised.

COMPENSATION AND REMUNERATION COMMITTEE

The Compensation and Remuneration Committee is responsible for the remuneration philosophy of the Company, which contains director, officer, and employee compensation, benefits and incentive plans.

Compensation and Remuneration Committee			
Office	Director	9/20/17	11/9/17
Chairman (Non-Executive Director)	Dennis A. Uy	√	√
Member (Executive Director)	Frederic C. DyBuncio	√	√
Member (Executive Director)	Elmer B. Serrano	√	√

Remuneration of Directors and Senior Management

Members of the Board of Directors receive a per diem for each meeting attended. Total compensation paid to directors is disclosed annually in the Definitive Information Statement sent to shareholders, together with the Notice of the Annual Stockholders' Meeting.

The corporate compensation philosophy for executive remuneration in 2GO is - meritocracy based. Commensurate compensation is given based on the annual performance evaluations of 2GO's executives. Any change in compensation is subject to full discussion and concurrence by the Board upon the review and recommendation of the Compensation and Remuneration Committee.

RISK OVERSIGHT COMMITTEE

The Risk Oversight Committee is responsible for the Company's enterprise risk management system, and leads the organization in the management of its material business risks. The Committee also reviews and assesses the implementation and effectiveness of the Company's risk management framework.

Risk Oversight Committee			
Office	Director	9/20/17	11/9/17
Chairman (Independent Director)	Raul Ch. Rabe	√	√
Member (Independent Director)	Monico V. Jacob	√	√
Member (Executive Director)	Frederic C. DyBuncio	√	√

Enterprise Wide Risk Management Program

2GO's Board of Directors sets the overall risk tolerance for the Group, but delegates the responsibility of managing risk exposures to the Risk Oversight Committee. In 2017, the Group continued to develop its Enterprise Risk Management program by addressing the Business Continuity Plans of its various business units, particularly those units exposed to technology-based risks. The business units continue to regularly update their risk registers as well as their respective business continuity plans as part of the Group's strategy to ensure that personnel and assets are protected and functional in the event of a disaster and/or crisis. Furthermore, the Crisis Management and Emergency Response Teams of the business units are periodically trained and conduct regular drills to ensure maximum preparedness in the event of a disaster and/or crisis.

RELATED PARTY TRANSACTIONS COMMITTEE

The Related Party Transactions Committee reviews all material related party transactions of the Company and ensures that said transactions are conducted at arms' length. The Committee is composed of three (3) non-executive directors, majority of whom, including the Chairman, are independent directors.

Related Party Transactions Committee			
Office	Director	9/20/17	11/9/17
Chairman (Independent Director)	Monico V. Jacob	√	√
Member (Independent Director)	Joseph C. Tan	X	√
Member (Non-Executive Director)	Ma. Concepcion F. de Claro	√	√

POLICIES AND PROGRAMS

To ensure the continued development of its corporate governance practices, 2GO regularly reviews its Manual on Corporate Governance, Code of Business Conduct, and other governance related policies and programs. All governance related policies may be viewed via the Company's website at www.2go.com.ph.

Manual on Corporate Governance

The Company's governance principles and practices remain rooted in its Manual on Corporate Governance.
In addition to the provisions relating to the Board of Directors and Management, the Manual also contains the Company's governance related policies on disclosure and transparency, communication and training programs, and also outlines the rights of stakeholders and the protection of the interests of minority stockholders. There have been no deviations from the Manual since it was adopted. The Company certifies that its directors, officers and employees are compliant with all leading practices and principles of good corporate governance as provided by the Manual.

Code of Business Conduct

The Code of Business Conduct serves as the pillar for the Company's culture of excellence and integrity. Directors, officers and employees are required to adhere to the Code in the performance of their duties and responsibilities. The Code highlights the importance of integrity in all the dealings with investors, creditors, customers, contractors, suppliers, regulators, co-employees, and the Company's other various stakeholders. It also highlights the Company's duties to its employees, shareholders and the importance of corporate social responsibility.

Conflict of Interest Policy

The Company's Conflict of Interest Policy defines a conflict of interest as a situation wherein a director, officer or employee has or appears to have a direct or indirect personal interest in any transaction, which may deter or influence him/her from acting in the best interests of 2GO. Any director, officer or employee involved in an actual or potential conflict of interest is required to immediately disclose said conflict to the Company.

Insider Trading Policy

Directors, officers and employees are prohibited from trading in the Company's shares, five (5) trading days before and two (2) trading days after the disclosure of any material, stock price-sensitive information. 2GO issues reminders of the "trading ban", before the release of financial reports or the disclosure of other material information to ensure compliance with the policy. All directors, officers and employees are required to report their dealings in company shares within three (3) business days of the transaction. Reports should indicate the date of the trade/s and number of shares traded, at least, and should be submitted to the Company's Compliance Officer.

Policy on Accountability, Integrity and Vigilance (Whistleblowing Policy)

The Company's whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any stakeholder may accomplish an incident report on suspected or actual violations of the Code of Business Conduct or any other applicable law or regulation. Upon receipt of an incident report, Management conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. Furthermore, the policy invokes a "No Retaliation" section for those that have reported in good faith.

Related Party Transactions Policy

The Company discloses in detail the nature, extent and all other material information on transactions with related parties in the Company's financial statements and quarterly and annual reports to regulators. Management regularly presents the details of transactions entered into by 2GO with related parties at the meetings of the Related Party Transactions Committee. This is to ensure that the Company conducts all related-party transactions at an arms' length basis.

DISCLOSURE AND TRANSPARENCY

The Company ensures that its stakeholders receive timely and accurate information on all facets of its business through the utilization of its website and disclosures. 2GO regularly discloses its top shareholders and its beneficial owners who own more than 5% of its shares. Shareholdings of directors and senior management are disclosed in the Definitive Information Statement sent to shareholders prior to the Annual Stockholders' Meeting (ASM).

The ASM provides 2GO shareholders with the opportunity to raise concerns, give suggestions, and vote on relevant issues. Voting methods are clearly defined and explained to shareholders before the ASM to ensure the observance of their voting rights and continued participation in the voting process. Under the Company's By-Laws and Manual on Corporate Governance and in accordance with certain laws, rules and regulation, shareholders may cumulatively vote for the election or replacement of members of the Board of Directors. Prior to the ASM, shareholders are furnished a copy of the annual report, including financial statements, and all relevant information about the current and nominated directors and key officers. Elected directors hold office for one (1) year until their successors are elected following the procedures set forth in 2GO's By-Laws. The Company also includes rationales and explanations for each agenda item which requires shareholder approval in the Notice of the ASM.

Proxy voting is permitted and facilitated through proxy forms which are distributed to shareholders prior to the ASM. Proxy forms may also be downloaded from the Company's website. To encourage shareholders to apply their right to vote through the proxy forms, notarization of such is not required. Shareholders are also given the opportunity to vote on certain corporate acts in accordance with law. These resolutions, along with shareholder questions and the corresponding responses are recorded in the minutes of the ASM, which are posted on the Company's website within five (5) days from the ASM. To ensure that all shareholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairpersons and Members, the Corporate Secretary, Compliance Officer, Internal and External Auditors, and other members of Management are present during the ASM.

The Company's investor relations professionals provide a means of communication between 2GO and its shareholders. They arrange regular teleconferences and site visits for investors, coordinate with the investor relations departments of the Company's related parties and conduct briefings with analysts and the media. 2GO's shareholders and other various stakeholders that require further information or details on the Company, its operations, directors and/or officers, or would like to provide feedback and/or make other relevant suggestions/recommendations to the Company, may contact the following:

Investor Relations Department
8/F Double Dragon Plaza
2850 Epifanio de los Santos Ave.
Pasay City, 1308 Philippines
+63 2 528 7171
investor_relations@2go.com.ph

PROTECTION OF STAKEHOLDERS

As provided for in its Manual on Corporate and other relevant rules, laws and regulations, 2GO recognizes and protects the rights and interests of its key stakeholders, namely its shareholders, employees, customers, business partners, creditors, the environment and the communities it operates in.

Shareholder Rights

The Manual on Corporate Governance protects the shareholders' appraisal right as well as their rights to vote, inspect corporate books and records, gain access to material information and receive an equitable share of the Company's profits. The exercise of a shareholder's voting right is encouraged by the Company to ensure meaningful participation in shareholders' meetings. Voting methods and vote counting systems employed by the Company are clearly explained to ensure the effective exercise of shareholders' right to vote. The Company adheres to a system of cumulative voting for the election of directors to allow shareholders an opportunity to elect each member of the Board of Directors individually. Shareholders have the right to receive dividends. They may exercise their appraisal right or the right to dissent and demand payment of the fair value of their shares in accordance with the Corporate Code. Minority shareholders are given the right to propose the holding of a meeting as well as the right to propose items in the agenda of the meeting, provided that the items are for legitimate business purposes and in accordance with law, jurisprudence and best practice.

Employee Welfare

The Company provides for the health, safety and welfare of its employees. Through the efforts of its Human Resources Department, the Company has established policies and programs that promote a safe and healthy work environment that caters to all cultures and creeds and encourages employee development and growth. The Company recognizes that awareness and understanding of the principles of good corporate governance are essential to the continued development of its corporate governance program. New employees are given an overview of 2GO's corporate governance framework, policies and its various components via employee orientations. Skills and Leadership development courses are also conducted regularly to ensure that 2GO employees are given ample opportunities for personal growth and development.

For issues or concerns, stakeholders may refer to:

Mr. Reginald H. Tiu
Corporate Governance and Compliance Officer
8/F Double Dragon Plaza
2850 Epifanio de los Santos Ave.
Pasay City, 1308 Philippines
+63 2 528 7171
reg_tiu@2go.com.ph

OUR LEADERS

BOARD OF DIRECTORS

Dennis A. Uy
Chairman

Frederic C. DyBuncio
President and CEO

Francis C. Chua
Vice Chairman

Amb. Raul Ch. Rabe
Independent Director

Atty. Monico V. Jacob
Independent Director

Ma. Concepcion D. de Claro
Director

Atty. Elmer B. Serrano
Director

Atty. Joseph C. Tan
Independent Director

Laurito E. Serrano
Independent Director

Mr. Dennis A. Uy
Chairman

Filipino, became the Chairman of the Board last September 2017. 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 then. 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 Udena 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 Corportion 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. Frederic C. DyBuncio
President and CEO

Filipino, 57 years old, became the Chief Executive Officer and President of 2GO Group, Inc. last September 2017. He is currently the President of 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.

Mr. Francis C. Chua
Vice Chairman

61 years old, Filipino, became the Vice Chairman of the Board last September 2017. He is an Independent Director of 2GO Group, Inc. since January 2011. 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.

Amb. Raul Ch. Rabe
Independent Director

76 years old, 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 KGLI-NM Holdings, Inc. since July 2008; Director of Bancommerce Investment Corporation since 2007; Director of Vivant Corporation since 2002; Director of Bank of Commerce since 2001; Corporate Secretary of Manila Economic and Cultural Office since 2001, and 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 Bachelor of Laws degree from the Ateneo de Manila Law School and a member of the Philippine Bar since 1965. He completed the Colombo Plan Scholarship on Diplomacy at the Australian Institute of Foreign Service in Canberra, Australia.

Atty. Elmer B. Serrano
Corporate Secretary and Corporate Information Officer

Filipino, has been the Director, Corporate Secretary and Corporate Information Officer of 2GO starting February 2017. He is Name Partner of the law firm of Martinez Vergara Gonzalez & Serrano and has been practicing corporate law for over two decades. Atty. Serrano is currently the Corporate Information Officer of BDO Unibank, Inc. He is also the Corporate Secretary of SM Investments Corporation, SM Prime Holdings, Inc., Premium Leisure Corporation, Premium Leisure Amusement Incorporation, Crown Equities, Inc., and Corporation Secretary of subsidiaries of BDO Unibank, Inc. namely, BDO Capital & Investment Corporation, BDO Securities Corporation, BDO Insurance Brokers, Inc., and Averon Holding Corporation. He was a director of OCLP Holdings, Inc. until November 2014. He is a graduate of the Ateneo Law School and holds a degree of B.S. Legal Management from the Ateneo de Manila University.

Atty. Monico V. Jacob
Independent Director

71 years old, Filipino, has served as an Independent Director of 2GO since December 2011. He is an Independent Director of NENACO since December 2010. 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.

Ms. Ma. Concepcion F. de Claro
Director

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.

Atty. Joseph C. Tan
Independent Director

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
Independent Director

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. He has 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. He 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. He 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.

FINANCIAL STATEMENT

2017 ANNUAL REPORT

2GO GROUP, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Amounts in PHP millions	Dec. 31, 2017	Restated Dec. 31, 2016	% Change
Revenue	21,551	19,054	13%
Cost 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 PHP21.6 billion of Revenue in 2017, 13% higher than 2016, and Net Loss of PHP310 million versus Net Income of PHP344 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 PHP525 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 Non-recurring Costs totaled PHP314 million in 2017. EBITDA excluding Non-recurring Costs totaled PHP2.9 billion in 2017.

Details of Non-recurring Costs for the years ended December 31, 2017 and 2016 are described as follows:

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

Provisions and Other Non-recurring 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 PHP 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	**12874**	**11,744**	**10%**
Total Equity	3,633	3,930	(8%)
Total Liabilities and Equity	**16,507**	**15,674**	**5%**

Total Assets increased 5% to PHP16.5 billion, while Total Liabilities increased 10% to PHP12.9 billion.

Assets

Current Assets increased 13% to PHP8.6 billion from PHP7.6 billion. Cash and Cash Equivalents increased 48% to PHP2.1 billion from PHP1.4 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 PHP4.4 billion from PHP4.2 billion, while Revenue increased 13% in 2017 from 2016.

Non-current Assets remained at approximately PHP8.0 billion as of December 31, 2017 and 2016.

Liabilities

Current Liabilities increased 10% to PHP12.4 billion from PHP11.2 billion. Short-term Notes Payable increased 14% to PHP2.6 billion from PHP2.3 billion, while the current portion of Long-term Debt decreased 8% to PHP3.1 billion from PHP3.4 billion as 2GO took advantage of lower borrowing rates under short-term credit facilities. Trade and Other Payables increased 20% to PHP6.5 billion from PHP5.4 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.

Non-current Liabilities remained at approximately PHP500 million as of December 31, 2017 and 2016.

Equity

Total Equity decreased 8% to PHP3.6 billion from PHP3.9 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 PHP2.2 billion and 10% in 2017, and PHP2.6 billion and 14% in 2016, respectively. 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 + Income 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.

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 approved the consolidated financial statements including 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, had 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.

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

REPORT OF THE AUDIT COMMITTEE

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's financial reporting, internal control system, internal and external audit processes and compliance with relevant laws and regulation. Likewise, the Committee oversees special investigations as may be necessary. It reviews its Charter annually.

The Committee is composed of three (3) non-executive directors, two (2) of whom are independent directors including the Committee Chairperson. The Committee members have relevant background, knowledge, skill and/or experience in areas of accounting, auditing and finance. The profiles and qualifications of the Committee members are as follows:

- **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.

- **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.

- **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.

Presented below are the dates of Committee meetings and the attendance of each member.

Audit Committee								
Committee Designation	**Name**	**6/8/17**	**8/1/17**	**8/9/17**	**9/19/17**	**9/20/17**	**11/9/17**	**11/21/17**
Chairman (ID)	Laurito E. Serrano	√	√	√	√	√	√	√
Member (ID)	Joseph C. Tan	√	√	√	√	X	√	√
Member (ID)	Ma. Concepcion F. de Claro	√	√	X	√	√	√	√
Member (ID)	Frederic C. DyBuncio*	√	√	√	√	N/A	N/A	N/A

**On September 20, 2017, Mr. Frederic C. DyBuncio became President/CEO of the Company.*

In compliance with the Audit Committee Charter, the Manual of Corporate Governance, and relevant laws and regulations, the Audit Committee performed the following major activities relating to the three (3) major areas of concern:

Internal Audit

1. The Committee provided oversight of the Internal Audit.

Under 2GO's Internal Audit Charter, the primary purpose of Internal Audit is to provide an independent, objective, and reasonable assurance and value-adding services through systematic and disciplined evaluation of the Company's governance system, risk management, and internal control environment. The Charter also requires the Internal Audit to do the following:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, and submit such plan as well as periodic update thereof, to the Audit Committee for review and approval.
- Implement the approved annual audit plan, including special tasks or projects coordinated with and/or mandated by Management or the Audit Committee.
- Maintain a team of professional audit staff with sufficient and relevant knowledge, skills, experience, and professional certifications to meet the requirements of the Charter.
- Issue periodic reports to the Audit Committee and Management, summarizing results of audit activities. Thereafter, conduct follow-up audit in a timely manner to ascertain the adequacy, effectiveness, and timeliness of management actions on the reported audit findings and agreed recommendations.
- Assist in the investigation of significant suspected fraudulent activities within the Company and notify Management and the Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

To maintain the independence of the Internal Audit, the Chief Audit Executive functionally reports to the Board of Directors, through the Audit Committee. He is authorized to have unrestricted access to all functions, records, property, and personnel in the conduct of his duties, and free access to communicate with the Audit Committee and Management.

2. **The Committee reviewed and approved the Internal Audit plan, including the scope, methodology, organization structure and staffing.**

3. **The Committee monitored the implementation of the Internal Audit plan and reviewed the periodic reports of the Chief Audit Executive summarizing the overall assessment of the Company's control environment, significant audit findings and areas of concern, arising from both the regular and special audit works, as well as the corresponding management response and action plan.**

External Audit

The Audit Committee has the primary responsibility to make a well-informed recommendation regarding the appointment, re-appointment or removal of the External Auditor.

The External Auditor is tasked to undertake an independent audit and provide and perform an objective assurance on the preparation and presentation of the financial statements.

4. **The Committee reviewed/discussed with the duly appointed External Auditor, SGV & Co., the following:**

- The annual audit plan for 2017, including scope, approach, risk-based methods, focus areas and time table;
- The results of its examination and action plan to address pending audit issues; and
- The assessment of internal controls and quality of financial reporting.

5. **The Committee reviewed/discussed the report of SGV & Co. on significant accounting issues, changes in accounting policies/standards and major pending tax legislations which would impact the Company and its subsidiaries.**

6. **The Committee discussed with SGV & Co. the matters required to be disclosed under the prevailing applicable Auditing Standards, and obtained from said Firm a letter confirming its independence, as required by prevailing applicable Independence Standards.**

7. **The Committee reviewed and approved all regular and special audit services provided by SGV & Co, and related audit fees (there was no non-audit service during the year other than routine consultations on matters relating to accounting and tax planning).**

Financial Statements

8. **The Committee assessed the internal control system of the Company based upon the review and evaluation done and reported by the internal and external auditors and noted that the system is generally adequate to generate reliable financial statements.**

9. **The Committee participated in the discussions and reviewed Management's positions relating to special investigations or special or routine inquiries by regulatory bodies such as the Philippine Securities and Exchange Commission and the Philippine Stock Exchange.**

10. **The Committee likewise participated, in coordination with Management, in the presentation, deliberation, and formulation of recommended courses of actions relating to special matters that may affect the financial statements such as, but not limited to, tax planning, related party transactions, IT integration, accounting treatment or financial statement presentations of certain accounts or transactions, mergers and consolidations of businesses or legal entities within the Group, and such other matters considered significant by both Management and the Committee.**

11. **The Committee reviewed and endorsed to the Board for approval the unaudited financial statements of 2GO Group, Inc. for the first quarter ended March 31, 2017, six- month period ended June 30, 2017, and third quarter ended September 30, 2017.**

12. **Based on its review and discussion, and subject to the limitations on the roles and responsibilities referred to above, the Committee recommended for Board approval, and the Board approved, the audited financial statements of 2GO Group, Inc. for the year ended December 31, 2017.**

13. **The Committee reviewed and discussed the performance, independence and qualifications of the External Auditor, SGV & Co., in the conduct of their audit of the financial statements of 2GO Group, Inc. for the year. Based on the review of their performance and qualifications, the Committee also recommended the re-appointment of SGV & Co. as the Company's External Auditors for 2018.**

Laurito E. Serrano
Chairman

Joseph C. Tan
Member

Ma. Concepcion F. de Claro
Member

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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.

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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.

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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.

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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.

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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

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.

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)

	Note	Years Ended December 31 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.

CONSOLIDATED STATEMENT OF COMPRENSIVE 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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Number of Shares, Earnings per Share, Exchange Rate Data and When Otherwise Indicated)

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**

[1]*Ceased commercial operations in February 2006*
[2]*Ceased commercial operations in 2017*
[3]*NALMHCI 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.*
[4]*Incorporated 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.

<u>Property Acquisitions and Business Combinations</u>

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.

<u>Goodwill</u>

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.

- *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.

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

<u>BDO</u>

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:

	Nature	Years Ended December 31 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:

	Note	Years Ended December 31 **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:

	Note	Years Ended December 31 **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	Years Ended December 31 2017	2016	2015
			(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	Years Ended December 31 2017	2016	2015
			(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	Years Ended December 31 2017	2016	2015
			(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

	December 31, 2015		
	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
		(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

	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		₱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

	Note	December 31, 2016 As previously reported	December 31, 2016 Effect of restatement	December 31, 2016 As restated	December 31, 2015 As previously reported	December 31, 2015 Effect of restatement	December 31, 2015 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.

CORPORATE INFORMATION

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SyCip Gorres Velayo & Co.

Stockholder Inquiries
2GO Group, Inc.'s common stock is listed and traded in the Philippines Stock Exchange (PSE) under the symbol "2GO". For inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters, please contact the company's transfer agent.

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2GO
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