Asian Terminals Incorporated

BOLD IDEAS.
BIGGER RESOURCES.
BETTER CAPABILITIES.

Annual Report 2017

VISION

We aim to be the Philippines' premier ports and logistics investor, developer and operator.

+1.3 M
TEUs CONTAINER THROUGHPUT

NEARLY
4M
OUT-BOUND PASSENGERS THRU BATANGAS

PURPOSE

Add Value

- To deliver exceptional customer service and build lasting partnerships through global expertise and local know how

Think Ahead

- To foresee change and innovate to create the most efficient, safe and profitable trade solutions

Build a Legacy

- To ensure everything we do leaves long-term benefits for the world we live in

VALUES

Courage
- We challenge, innovate and dare to be great.
- We embrace change and have the courage to do things differently.

Respect
- We believe in respect for all.
- We welcome and value a wide-range of opinions and ideas.

Intelligence
- We are in tune with global risks and opportunities.
- We provide a learning environment to help our people reach their full potential.

Pride
- We take pride in being a responsible corporate citizen. Together we make a positive difference to our world and our future.

ALMOST
200,000
COMPLETELY BUILT CAR UNITS HANDLED

0.53
RIFR SAFETY PERFORMANCE

SOLID FINANCIAL RESULTS
P10.6B
REVENUES
P2.5B
INCOME

CONTENTS

EUSEBIO H. TANCO

ANDREW R. HOAD

CHAIRMAN'S AND PRESIDENT'S MESSAGE

The Philippines remained among the fastest growing Asian economies in 2017, attaining a full-year GDP growth of 6.7 percent on the back of robust public-sector spending, industry upswing, and a steady stream of overseas Filipino remittances. The country's foreign trade also gained momentum, outgrowing government expectations.

Amidst indicators of global trade recovery and local economic resilience, we are pleased to report that Asian Terminals Inc. delivered a record overall performance in 2017, while positively contributing to the country's growth as investor and operator of the Philippines' major trade gateways.

At the operational end, our international ports in Manila and Batangas handled a combined container volume of over 1.3 million teus (twenty foot equivalent units), for an increase of 8 percent over 2016. Passenger and international roll-on/roll-off volume in Batangas likewise remained strong, peaking to nearly 4 million outbound passengers and close to 200,000 completely built imported car units. More significantly, ATI achieved all these record volumes while operating safely and efficiently, consistent with global standards.

At the financial end, ATI delivered its strongest set of financial results driven by our Company's solid overall operational performance. For the first time, we breached the double-digit revenue mark with our 2017 top-line reaching Php10.6 billion. This was 14.6 percent higher than the Php9.2 billion we posted in 2016. The robust cash flow from our port business drove our net income to Php2.5 billion, up by 30.7 percent from the previous year's Php1.9 billion.

ATI's strong performance reaffirmed our commitment to balanced growth and lasting shareholder value. This was reflected in the strong showing of our traded stocks which averaged Php11.33 apiece in 2017. Moreover, we consistently provided robust dividends to our stockholders, capped by last year's releases totalling Php860 million.

Apart from these achievements, 2017 was a significant period of innovation in ATI as we started preparing for

future growth highlighted by expansion projects in both our Manila and Batangas container terminals and our Batangas car terminal facility.

Thus, we are sustaining our Company's capital spending in 2018 with a minimum of Php8.0 billion in planned expenditures as we continuously upgrade our port facilities and equipment, aligned with our investment commitment with the Philippine Ports Authority.

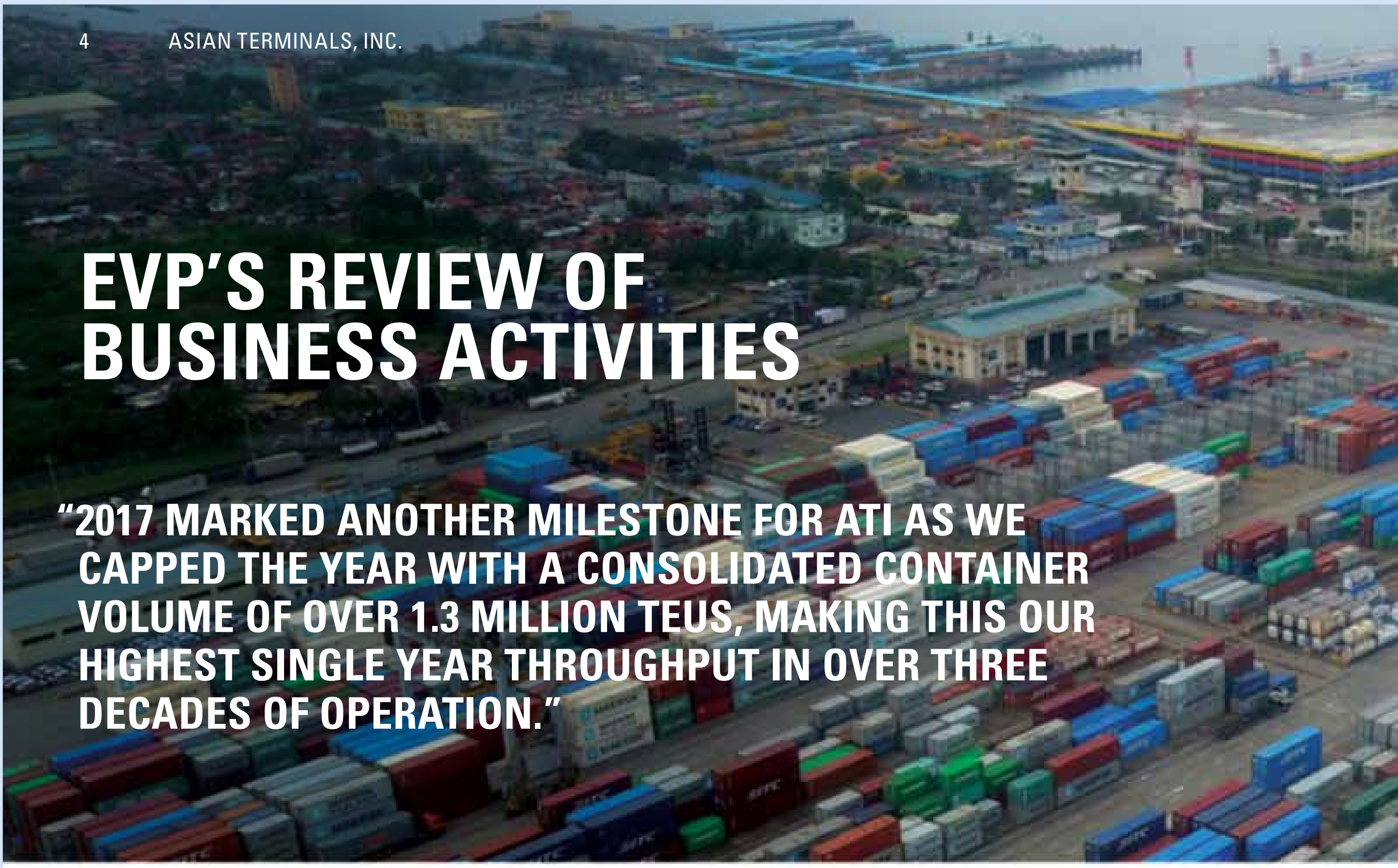
Indeed, our accomplishments add up to our Company's track-record and reputation not only as a solid port operator and investor, but also as an active partner of government in ushering a more inclusive growth to the Philippines.

For all these, we thank our customers, our fellow shareholders and our dedicated and highly skilled employees. We are also grateful to the port authority, industry federations and other stakeholders, for without whom ATI's success would not be possible.

As we welcome ATI's new executive vice president in 2018 in the person of William Khoury, we look forward to delivering even greater value-added services to our stakeholders, banking on his international experience in terminal management and carrying on from our Company's accomplishments in the country's dynamic supply-chain.

ANDREW R. HOAD
Chairman

EUSEBIO H. TANCO
President



EVP'S REVIEW OF BUSINESS ACTIVITIES

"2017 MARKED ANOTHER MILESTONE FOR ATI AS WE CAPPED THE YEAR WITH A CONSOLIDATED CONTAINER VOLUME OF OVER 1.3 MILLION TEUS, MAKING THIS OUR HIGHEST SINGLE YEAR THROUGHPUT IN OVER THREE DECADES OF OPERATION."

I officially assumed the role of Executive Vice President of Asian Terminals Inc. this March 2018 taking the place of Andrew Hoad who has since moved up to become ATI's Chairman of the Board and concurrently as CEO and Managing Director for Asia Pacific Region of DP World, our Company's strategic foreign shareholder partner.

My personal gratitude goes out to him for leading our Company to unprecedented heights in the past six years bannered by outstanding achievements in the operational and financial fronts of the business.

I was responsible of various terminals in Asia Pacific during the last 9 years, after my stint in the Americas, and this has allowed me to experience the growth and market dynamics of this region, including the excellent position and resilience of ATI's business. It is thus a privilege to have been given the opportunity to become part of the ATI family, more so, to share and contribute to its history and tradition of leadership and excellence in the Philippine ports industry.

On behalf of the hardworking men and women of ATI, I am pleased to present our Company's achievements during the past year.

2017 was another milestone year for ATI as we delivered a back-to-back over one-million-teu (twenty foot equivalent unit) performance, sustained by our growth momentum the previous year. ATI capped the year with a consolidated container volume of over 1.3 million TEUs, making this our highest single year throughput in over three decades of operation.

Batangas Container Terminal led container growth, with volumes increasing by over 25 percent as it continued to expand its role as trade facilitator in Calabarzon (Cavite, Laguna, Batangas, Rizal and Quezon). Volumes at our Manila Container Terminal grew by nearly 6 percent, within range of Philippine economic growth. Despite the surge in volume, both terminals operated at optimum efficiency levels, keeping cargoes flowing in support of the country's robust supply chain.

Over to passenger operations, our Batangas Port handled the most number of seagoing commuters outside of Manila. We handled nearly 4 million outbound passengers as they travelled from Batangas to neighboring islands. In related developments, Manila South Harbor saw a significant surge in foreign passenger traffic, in line with government's revitalized thrust on cruise tourism, especially with the historic first home-porting of a leading cruise operator which has since opened up direct travel opportunities from Manila to other key Asian destinations. The terminal expertly handled some of the biggest and most sophisticated cruise liners in operation to date and we have responded well by further upgrading our facilities to better cope with the growing demand.

Meanwhile, for the international roll-on/roll-off cargo segment, Batangas Port remained the preferred gateway for imported completely built car units (CBUs) by the major car manufacturers and distributors in the Philippines. Last year, we handled nearly 200,000 CBUs, constituting majority of the nationwide car sales during the same period.

Indeed, the year again underscored the competitiveness and comprehensiveness of ATI's port business in servicing the diverse needs of clients. But more importantly, we delivered these vital trade and transport services without veering away from our commitment to safety.

We remained steadfast in propagating our stringent safety culture not just among our employees but also with the rest of the port

community. This was evident in the major safety tools and technologies we have invested in last year, including some of the pioneering industrial safety breakthroughs and also by capitalizing on innovative ideas, most of which were pitched in by our own people. With strong stakeholder cooperation, alongside the innovations we have adopted, ATI remained among the safest terminals in Asia Pacific. This has led to several regional awards received by ATI from DP World, including the Best Terminal Award in 2016 and consecutive quarters in 2017, in recognition of our Company's safety practices and overall leadership.

Outside the port gates, our sustainability footprint also grew. We continued to impact our communities positively through our institutional programs on youth education, environmental conservation, health promotion and social protection for vulnerable sectors, among others.

Taken altogether, and as detailed throughout this report, all these accomplishments were collectively achieved through the combination of investment in infrastructure and equipment, adoption of emerging technologies and our active engagement with our stakeholders, including our prized assets – our people – whom we have armed with better technical, safety and leadership skills to quickly adapt to the evolving needs of the industry.

We saw the commencement of these investments last year such as the construction of our Multilevel Car Storage Facility in Batangas. Soon completed, this will further boost our car storage capacity to remain the dominant port for imported commercial vehicles.

Groundwork for the continued expansion of both Manila and Batangas ports also started last year, in preparation for future growth. Two new ship-to-shore (STS) cranes have arrived in Manila, which will be followed through with the deployment of two more STS cranes, and four additional Rubber-Tired Gantry (RTG) cranes in Batangas as well as the completion of the extended quay and adjacent yards by the 3rd quarter of 2018. Furthermore, the redevelopment of the Batangas Passenger Terminal into a modern fast craft and RoRo facility is in planning stage and will start construction later this year.

This 2018 and onwards, we shall continue to pursue our comprehensive strategy – anchored on safety, efficiency and technology – in line with our investment commitment with the Philippine Ports Authority. These shall ensure that we grow our capability and capacity to handle more ships and cargoes through our international gateways for the Metro Manila and southern Luzon markets, respectively, in support of the growing Philippine economy.

In closing, we congratulate and thank ATI's stakeholders – from our stockholders, to our valued clients and our Management and staff – for these accomplishments. With you, we look forward to elevating our Company to even greater levels of success in the years ahead.

WILLIAM KHOURY
Executive Vice President

SOUTH HARBOR INTERNATIONAL CONTAINER TERMINAL

Manila South Harbor's International Container Terminal serves as ATI's operations backbone and is among the Philippines' major gateways for international trade, particularly catering to Metro Manila the country's main consumer market.

RECORD VOLUME

The terminal capped 2017 with a new record volume of over 1.1 million teus, nearly six percent higher than 2016, as ATI continued to fulfil its important role of keeping commodities flowing in the Philippine supply chain.

The port handled more shipment as maritime partners deployed bigger vessels to the Port of Manila. Manila South Harbor also welcomed new shipping line clients which added more connectivity options for metro-based customers.

OPTIMUM OPERATION

Despite the volume growth, the terminal performed at efficient levels throughout the year, driven by continuous process improvement, prudent management of terminal resources and utilization of port technologies, particularly the Terminal Appointment Booking System or TABS.

Crane production stayed north of the 25 gmph (gross moves per crane per hour) industry norm and at one point peaked to 30. GMPH is an efficiency marker indicative of how fast a quay crane moves boxes from ship to shore in an hour, which translates to faster vessel turnaround and quicker cargo delivery to consignees. Utilization of berth and yard facilities were likewise optimal, which averaged within the 60 percent and 70 percent range, respectively.

On its third year of implementation, the Terminal Appointment Booking System–an online platform for scheduling delivery and pickup of containers at the port – sustained the seamless flow of cargoes through the terminal. TABS continuously allowed third-party truckers to complete its container delivery-pickup cycle within an hour of gate entry, a significant leap compared to idle time lost before the advent of TABS.

Port authorities were also instrumental in improving traffic conditions in roads within the expanded port zone. Vehicular traffic flow was modified, obstructions were cleared and available open spaces were maximized to benefit port users. Further to this, an additional accessway was opened adjacent to the Designated Examination Area of the Customs Bureau to hasten truck flow during processes.

ASSET MANAGEMENT

ATI's world-class Asset Management Program likewise supported robust container terminal operations. The predictive maintenance program regularly conducted by ATI's engineers in partnership with operations personnel sustained high equipment reliability and kept equipment in ready line.

The same Asset Management Program further boosted the terminal's capability to handle more ships and cargoes in support of the growing Philippine economy. In line with this, two brand new ship-to-shore (STS) cranes were recently deployed at Pier 3. Each with a lifting capacity of 70-tons, the cranes enable the terminal to accommodate more and bigger vessels at faster turnaround time.

The arrival of the new STS cranes is integrated with ATI's ongoing capacity build-up program, which last year saw the beginning of development works for additional container yards within the Manila South Harbor expanded port zone. These include Blocks 143 and 145 adjacent to South Harbor's main container yard and the in-filling of the Engineering Island Basin next to Pier 3, along with other pier length development projects which will run through 2019.

SOUTH HARBOR GENERAL STEVEDORING TERMINAL

ATI's General Stevedoring Terminal showcases the operational flexibility of Manila South Harbor as hub for a variety of international vessels bringing industrial commodities, tourists and foreign sailors to Philippine shores.

ATI's General Stevedoring Terminal again demonstrated its technical capabilities and operational flexibility in 2017 as it responded to the various and often meticulous handling needs of conventional cargo sea freighters, foreign navy ships on goodwill visits, and massive cruise vessels carrying thousands of passengers and crew per sailing.

CRUISE TOURISM BOOM

Year 2017 saw the government's Cruise Tourism Program gain significant traction with a huge wave of tourist arrivals in Manila via sea transport. ATI's General Stevedoring Terminal, operating at Pier 15 of Manila South Harbor, served as a vital partner in this undertaking as it hosted the biggest and most modern cruise ships to ever visit the Philippines.

Located at the heart of the country's capital, Manila South Harbor offers a direct gateway to nearby historical sites such as the Rizal Park, the Walled-City of Intramuros, Malacanan Palace, the National Museum, Chinatown, and other cultural and entertainment centers.

In all, the terminal handled more than 30 cruise vessels last year which brought with them close to 30,000 tourists. A significant portion of this was attributed to the historic home-porting of Genting Group's Superstar Virgo in Manila South Harbor. A first in the local cruise industry, the home-porting opened up opportunities for Filipinos to avail of exciting and reasonably priced cruise packages from Manila en route to major Asian destinations.

INTERNATIONAL PASSENGER FACILITIES

In response to positive industry growth, ATI has undertaken major steps last year to cope with the growing demand for cruise terminal services. ATI has better equipped its Passenger Terminal Building with secured drop-off and luggage reception areas, passenger check-in counters, and immigration and boarding lounges, all complemented with comfortable seats, clean restrooms and priority sections for the elderly, persons with disability, pregnant women and children.

For safety, the terminal comes equipped with a clinic complete with medical staff. Security is also bolstered by modern x-ray machines, pass-through body scanners, K9 units and other security protocols in partnership with government's maritime and law enforcement agencies.

With more cruise vessel arrivals lined up, heavy-duty mooring bollards have been added at dockside to receive quantum-class cruise vessels, thus positioning Manila South Harbor to accommodate the biggest cruise vessels currently in operation.

SAFETY AND PROCESS INNOVATION

As an industry benchmark, ATI's General Stevedoring Terminal likewise sustained its safety leadership by continuously enhancing processes and integrating new tools and innovative ideas to better address risks in general cargo operations.

ATI's pioneering fall arrest system, which came into service last year, was a great example of such innovation. The system, proposed by the terminal's own staff, safely strapped truck helpers onto a slow-retracting overhang while securing loads atop truck chassis. The system avoids accidental falls during cargo pull-out operations.

Push rods were also introduced to avoid direct hand-to-cargo contact during the discharge of steel billets, rolled steels and other loose cargoes from the vessel's cargo deck. The light but heavy-duty push rods act as physical barriers between cargoes and stevedores while the latter safely repositioned suspended loads before touching the pier apron. Concrete barriers were maximized to segregate mobile equipment from cargoes and pedestrians. Furthermore, highly qualified supervisors were simultaneously deployed in the vessel and at the apron floor to oversee safe cargo handling operations at all times.

BATANGAS CONTAINER TERMINAL

ATI's Batangas Container Terminal (BCT), the most modern sea trade infrastructure south of Manila, continued to expand its role in spurring economic activity in Calabarzon (Cavite, Laguna, Batangas, Rizal and Quezon) region and helping decongest Metro Manila roads.

Sustaining its impressive growth pace over the past three years, the Batangas Container Terminal (BCT) set another operations milestone in 2017, closing the year with a volume of nearly 200,000 teus (twenty-foot equivalent units), its highest foreign container throughput since starting commercial operations in 2010. This represented an increase of over 25 percent on 2016 volume.

More significantly, this translated to the reduction of over 100,000 trucks trips along Metro Manila's roads as more shippers opted to route commodities via Batangas last year instead of Manila, in support of government's thrust to decongest the National Capital Region.

WORLD-CLASS EFFICIENCY

Despite the double-digit volume growth, BCT operated at a world-class production pace of 31 gmph (gross moves per crane per hour), which is comparable to global trade hubs in Singapore and Hongkong. GMPH is a measure of how many boxes cranes move from ship to shore in an hour. Efficient handling of vessels at berth results in faster ship turnaround and quicker deliver of cargoes to consignees.

Yard utilization for the entire year, on the other hand, averaged 51 percent, indicating sufficient storage space and BCT's capacity to handle more vessels and shipment in support of industries.

DIRECT MARKET CONNECTIVITY

Connected to Calabarzon's major industrial hubs via modern highways and road infrastructure, BCT facilitated faster delivery of goods to its growing list of multinational customers including Japanese electronics giants, food and beverage conglomerates, agriculture exporters, car manufacturers, and other major business establishments in the region.

Seven vessels operated by major shipping lines sail through Batangas weekly, linking Calabarzon shippers faster to Hongkong, Singapore, Taiwan, Japan, Thailand, Vietnam, Indonesia and other global trade hubs.

Online self-help kiosks, equipped with touch-screen monitors and barcode scanners, were installed in Batangas Port. The kiosks allowed brokers to conveniently check cargo status, lodge shipment manifests and print truck gate-passes upon completion of ports and Customs processes.

Expeditious processes at the Bureau of Customs-Batangas, which followed global quality standards, likewise complemented BCT's efficiencies. BOC Batangas is the sole unit throughout the bureau with an ISO 9001:2008 certification for Quality Management. In addition, a dedicated examination area was also activated in BCT for x-ray screening and other inspections by the bureau.

With the above-mentioned advantages, technologies and well-synchronized processes, BCT customers are able to pick-up containers at the terminal within 30 minutes of truck entry.

FUTURE CAPACITY

In response to growing customer demand and to further help government decentralize Metro Manila, BCT's expansion program has been in full swing since last year, starting with the extension of its quay wall and crane rails and development of an adjacent container yard. On completion by the 3rd quarter of 2018, two additional Ship-to-Shore (STS) cranes will be delivered along with four more Rubber-Tired Gantry (RTG) cranes. This will shore up BCT's STS and RTG fleet to a total of four and eight, respectively, effectively increasing its throughput capacity to over 450,000 teus annually.

BATANGAS PAX, RORO AND GENERAL CARGO TERMINAL

The Batangas Port – a comprehensive maritime transport infrastructure – is the country's top domestic passenger port outside of Manila and the main gateway for completely-built cars units imported into the Philippines.

ATI's Batangas Passenger and Cargo Terminal booked another strong year in 2017, registering its highest domestic passenger and cargo traffic while supporting the steady influx of imported cars and other non-containerized commodities into local markets.

TOP PASSENGER PORT

At the domestic front, Batangas Port handled nearly 4.0 million out-bound passengers and over 350,000 rolling cargoes. This represented a growth of over five percent and over 14 percent, respectively, compared to 2016 figures as more passengers, cars, buses and trucks traversed the Batangas-Mindoro, Marinduque, Romblon and Palawan (Mimaropa) regional growth corridor.

With public convenience as a constant priority, Batangas Port combined adequate facilities with modern amenities to offer pleasant sea travel experiences to passengers. Its fully air-conditioned terminal buildings are equipped with waiting lounges with comfortable seats, food and entertainment kiosks, in-house clinic and clean restrooms on top of free mobile phone charging stations and public WiFi connectivity. Exclusive terminal seats and shuttle services are provided to pregnant women, children, the elderly and persons with disabilities for greater convenience. In addition, electronic boards were recently installed to update passengers on vessel schedules and other travel announcements.

For public safety, multiple x-ray machines and pass-through scanners vetted both baggage and passengers upon terminal entry. K9 units, law enforcement agencies and standby emergency responders, augmented safety and security measures at the port, especially during peak travel seasons.

TOP CAR CARRIER PORT

On the other hand, the top car carrier port of the Philippines continued to support the influx of completely-built imported car units (CBUs) into the local market. Driven by strong demand and the rising purchase power of consumers, Batangas Port handled nearly 200,000 CBUs in 2017, representing a majority of nationwide car sales during the same period.

Top commercial vehicle brands have made Batangas their homeport given its convenience and close proximity to their main distribution hubs. With domestic roll-on/roll-off ships regularly docking in Batangas, the port also served as a strategic staging point for distributing cars to Visayas and Mindanao.

Responding to the industry's growth, ATI began constructing early last year its multilevel car storage facility (MCSF) at the heart of Batangas Port. Less than a year after its ground-breaking, a portion of the five-storey carpark came into service in time for Christmas car sale season. Upon full completion by mid-2018, the MCSF would increase Batangas Port's car storage capacity by as much as 80 percent, thus enabling the port to handle nearly 13,000 car units in a single time.

Aside from cars, Batangas Port supported the booming industries in nearby localities, handling non-containerized commodities such as steel, cement and break-bulk shipment of factories, utilities and power generation facilities.

It also served as a reliable supply base partner for the biggest natural gas producer in offshore Palawan which significantly contributes to the country's drive toward self-sufficiency in power and electricity.

FUTURE BATANGAS PORT

Looking at the long-term, ATI has begun laying down the groundwork for Batangas Port's transformation into a world-class maritime hub for passengers and roll-on/roll-off cargoes under its massive Port Development Project from 2018 onwards. On completion, the Batangas Port will be bannered by passenger terminal infrastructure and multipurpose commercial areas resembling the fast craft hubs of Hongkong and Macau.

COMPLEMENTARY PORT FACILITIES

Beyond its main gateway ports in Manila and Batangas, ATI operates strategic facilities that bring competitive cargo handling services closer to customers in high growth rural and urban markets.

INLAND CLEARANCE DEPOT

Located along the shoulders of the South Luzon Expressway via the Canlubang Exit is ATI's 4.2-hectare Inland Clearance Depot (ICD). ATI's strategic dry port in Calamba, Laguna serves as a perfect supply-chain partner for the major industries based in Cavite, Laguna and Batangas provinces.

ICD is operationally linked with ATI's Manila and Batangas facilities, thus providing nearby industrial zones a direct access to the country's main gateway ports. As an authorized extension of Manila South Harbor and Batangas Container Terminal, shipment arriving via Manila or Batangas can be transferred immediately to ICD upon the request of Bureau of Customs (BOC)-accredited consignees.

While stored at the secured facility, cargo clearances and other shipment processes can be simultaneously administered through online systems which are electronically linked to BOC's offices.

Aside from container storage, ICD provides superior logistics services from the port to the consignees' factory doorsteps. ICD covers container handling, trucking, brokerage, customs-clearing and other ancillary services, making it an ideal one-stop-shop partner for shippers.

ICD also supports just-in-time production cycles. It can quickly deploy containers stored in its facility to manufacturing hubs of customers 24/7. Containers are delivered by ICD's franchise trucks with GPS-guided monitoring systems, thus allowing clients to keep tabs of their shipments while in transit.

SOUTH COTABATO INTEGRATED PORT

ATI extends its presence in southernmost Philippines through the South Cotabato Integrated Port, a pivotal maritime infrastructure supporting local trade and bridging Mindanao into the growing Southeast Asian market.

The port, managed and operated by the South Cotabato Integrated Port Services Inc. (SCIPSI) where ATI is a strategic investor, delivered a strong performance in 2017. Cumulatively, it handled more than 213,000 teus (twenty-foot equivalent units) of international and domestic containerized cargoes and over 570,000 metric tons of non-containerized shipment led by cement, steel products and wheat.

Recognizing its robust market potential, plans are underway to further develop the port by enhancing its infrastructure and deploying more container handling equipment to complement its current fleet of multipurpose mobile machineries.

STA. MESA CONTAINER YARD

The Sta. Mesa Container Yard is ATI's two-hectare off-dock facility offering valuable support for truckers and international shipping lines calling Manila South Harbor. Located five kilometers from the port area, SMCY allows more methodical rotation for trucks letting them drop off empty containers at the facility before proceeding to Manila South Harbor to pick up laden boxes. It also serves as a strategic back-up area for shipping line customers needing more container spaces outside the terminal.

HUMAN RESOURCES

CULTIVATING AN ENVIRONMENT OF LEARNING, LEADERSHIP AND INNOVATION

ATI's success for over three decades has always been hinged on its most prized asset – its workforce. Cognizant of this, ATI has continuously invested significant resources on programs that cultivate a work environment centered on learning, leadership and innovation, to keep its people empowered, ahead of market demand and attuned to growing customer needs.

SKILLS ENHANCEMENT

In line with ATI's strong learning culture, the Company accumulated over 50,000 training hours, covering continuous skills enhancement programs in operations, engineering, safety, and support services. This translated to more than 30 hours of training for each of ATI's more than 1,600 employees. World-class programs on leadership and innovation, developed by the DP World Institute, were cascaded locally to complement professional growth. Officers and staff were also sent to train locally and abroad to broaden skills and knowledge in the different aspects of the business. Beginning last year, training programs were devolved to each of ATI's business units, to ensure more responsive training interventions that better addressed the specific needs of end-users and are well-timed to their operation cycles.

INNOVATIVE LEARNING

Innovation was a resounding theme in ATI's human resource development approach last year. ATI employees actively submitted ideas and suggestions through the InnoGate, a crowd-sourcing platform for generating business solutions and process improvements, from a global employee base across the DP World portfolio.

Riding on this innovation tide, ATI optimized some of its employees' ideas and turned them into reality. Such an idea resulted in the activation of a container training laboratory the Manila South Harbor main container yard, which simulated dock-side operations. There newly hired dockworkers learned the rudiments of securing cargoes efficiently and safely using twist-locks and lashing bars. The laboratory mimicked actual operational scenarios, as dockworkers interacted with multiple container stacks and equipment while seasoned senior instructors carefully coached them on proper execution. Since exercises were near-realistic and within a controlled environment, risks were reduced while optimizing dockworkers' learning experience without disrupting operations.

Training also went digital last year with the inception of the electronic Learning Management System, another innovation put forward by the Company's staff. The LMS digitized various training materials, putting these into interactive audio-visual formats with accompanying instructions rendered in the local vernacular. The LMS made use of touchscreen computers and listening devises for greater convenience and was complemented by online feedback tools for immediate learning validation.

Buddy trainings were also sustained to sharpen the skills of new employees. For instance new equipment operators are partnered with seasoned personnel to expedite leaning on-the-job. Aside from the technical aspect, training sessions were complemented with behavioural interventions for a more holistic approach to talent development.

TALENT DIVERSITY

In line with efforts to create a more diverse organization, ATI sustained its highly successful Graduate Management Training Program pioneered in 2013. It has since drawn the best and brightest young talents into the Company, with two additional trainees joining its ranks last year. The program has since produced 11 young leaders now handling more senior roles and contributing to ATI's frontline units. Gender equality was likewise encouraged with more women notably joining ATI's operations.

STRONG INDUSTRIAL RELATIONS

Harmonious labor relations were continuously fostered between ATI and its unions last year as the Company further laid the groundwork for a more productive and supportive workplace. This led to the successful conclusion of the Collective Bargaining Agreements between its unions, demonstrating the Company and its unions' commitment to work for mutually beneficial terms that would secure the long-term growth of both ATI and its workforce.

HEALTH, SAFETY, ENVIRONMENT AND SECURITY

ENSURING SAFE, HEALTHY, SECURE AND ENVIRONMENT-FRIENDLY PORTS

For ATI, safety is a way of life which is cemented at the core of its operations. It is ATI's top priority which cannot and will not be compromised.

RECORD SAFETY PERFORMANCE

Backed by its world-class systems on health, security, quality and occupational safety, ATI remained among the regional benchmarks for safety in DP World's Asia Pacific region. In 2017, ATI's Reportable Injury Frequency Rate (RIFR) stood at 0.53, a reduction of 50 percent from 2016. An RFIR is a global parameter measuring safety performance wherein a lower figure indicates better risk mitigation.

In the same year, ATI maintained zero marks on major incidents and accidents, spills, fire and other risks and more importantly sustaining its zero fatality status. Gains were also achieved in resource conservation and emission mitigation.

SAFETY DRIVEN BY TECHNOLOGY

Not resting on its achievements, ATI sought better ways to further improve safety performance. Turning to technology, ATI introduced its Electronic Safety Dashboard last year, a tool that allowed ATI to manage risk rather than manage to audit a risk based on specific priorities and parameters set by Corporate HSES. The tool also automatically converted critical incident reports, safety observation and inspection data into frequency charts for better risk analysis and faster action item resolution. The Safety Dashboard will soon be cascaded to other ports in the region, following its successful adoption in ATI.

At operation's end, ATI outfitted its internal transfer vehicles with Seeing Machines, or in-cab sensors which detected the symptoms of driver fatigue and drowsiness using proprietary technology. Upon fatigue detection, the machine sounds an alarm and jolts the driver's seat to reinvigorate alertness.

Meanwhile, to further boost terminal security and access controls, a new electronic Safety and Security Barcode Scanning System was implemented. Using handheld scanning devises deployed at the gates, the system verifies the driver's identity and vehicle details then crossmatches these with ATI's database of safety

violations and infractions. This way only authorized personnel who have passed ATI's mandatory safety induction and those without outstanding safety infractions are granted access into the facility. New patrol boats were also deployed to secure the perimeter of the terminal from the shoreline.

SAFETY AND INNOVATION

ATI's successful safety engagement program has drawn several safety ideas and innovations from its own ranks. Some of these have previously come on-stream such as the solar-powered pinning stations and portable edge protector prototype, all designed to safeguard stevedores during vessel operations.

Another innovation came through last year, with the introduction of the Transportable Fall Arrest System. The system straps third party truckers onto a slow-retracting overhang as they secured general cargoes onboard truck chassis. This mitigates missteps or accidental falls from the truck chassis. On top of this, field safety officers and yard supervisors ensured that strict safety protocols were followed at all times.

EMERGENCY PREPAREDNESS

ATI also continued to broaden its capability in responding to exigencies. Advanced trainings and drills were conducted such as rescue at heights, worksite accident management, chemical spill containment, earthquake preparedness and fire suppression to continuously sharpen the skillset of its emergency responders. ATI also invested in life-saving equipment and the latest safety gears such as defibrillators, spine-boards, neck braces, as well as an oil spill containment system, making it the first private port in the Philippines to be equipped for such exigency.

IMS CERTIFICATION

As a fitting conclusion to last year's safety accomplishments, ATI's sites successfully retained their Integrated Management System (IMS) certifications for Quality Management (ISO 9001:2008), Environmental Management (ISO 14001:2004), Occupational Safety and Health Management (OHSAS 18001:2007) and Security Management (ISO 28000:2007).

INFORMATION TECHNOLOGY

PROVIDING SMART SOLUTIONS FOR THE PORT COMMUNITY

As a pioneer in the Philippine port industry, ATI takes pride in leading the development and implementation of IT-driven solutions and infrastructure to ensure safe, efficient and reliable ports, which in turn benefit customers, the supply chain and the economy as a whole.

SEAMLESS TRADE FLOW THRU TABS

Among the technological highlights of last year was the continued success of the Terminal Appointment Booking System (TABS), an online truck scheduling facility developed by 1-Stop Australia, for picking up and delivering containers at the port. This was initiated by ATI, the government and port stakeholders in late 2014 as a long-term solution to road congestion.

With confirmed booking in TABS, a truck simply had to show up at the terminal within its schedule and it was immediately served. Last year, more than 80 percent of trucks arriving on schedule had a complete turnaround within an hour of gate entry. The orderly arrival of trucks spread 24/7 avoided bottlenecks at the port's gates and eased traffic flow along major roads. Another key feature of TABS is that it allowed trucks to traverse major road networks to and from the ports even during rush hours as long as they had valid TABS booking. To monitor compliance, traffic enforcers checked the validity of the TABS booking by texting the truck's plate number to a designated toll-free number. This in turn displayed the truck's transaction information and road ban exemption.

Into its third year of full implementation, TABS has sustained the gains of facilitating the seamless flow of commodities from the port to factory doors 24/7. It was instrumental in sustaining operational efficiency at Manila South Harbor during its over 1.1 million teus (twenty foot equivalent units) performance last year. From a pre-TABS volume of 1,500 trucks per day, Manila South Harbor efficiently handled over 2,000 trucks in 2017 daily, which meant that it processed 50 percent more trucks within the same operating period without causing traffic on roads or causing strain in operations.

IT INFRASTRUCTURE

Aside from frontline technologies, ATI continuously improved its backroom systems and information management platforms to handle the Company's growing transactions. In line with this, it upgraded its core IT equipment and adopted an advanced financial management system last year for both Manila and Batangas sites.

Aside from this, more online kiosks were installed at Batangas Port to aid customers in their onsite transactions. Additional fiber optics infrastructure were laid down to support the new kiosks while redundant telco services were tapped to ensure system connectivity at all times. Upgrades like this were instrumental in maintaining ATI's high IT system reliability which stood at 99.99 percent in 2017.

WEB-BASED APPLICATIONS

ATI's home-grown applications continued to deliver greater convenience and transaction transparency to customers. ATI's Web-track system and its counterpart Mobile Port App (MPort) for smart gadgets, were upgraded to cope with growing customer requirements. The apps allowed customers to check the status of containers and vessels on a real-time basis and execute transactions. Its Container Traffic Light System provided useful information to port users for return of empty containers at the port. Alongside this, IT also boosted its network security to protect web-based applications.

Meanwhile, the use of ePayment in partnership with major banks has also gained traction among customers as a highly secure and convenient payment option 24/7.

FUTURE PLANS

Providing the right platform and support for such highly interconnected markets, ATI's plans to implement more upgrades in both IT systems and infrastructure in 2018, including the use of leading cloud-based technologies, to ensure the uninterrupted flow of trade volumes handled by ATI's ports and support customer-to-port transactions of industries.

CORPORATE SUSTAINABILITY

BUILDING THRIVING AND SELF-RELIANT COMMUNITIES

ATI firmly believes that working sustainably and responsibly is essential to building a strong and progressive company. Consistent with this philosophy, ATI has increased its engagement across a variety of crucial social and environmental issues in 2017 through its comprehensive Corporate Sustainability Program to help build vibrant, secure, and resilient communities.

YOUTH EMPOWERMENT

Believing in the transformative power of education, ATI continued to allocate the biggest share of its social investment on educating the Filipino youth. A major part of this went to its highly successful Scholarship Program which last year supported the schooling of 124 students, including dependents of ATI employees and children in underprivileged communities.

The local rollout of the Global Education Program (GEP) also gained momentum as ATI reached out to more school-aged children, educating them on the importance of global trade and the crucial role seaports like ATI plays in moving the world's cargoes and as career options in the future. In all, ATI covered over 400 students from five different schools in Manila, Batangas and Cagayan. School administrators have commended ATI's GEP for inspiring students to explore careers in the maritime industry and for boosting their understanding of global trade.

Aside from this, ATI reached out to a youth community in Mindoro province, supporting the annual kids regatta organized by a local sailing club, to help raise funds for the continuing education of public school students in the island province.

Meanwhile, a growing number of ATI employees have joined the annual volunteering program of the Department of Education's Brigada Eskwela. ATI brought employee volunteers to public schools nearby its ports to help repaint classrooms and armchairs, setup more bookshelves in libraries and enhance other school facilities, to help prepare school facilities for the academic year opening. ATI also donated first-aid kits to boost the emergency preparedness of the school community, consistent with ATI's own safety culture.

SOCIAL INVESTMENT

Outside the port gates, ATI helped realize the aspirations of CRIBS Foundation, a leading child welfare institution, to build a bigger, safer and more conducive home for abandoned and surrendered infants. This vision has materialized with the unveiling of the Cribs-ATI-DP World Child Welfare Center in Antipolo City, which now stands on a spacious lot with trees and lawns, best complementing Cribs' comprehensive healing and development programs for more children.

PROTECTING THE ENVIRONMENT

Protection and conservation of natural resources remained a centrepiece in ATI's 2017 sustainability agenda. ATI employees actively took part in coastal clean-up drives, resource conservation activities and the reforestation of the La Mesa Watershed, the source of Metro Manila's potable water. Last year, ATI planted a further 2,000 tree saplings at the La Mesa Watershed, bringing its total planted trees to over 20,000 across 30 hectares of the protected area since the beginning of its advocacy partnership with ABS-CBN Bantay Kalikasan (Nature Watch) in 2001.

HEALTH ENGAGEMENT

Apart from these, ATI pioneered a health engagement program for customers and stakeholders. This paved the way for the industry-first Badminton Goodwill Games. The tournament advocated wellness for international shippers, ATI's vital partners in keeping economic goods flowing in the country's supply-chain, while fostering camaraderie across the industry through sports.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues for the year ended December 31, 2017 of ₱10,603.2 million went up by 14.6% from ₱9,249.2 million in 2016. Revenues from South Harbor international containerized cargo and Batangas Container Terminal increased from last year by 14.9% and 20.4%, respectively, on account of higher container volumes, which grew by 5.7% and 25.6%, respectively. Likewise, revenues in Port of Batangas was higher by 8.3% compared to last year due to higher volumes. Further, revenues from South Harbor international non-containerized cargo increased from last year by 3.2% despite the lower volume as a result of favorable cargo mix.

Port authorities' share in revenues in 2017 of ₱1,914.4 million increased by 11.9% from ₱1,711.6 million in 2016 resulting from higher revenues subject to port authorities' share.

Cost and expenses in 2017 of ₱4,436.2 million rose by ₱135.3 million 3.1% from ₱4,301.0 million in 2016. Labor costs in 2017 of ₱1,282.9 million were higher by 7.6% compared to ₱1,192.5 million in 2016 due to salary rate increases and higher overtime costs related to higher volumes. Depreciation and amortization in 2017 of ₱1,180.7 million increased by 3.9% from ₱1,136.5 million in 2016 on account of additions to intangible assets and property and equipment. Equipment running in 2017 went up by 22.7% to ₱595.4 million from ₱485.3 million in 2016 due to higher usage of equipment spare parts and higher fuel costs resulting for higher prices and higher consumption. Taxes and licenses in 2017 slightly increased by 0.5% to ₱256.1 million from ₱254.9 million in 2016. Security, health, environment and safety in 2017 of ₱181.8 million were higher by 12.7% compared to ₱161.3 million in 2016 due to higher security costs brought about by rate increase, additional security posts and increased in safety initiatives. Provision for claims in 2017 of ₱154.1 million were higher compared to ₱5.8 million in 2016 due to higher provision for civil case. Management fees in 2017 rose by 32.5% to ₱149.7 million from ₱113.0 million in 2016 following higher net income. General transport costs in 2017 of ₱41.1 million were higher by 176.2% compared to ₱14.9 million in 2016 on account of higher trucking costs in South Harbor and Laguna.

On the other hand, Facilities-related expenses in 2017 went down by 17.3% to ₱151.9 million from ₱183.6 million in 2016 due to lower repair and maintenance costs for wharves. Rental in 2017 decreased by 8.2% to ₱139.9 million from ₱152.5 million due to lower equipment rentals. Insurance in 2017 slightly decreased by 1.0% to ₱66.3 million from ₱66.9 million due to lower insurance premiums. Marketing, commercial, and promotion in 2017 decreased by 66.4% to ₱45.7 million from ₱136.2 million due to lesser advertising costs. Professional fees in 2017 amounted to ₱24.5 million vs. ₱174.3 million in 2016 decreased by 86.0%, on account of higher legal expenses and consultancy fees last year. Entertainment expenses in 2017 decreased by 12.7% to ₱5.2 million from ₱5.9 million. Other expenses in 2017 totaled ₱160.8 million, down by 26.0% from ₱217.3 million in 2016 due to lower general operations.

Finance income amounted to ₱85.6 million in 2017, 38.1% up from ₱62.0 million in 2016 due to higher interest rates for money market placements. Finance costs in 2017 of ₱567.7 million were lower by 2.3% compared to ₱581.2 million in 2016 due to declining interest expense on port concession rights payable. Others-net in 2017 was negative ₱335.9 million, 197.4% higher than ₱112.9 million in 2016 mainly due to fair value losses on cash flow hedge and forex losses on port concession rights payable following the depreciation of the Philippine Peso against the US Dollar.

Income before income tax in 2017 of ₱3,434.5 million was higher by 31.9% compared to ₱2,604.5 million in 2016. Provision for income tax in 2017 increased by 35.1% to ₱944.8 million from ₱699.5 million in 2016.

Net income for the year ended December 31, 2017 improved by 30.7% to ₱2,489.7 million from ₱1.905.0 million last year. Earnings per share was up to ₱1.24 in 2017 from ₱0.95 in 2016. Without the foreign exchange impact – as per accounting rules brought in since 2013 – net income would have been ₱2,795.3 million, 33.4% higher than ₱2,095.5 million in 2016, on a like-for-like basis.

Plans for 2018

Asian Terminals Inc. will continuously optimize its ports in Manila and Batangas for containerized cargo, non-containerized cargo and passenger handling, keeping these vital gateways competitive to customer needs and responsive to market demand.

At the core of this is ATI's programed capital investments worth Php8.8 billion for 2018 in line with its investment commitment with the Philippine Ports Authority.

This will invest in the acquisition of more cargo handling equipment and various infrastructure projects at Manila South Harbor and Batangas Port, to further grow capacity, increase efficiency and enhance safety performance, in support of the growing Philippine economy.

As a forward-looking company, ATI looks for more business investment opportunities, including exploring new port operations locally or overseas.

Combining the global leadership of its strategic foreign shareholder DP World and the best of Filipino talent, ATI shall continue leveraging its resources, expertise and management capabilities to bring its competencies where growth potential is high and can add greater value to its shareholders.

Consolidated Financial Condition

Total assets as of December 31, 2017 rose by 11.3% to ₱25,765.2 million from ₱23,139.0 million as of December 31, 2016. Total current assets as of December 31, 2017 grew by 19.4% to ₱8,469.2 million from ₱7,090.2 million as of December 31, 2016. Cash and cash equivalents as of December 31, 2017 went up by 18.1% to ₱6,945.2 million from ₱5,881.2 million as of December 31, 2016. Trade and other receivables-net as of December 31, 2017 rose by 15.0% to ₱490.5 million from ₱426.5 million as of December 31, 2016. Spare parts and supplies-net as of December 31, 2017 of ₱403.7 million were higher by 28.3% compared to ₱314.6 million as of December 31, 2016 in support of operational requirements and equipment maintenance program. Prepaid expenses of ₱629.9 million as of December 31, 2017 went up by 34.6% from ₱467.9 million as of December 31, 2016.

Total non-current assets of ₱17,296.0 million as of December 31, 2017 were higher by 7.8% compared to ₱16,048.8 million as of December 31, 2016. Property and equipment-net increased by 17.1% to ₱565.6 million as of December 31, 2017 from ₱483.2 million as of December 31, 2016. Additions to property and equipment which were not subject of the service concession arrangement totaled ₱197.6 million in 2017. Intangible assets-net as of December 31, 2017 of ₱15,753.2 million were higher by 7.0% compared to ₱14,716.5 million as of December 31, 2016. Acquisitions of intangible assets which consisted of civil works and cargo handling equipment that were subject of the service concession arrangement amounted to ₱2,102.5 million in 2017. Deferred tax assets-net as of December 31, 2017 of ₱831.0 million was up by 13.3% to ₱733.4 million as of December 31, 2016, pertaining to additional deferred tax on concession rights payable, cash flow hedge, and unrealized foreign exchange losses. Other noncurrent assets as of December 31, 2017 decreased by 3.0% to ₱59.2 million from ₱61.0 million as of December 31, 2016.

Total liabilities went up by 6.6% to ₱12,129.7 million as of December 31, 2017 from 11,378.9 million as of December 31, 2016. Trade and other payables as of December 31, 2017 of ₱2,690.2 million were higher by 34.5% than ₱2,000.4 million as of December 31, 2016. Trade and other payables are covered by agreed payment schedules. Provision for claims went up to ₱204.5 million as of December 31, 2017 from ₱50.9 million as of December 31, 2016. Income and other taxes payable increased by 59.3% to ₱315.3 million as of December 31, 2017 from ₱197.9 million as of December 31, 2016. Port concession rights payable (current and noncurrent) as of December 31, 2017 totaled ₱8,806.6 million, 2.0% below the ₱8,985.9 million as of December 31, 2016. Pension liability as of December 31, 2017 of ₱113.1 million were lower by 21.4% compared to ₱143.9 million as of December 31, 2016.

Consolidated Cash Flows

Net cash provided by operating activities increased by 19.8% to ₱4,979.9 million in 2017 from ₱4,158.4 million in 2016 due to higher operating income.

Net cash used in investing activities in 2017 of ₱2,282.8 million were 164.6% higher than ₱862.7 million in 2016 due to higher acquisitions of property and equipment and intangible assets.

Cash used in financing activities in 2017 of ₱1,636.7 million were higher by 6.6% than the ₱1,534.8 million in 2016 due to higher payments of port concession rights payable and cash dividends. Cash dividends paid amounted to ₱860.0 million and ₱820.0 million in 2017 and 2016, respectively.

Adoption of New or Revised Standards, Amendments to Standards and Interpretation

The Group has adopted the following amendments to standards starting January 1,2017 and accordingly, changed its accounting policies. 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)*. The amendments address 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 – e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12 Income Taxes).* The amendments clarify 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;

MANAGEMENT DISCUSSION AND ANALYSIS

- 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.

▪ *Annual Improvements to PFRSs 2014 – 2016 Cycle*. This cycle of improvements contains amendments to three standards. The following are the improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2017:

- *Clarification of the scope of the standard (Amendments to PFRS 12 Disclosure of Interests in Other Entities)*. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are applied retrospectively, with early application permitted.

Standards Issued But Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, 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.

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 new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Based on the management's initial assessment, the new standards will not have a significant impact on the measurement of its financial instruments.

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

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

Based on the Group's assessment, the new standard will not have a material impact on the financial statements.

▪ *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)*. The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39 Financial Instruments: Recognition and Measurement if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of

PFRS 4, and if it is measured at fair value through profit or loss under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

- *Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration*. The interpretation 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.

- *Annual Improvements to PFRSs 2014 – 2016 Cycle*. This cycle of improvements contains amendments to three standards. The following are the said improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2018:

  - *Deletion of short-term exemptions for first-time adopters (Amendments to PFRS 1 First-time Adoption of Philippine Financial Reporting Standards)*. The amendments remove the outdated exemptions for first-time adopters of PFRS, the relief of which had been available to entities only for reporting periods that had passed.

  - *Measuring an associate or joint venture at fair value (Amendments to PAS 28 Investments in Associates and Joint Ventures)*. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments are applied retrospectively, with early application permitted.

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 *Revenue from Contracts with Customers* at or before the date of initial application of PFRS 16.

  The Group is still in the process of assessing the potential impact on its consolidated financial statements

- *Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 Income Taxes when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty – either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied

MANAGEMENT DISCUSSION AND ANALYSIS

if facts and circumstances change – e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

- *Prepayment* Features with Negative Compensation (Amendments to PFRS 9). The amendments cover the following areas:

  - Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

    The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

  - Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e., the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

  - Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28). The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests (LTIs) that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

Deferral of the local implementation of Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)*. The amendments 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.

Other information:

- The Company's businesses are affected by the local and global trade environment. Factors that could cause actual results of the Company to differ materially include, but are not limited to:
  - material adverse change in the Philippine and global economic and industry conditions;
  - natural events (earthquake, typhoons and other major calamities); and
  - material changes in exchange rates.

- There was no known trend, event or uncertainty that had or may have a material impact on liquidity and on revenues or income from continuing operations. There was no known event that may cause a material change in the relationships between costs and revenues.
- There was no seasonal factor that had a material effect on the financial condition and results of operations.
- There was no event that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- Except for the commitments and contingencies mentioned in Note 23 of the consolidated financial statements, the Company has no knowledge of any material off-balance sheet (statement of financial position) transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the reporting period that would address the past and would have material impact on future operations.
- Projected capital expenditures for 2018 is P8.8 billion, which includes yard and berth development as well as construction of new facilities and equipment acquisition. The capital expenditure will strengthen the Company's operations and capability to handle growth.

Key Performance Indicators (KPIs)

KPIs discussed below were based on consolidated amounts as portions pertaining to the Company's subsidiary, ATI Batangas, Inc. (ATIB) were not material. As of end 2017:

- ATIB's total assets were only 10.0% of the consolidated total assets
- Income before other income and expense from ATIB was only 10.9% of consolidated income before other income and expense.

Consolidated KPI	Manner of Calculation	2017	2016	Discussion
Return on Capital Employed	Percentage of income before interest and tax over capital employed	19.2%	16.2%	Increase resulted from higher income before other income (expense) during the period.
Return on Equity attributable to equity holders of the parent	Percentage of net income over equity attributable to equity holders of the parent	19.6%	16.9%	Improved due to higher increase in net income.
Current ratio	Ratio of current assets over current liabilities	2.44 : 1.00	2.85 : 1.00	Decrease due to higher current liabilities.
Asset to equity ratio	Ratio of total assets over equity attributable to equity holders of the parent	1.89 : 1.00	1.97 : 1.00	Decrease due to higher equity.
Debt to equity ratio	Ratio of total liabilities over equity attributable to equity holders of the parent	0.89 : 1.00	0.97 : 1.00	Decrease due to higher equity.
Days Sales in Receivables (DSR)	Gross trade receivables over revenues multiplied by number of days	11 days	12 days	Due to improved collections efforts.
Net Income Margin	Net income over revenues less government share in revenues	28.7%	25.3%	Increase due to higher revenues.
Reportable Injury Frequency Rate (RIFR)[2]	Number of reportable injuries within a given accounting period relative to the total number of hours worked in the same accounting period.	0.53	1.05	Improved as a result of extensive safety campaign and strict implementation of HSES policies.

Summary of Selected Financial Data (in millions)

Description	Year ended December 31, 2017	Year ended December 31, 2016
Revenues	₱10,603.2	₱9,249.2
Net income	2,489.7	1,905.0
Total assets	25,765.2	23,139.0
Total liabilities	12,129.7	11,378.9

[1] Income before other income and expense is defined as income before net financing costs, net gains on derivative instruments and others.
[2] RIFR is the new KPI for injuries introduced in 2014 to replace LTIFR. RIFR is a more stringent KPI as it covers not only Lost Time Injuries (LTIs) but also Medically Treated Injuries (MTIs) and Fatality incidents

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of ASIAN TERMINALS, INC. AND A SUBSIDIARY (the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2017 and 2016 and for each of the three years in the period 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Accounting, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

RASHED ALI HASSAN ABDULLA
Chairman of the Board

EUSEBIO H. TANCO
President

JOSE TRISTAN P. CARPIO
Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Asian Terminals, Inc.
A. Bonifacio Drive
Port Area, Manila

Opinion

We have audited the consolidated financial statements of Asian Terminals, Inc. and a Subsidiary (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most 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.

Revenue Recognition (P10,603,172 - amount in thousands)
Refer to Note 2 to the consolidated financial statements.

The risk
The Group's revenues are mainly generated from arrastre, stevedoring and storage services. These revenues are recognized when the services are rendered and are recorded in the books using an information technology (IT) system which tracks the movements of cargoes from ships and port yards. Market expectations and profit-based targets may put pressure on management to recognize revenues before all the revenue recognition criteria have been met. Risk of material misstatement may arise in order to improve business results and achieve capital and revenue growths in line with the objectives of the Group. Further, due to the materiality of revenues in the consolidated financial statements as a whole, it is ascertained as one of our key audit matters.

Our response
Our audit procedures included assessment of the Group's accounting policies in respect of revenue recognition to ensure that they appropriately reflected the requirements of PFRSs. Evaluation of relevant IT systems and the design and operating effectiveness of controls over the recording of revenue transactions was also conducted. In doing so, we have involved our IT specialists to assist in the audit of automated controls across different IT applications. Our substantive procedures included testing of revenues earned close to year-end, testing of subsequent invoices relating to the accrued revenues recorded and testing of credit and debit memos issued close to year-end to confirm that all services had been performed at the point at which revenue is recognized. Furthermore, we performed examination of selected individual transactions' supporting documentation to test the existence and accuracy of revenue transactions and to verify whether the revenue recognition practices adopted complied with the stated accounting policies. A detailed movement analysis of revenues earned for each of the Group's revenue streams was also performed to determine any significant fluctuation on the account. We also evaluated the adequacy of the disclosures in respect of revenue recognition in the consolidated financial statements.

Port Concession Rights - net (₱15,711,097 - amount in thousands)
Refer to Note 11 to the consolidated financial statements

The risk
The Group's port concession rights as at December 31, 2017 amounted to ₱15.71 billion which comprise 61% of the Group's total assets. Port concession rights pertain to the amount of cost of port infrastructures, upfront fees payments and fixed government share. As part of its ordinary activities, the Group invests in port infrastructures of significant values. During the year, the Group has made significant additional investments relating to port concession rights amounting to ₱2.10 billion. These additional capital expenditures expose the Group to the risk that a material amount of the resulting additional port concession rights are not appropriately recognized in accordance with the relevant accounting standards. Further, the assignment of useful lives may not be suitable based on the nature and extent of the assets' usage. Due to the materiality of the transactions and the account to the Group's consolidated financial statements as well as its significance on the overall audit strategy, the "port concession rights" account is considered to be a key audit matter.

REPORT OF INDEPENDENT AUDITORS

Our response

Our audit procedures included examination of supporting documents of the selected additions to port infrastructures to ascertain the existence and accuracy of the amounts recorded during the year. We also evaluated management's assessment as to whether those capitalized assets met the recognition criteria set forth in the standards. Furthermore, we verified the appropriateness of the useful life assigned to each type of assets to assist us in recalculating the amount of amortization expense. We also evaluated the adequacy of the disclosures in respect of port concession rights in the consolidated financial statements.

Hedging of Highly Probable Forecast Transactions using a Non-derivative Instrument (Hedging reserve – ₱207,620 - amount in thousands)

Refer to Note 16 to the consolidated financial statements.

The risk

Hedge accounting is applied by the Group as part of its foreign currency risk strategy. Under the cash flow hedge model, it hedges the spot exchange risk on the highly probable forecast United States (US) dollar revenue transactions as hedged items using its non-derivative financial instrument, port concession rights payable which is denominated in US dollar as a hedging instrument. Such financial liability creates a foreign currency exposure which offsets the foreign currency exposure on the highly probable US dollar revenue stream. In 2017, there was cessation of hedged items and subsequently the Group re-designated the monthly US dollar forecasted revenue transactions for the next forty two months as hedged items. Due to the degree of judgement and estimation on the highly probable forecast US dollar revenue transactions, there is a risk that the assumptions made on the prospective effectiveness of the hedge transactions are inappropriate, which would lead to the presentation of the relevant amounts in other comprehensive income being incorrect.

Our response

Our audit procedures included the assessment of the adequacy of hedge documentation and an assessment of the internally performed hedge effectiveness testing. In doing so, we have involved our financial instrument specialist to assist in the assessment of the hedge effectiveness and the accuracy of the amounts recorded. Our substantive procedures included review of the historical accuracy of forecasted US dollar revenue transactions to assess the reliability of the Group's forecasting. We also evaluated whether the effective and ineffective portions of the hedge have been charged to the proper account in line with the requirements of PFRSs. Furthermore, we examined the dollar denominated revenue transactions of the Group to test the completeness and accuracy of the underlying data. Verification of the accuracy of exchange rates used by the Group was also performed in order to determine if such rates used are in line with published rates. We also evaluated the adequacy of the disclosures in respect of the Group's cash flow hedge in the consolidated financial statements.

Other Information

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

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 audits 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.

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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Enrico E. Baluyut.

R.G. MANABAT & CO.

ENRICO E. BALUYUT
Partner
CPA License No. 065537
SEC Accreditation No. 1177-AR-1, Group A,
valid until April 30, 2018
Tax Identification No. 131-029-752
BIR Accreditation No. 08-001987-26-2017
Issued September 4, 2017; valid until September 3, 2020
PTR No. 6615127MD
Issued January 3, 2018 at Makati City
February 22, 2018
Makati City, Metro Manila

ASIAN TERMINALS, INC. AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

		December 31	
	Note	2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents	*6, 25*	**₱6,945,189**	₱5,881,207
Trade and other receivables - net	*7, 25*	**490,466**	426,466
Spare parts and supplies	*18*	**403,701**	314,595
Prepaid expenses	*8*	**629,872**	467,939
Total Current Assets		**8,469,228**	7,090,207
Noncurrent Assets			
Investment in an associate	*9*	**87,027**	54,654
Property and equipment - net	*10*	**565,618**	483,172
Intangible assets - net	*11*	**15,753,157**	14,716,498
Deferred tax assets - net	*13*	**831,026**	733,450
Other noncurrent assets	*12*	**59,181**	60,997
Total Noncurrent Assets		**17,296,009**	16,048,771
		₱25,765,237	₱23,138,978
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	*14, 25*	**₱2,690,212**	₱2,000,359
Provisions for claims	*15*	**204,544**	50,944
Port concession rights payable - current portion	*25*	**258,060**	237,479
Income and other taxes payable		**315,287**	197,887
Total Current Liabilities		**3,468,103**	2,486,669
Noncurrent Liabilities			
Port concession rights payable - net of current portion	*25*	**8,548,520**	8,748,390
Pension liability	*21*	**113,073**	143,857
Total Noncurrent Liabilities		**8,661,593**	8,892,247
		12,129,696	11,378,916
Equity			
Equity Attributable to Equity Holders of the Parent Company	*16*		
Capital stock		**₱2,000,000**	₱2,000,000
Additional paid-in capital		**264,300**	264,300
Retained earnings		**11,575,652**	9,910,095
Hedging reserve		**(207,620)**	(415,403)
Fair value reserve		**(5,820)**	(5,820)
		13,626,512	11,753,172
Non-controlling Interest		**9,029**	6,890
Total Equity		**13,635,541**	11,760,062
		₱25,765,237	₱23,138,978

See Notes to the Consolidated Financial Statements.

ASIAN TERMINALS, INC. AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

		Years Ended December 31		
	Note	**2017**	2016	2015
REVENUES FROM OPERATIONS	*2*	**₱10,603,172**	₱9,249,162	₱8,146,497
GOVERNMENT SHARE IN REVENUES	*17*	**(1,914,439)**	(1,711,551)	(1,409,195)
		8,688,733	7,537,611	6,737,302
COSTS AND EXPENSES EXCLUDING GOVERNMENT SHARE IN REVENUES	*18, 20, 21*	**(4,436,203)**	(4,300,952)	(3,736,118)
OTHER INCOME AND EXPENSES				
Finance income	*19*	**85,604**	61,994	51,489
Finance cost	*19*	**(567,733)**	(581,216)	(548,784)
Others - net	*19*	**(335,885)**	(112,936)	(71,947)
		(818,014)	(632,158)	(569,242)
CONSTRUCTION REVENUES	*11*	**2,102,478**	832,918	664,250
CONSTRUCTION COSTS	*11*	**(2,102,478)**	(832,918)	(664,250)
		-	-	-
INCOME BEFORE INCOME TAX		**3,434,516**	2,604,501	2,431,942
INCOME TAX EXPENSE	*13*			
Current		**1,148,001**	835,875	760,851
Deferred		**(203,167)**	(136,367)	(96,105)
		944,834	699,508	664,746
NET INCOME		**₱2,489,682**	₱1,904,993	₱1,767,196
Income Attributable to				
Equity holders of the Parent Company		**₱2,486,993**	₱1,902,391	₱1,764,167
Non-controlling interest		**2,689**	2,602	3,029
		₱2,489,682	₱1,904,993	₱1,767,196
Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Company	*22*	**₱1.24**	₱0.95	₱0.88

See Notes to the Consolidated Financial Statements.

ASIAN TERMINALS, INC. AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

			Years Ended December 31	
	Note	**2017**	2016	2015
NET INCOME FOR THE YEAR		**₱2,489,682**	₱1,904,993	₱1,767,196
OTHER COMPREHENSIVE INCOME				
Item that will never be reclassified to profit or loss				
Actuarial gains (losses) on pension liability	*21*	**55,135**	81,525	(21,037)
Tax on item taken directly to equity	*13*	**(16,541)**	(24,458)	6,311
		38,594	57,067	(14,726)
Items that are or may be reclassified to profit or loss				
Cash flow hedge - effective portion		**(31,479)**	(384,327)	(346,584)
Cash flow hedge - reclassified to profit or loss		**328,312**	200,292	89,811
Tax on items taken directly to equity	*13*	**(89,050)**	55,210	77,032
	16	**207,783**	(128,825)	(179,741)
OTHER COMPREHENSIVE INCOME FOR THE YEAR - Net of tax		**246,377**	(71,758)	(194,467)
TOTAL COMPREHENSIVE INCOME		**₱2,736,059**	₱1,833,235	₱1,572,729
Total Comprehensive Income Attributable to				
Equity holders of the Parent Company		**₱2,733,340**	₱1,830,571	₱1,569,692
Non-controlling interest		**2,719**	2,664	3,037
		₱2,736,059	₱1,833,235	₱1,572,729

See Notes to the Consolidated Financial Statements.

ASIAN TERMINALS, INC. AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31, 2017, 2016 and 2015
(Amounts in Thousands, Except Per Share Data)

		Attributable to Equity Holders of the Parent Company								
				Retained Earnings						
	Note	Capital Stock	Additional Paid-in Capital	Appropriated for Port Development	Unappropriated	Hedging Reserve	Fair Value Reserve	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2017		**₱2,000,000**	**₱264,300**	**₱7,900,000**	**₱2,010,095**	**(₱415,403)**	**(₱5,820)**	**₱11,753,172**	**₱6,890**	**₱11,760,062**
Cash dividends - P0.43 a share	16	**-**	**-**	**-**	**(860,000)**	**-**	**-**	**(860,000)**	**(580)**	**(860,580)**
Reversal of appropriation of retained earnings	16	**-**	**-**	**(1,100,000)**	**1,100,000**	**-**	**-**	**-**	**-**	**-**
Appropriations during the year	16	**-**	**-**	**2,900,000**	**(2,900,000)**	**-**	**-**	**-**	**-**	**-**
Net income for the year		**-**	**-**	**-**	**2,486,993**	**-**	**-**	**2,486,993**	**2,689**	**2,489,682**
Other comprehensive income:							**-**			
Actuarial gain - net of tax		**-**	**-**	**-**	**38,564**	**-**	**-**	**38,564**	**30**	**38,594**
Cash flow hedge - effective portion - net of tax	16	**-**	**-**	**-**	**-**	**(22,035)**	**-**	**(22,035)**	**-**	**(22,035)**
Cash flow hedge - reclassified to profit or loss - net of tax	16	**-**	**-**	**-**	**-**	**229,818**	**-**	**229,818**	**-**	**229,818**
Balance at December 31, 2017		**₱2,000,000**	**₱264,300**	**₱9,700,000**	**₱1,875,652**	**(₱207,620)**	**(₱5,820)**	**₱13,626,512**	**₱9,029**	**₱13,635,541**
Balance at January 1, 2016		₱2,000,000	₱264,300	₱6,100,000	₱2,670,700	(₱286,578)	(₱5,820)	₱10,742,602	₱5,024	₱10,747,626
Cash dividends - P0.41 a share	16	-	-	-	(820,000)	-	-	(820,000)	(580)	(820,580)
Purchase of shares of subsidiary	3	-	-	-	-	-	-	-	(219)	(219)
Reversal of appropriation of retained earnings	16	-	-	(800,000)	800,000	-	-	-	-	-
Appropriations during the year	16	-	-	2,600,000	(2,600,000)	-	-	-	-	-
Net income for the year		-	-	-	1,902,391	-	-	1,902,391	2,602	1,904,993
Other comprehensive income:										
Actuarial gain - net of tax		-	-	-	57,004	-	-	57,004	63	57,067
Cash flow hedge - effective portion - net of tax	16	-	-	-	-	(269,029)	-	(269,029)	-	(269,029)
Cash flow hedge - reclassified to profit or loss - net of tax	16	-	-	-	-	140,204	-	140,204	-	140,204
Balance at December 31, 2016		₱2,000,000	₱264,300	₱7,900,000	₱2,010,095	(₱415,403)	(₱5,820)	₱P11,753,172	₱6,890	₱11,760,062
Balance at January 1, 2015		₱2,000,000	₱264,300	₱4,700,000	₱3,141,267	(₱106,838)	(₱5,820)	₱9,992,909	₱4,551	₱9,997,460
Cash dividends - P0.41 a share	16	-	-	-	(820,000)	-	-	(820,000)	(830)	(820,830)
Purchase of shares of subsidiary	3	-	-	-	-	-	-	-	(1,734)	(1,734)
Reversal of appropriation of retained earnings	16	-	-	(2,600,000)	2,600,000	-	-	-	-	-
Appropriations during the year	16	-	-	4,000,000	(4,000,000)	-	-	-	-	-
Net income for the year		-	-	-	1,764,167	-	-	1,764,167	3,029	1,767,196
Other comprehensive income:										
Actuarial loss - net of tax		-	-	-	(14,734)	-	-	(14,734)	8	(14,726)
Cash flow hedge - effective portion - net of tax	16	-	-	-	-	(242,608)	-	(242,608)	-	(242,608)
Cash flow hedge - reclassified to profit or loss - net of tax	16	-	-	-	-	62,868	-	62,868	-	62,868
Balance at December 31, 2015		₱2,000,000	₱264,300	₱6,100,000	₱P2,670,700	(₱286,578)	(₱5,820)	₱10,742,602	₱5,024	₱10,747,626

See Notes to the Consolidated Financial Statements.

ASIAN TERMINALS, INC. AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

			Years Ended December 31	
	Note	**2017**	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱3,434,516**	₱2,604,501	₱2,431,942
Adjustments for:				
Depreciation and amortization	*10, 11*	**1,180,724**	1,136,532	944,926
Finance cost	*19*	**567,733**	581,216	548,784
Net unrealized foreign exchange losses		**325,848**	210,264	98,833
Finance income	*19*	**(85,604)**	(61,994)	(51,489)
Contributions to retirement funds	*21*	**(21,941)**	(18,388)	-
Equity in net earnings of an associate	*9*	**(46,701)**	(47,170)	(38,741)
Loss (gain) on disposals of:				
Property and equipment		**(255)**	(220)	(718)
Intangible assets		**-**	(3,557)	1,031
Loss on retirement of:				
Property and equipment		**197**	69	448
Intangible assets		**-**	144	-
Amortization of noncurrent prepaid rental		**984**	984	984
Provisions for allowance for doubtful accounts		**-**	8,301	-
Reversal of allowance for doubtful accounts	*7*	**-**	(13,301)	-
Operating income before working capital changes		**5,355,501**	4,397,381	3,936,000
Decrease (increase) in:				
Trade and other receivables		**(65,542)**	(69,982)	128,799
Spare parts and supplies		**(89,106)**	(51,822)	(68,509)
Prepaid expenses		**(161,933)**	35,737	(60,426)
Increase (decrease) in:				
Trade and other payables		**733,010**	631,320	(416,741)
Provisions for claims		**153,600**	(2,595)	2,789
Income and other taxes payable		**3,059**	(4,506)	10,452
Cash generated from operations		**5,928,589**	4,935,533	3,532,364
Finance income received		**85,330**	61,341	47,767
Finance cost paid		**(365)**	(9,993)	(154)
Income tax paid		**(1,033,660)**	(828,511)	(785,841)
Net cash provided by operating activities		**4,979,894**	4,158,370	2,794,136
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Property and equipment	*10*	**(₱197,628)**	(₱81,711)	(₱141,534)
Intangible assets	*11*	**(2,102,478)**	(832,918)	(664,250)
Decrease (increase) in other noncurrent assets		**(281)**	(765)	10,062
Proceeds from disposals of:				
Property and equipment		**335**	1,175	718
Intangible assets		**-**	6,172	2,507
Decrease (increase) in deposits		**2,929**	(516)	1,320
Dividends received	*9*	**14,328**	45,853	44,778
Net cash used in investing activities		**(2,282,795)**	(862,710)	(746,399)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of:				
Cash dividends	*16*	**(860,000)**	(820,000)	(820,000)
Cash dividends to non-controlling interest		**(580)**	(580)	(830)
Purchase of shares of subsidiary		**-**	(219)	(1,734)
Port concession rights payable	*23*	**(776,075)**	(714,008)	(714,008)
Net cash used in financing activities		**(1,636,655)**	(1,534,807)	(1,536,572)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,060,444**	1,760,853	511,165
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**3,538**	1,593	670
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*6*	**5,881,207**	4,118,761	3,606,926
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**₱6,945,189**	₱5,881,207	₱4,118,761

See Notes to the Consolidated Financial Statements.

ASIAN TERMINALS, INC. AND A SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Per Share Data)

1. REPORTING ENTITY

Asian Terminals, Inc. (ATI or the "Parent Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on July 9, 1986. The consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiary, ATI Batangas, Inc. (ATIB), (collectively referred to as the "Group"). The Parent Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the Philippine Stock Exchange, Inc. (PSE). The Group operates and manages the South Harbor Port of Manila and the Port of Batangas in Batangas City. The registered office address of the Parent Company is A. Bonifacio Drive, Port Area, Manila.

P & O Management Services Phils., Inc. (POMS) manages ATI by virtue of a management agreement (see Note 20). Forty percent of the outstanding capital stock of POMS is owned by DP World Australia (POAL) Limited. POAL directly owns 17.32% of the total outstanding capital stock of ATI.

2. OPERATING CONTRACTS

Following are the Group's operating contracts:

a. South Harbor, Port of Manila

ATI's exclusive right to manage, operate and develop South Harbor was renewed for a period of 25 years from May 19, 2013 to May 18, 2038 pursuant to the Third Supplement to the Contract for Cargo Handling and Related Services with the Philippine Ports Authority (PPA) dated October 19, 2007.

b. Port of Batangas

On October 2, 2015, ATI and ATIB signed a Contract for the Management, Operation, Maintenance and Development of Phase I, Port of Batangas with a term from October 1, 2015 until September 30, 2025.

On January 18, 2010, the PPA issued to ATI the Notice to Award the Contract for the Management, Operation, Maintenance, Development and Promotion of the Container Terminal "A-1," Phase II of the Port of Batangas for a period of 25 years. The Contract was signed on March 25, 2010. The Notice to Proceed dated June 16, 2010 allowed ATI to start and commence operations at the Terminal on July 1, 2010.

3. BASIS OF PREPARATION

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 22, 2018.

Basis of Measurement
The consolidated financial statements of the Group have been prepared on a historical cost basis except for the following items, which are measured on an alternative basis on each reporting date:

Items	Measurement Bases
Available-for-sale (AFS) financial assets	Fair value
Pension liability	Fair value of plan assets less the present value of the defined benefit obligation

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso, which is the Group's Company's functional currency. All amounts have been rounded off to the nearest thousand pesos (₱000), except when otherwise indicated.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of ATI and ATIB. ATIB is a 99.17% owned subsidiary as at December 31, 2017 and 2016. On August 4, 2015, ATI purchased 714 shares of ATIB, increasing its ownership to ATIB to 99.17% as at December 31, 2015. The financial statements of ATIB are prepared for the same financial reporting year as ATI, using uniform accounting policies for like transactions and other events in similar circumstances.

All intra-group balances, transactions, income and expenses resulting from intra-group transactions are eliminated in full.

ATIB is fully consolidated from the date of acquisition, being the date when ATI obtained control, and continues to be consolidated until the date that such control ceases.

Non-controlling interest represents the portion of profit and loss and net assets in ATIB not held by ATI and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity, and within equity in the consolidated statements of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

The Group has adopted amendments to standards and interpretations, including any consequential amendments to other standards, with date of initial application of January 1, 2017.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Group has adopted the following amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies. 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).* The amendments address 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 - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to* PAS 12 *Income Taxes).* The amendments clarify 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.

- Annual Improvements to PFRSs 2014 – 2016 Cycle. This cycle of improvements contains amendments to three standards. The following are the improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2017:

  - *Clarification of the scope of the standard (Amendments to* PFRS 12 *Disclosure of Interests in Other Entities).* The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are applied retrospectively, with early application permitted.

Standards Issued But Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, 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.

BOARD OF DIRECTORS

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 new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

  Based on the management's initial assessment, the new standards will not have a significant impact on the measurement of its financial instruments.

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

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

  Based on the Group's assessment, the new standard will not have a material impact on the financial statements.

- *Applying* PFRS 9 *Financial Instruments with* PFRS 4 *Insurance Contracts (Amendments to* PFRS 4*).* The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39 *Financial Instruments: Recognition and* Measurement if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at fair value through profit or loss under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

  The amendments permitting the temporary exemption are for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

- Philippine Interpretation IFRIC - 22 *Foreign Currency Transactions and Advance Consideration*. The interpretation 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.

- Annual Improvements to PFRSs 2014 - 2016 Cycle. This cycle of improvements contains amendments to three standards. The following are the said improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2018:

  - *Deletion of short-term exemptions for first-time adopters (Amendments to* PFRS 1 *First-time Adoption of Philippine Financial Reporting Standards).* The amendments remove the outdated exemptions for first-time adopters of PFRS, the relief of which had been available to entities only for reporting periods that had passed.

  - *Measuring an associate or joint venture at fair value (Amendments to* PAS 28 *Investments in Associates and Joint Ventures).* The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments are applied retrospectively, with early application permitted.

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 *Revenue from Contracts with Customers* at or before the date of initial application of PFRS 16.

  The Group is still in the process of assessing the potential impact on its consolidated financial statements.

- Philippine Interpretation IFRIC-23 *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty – either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

- *Prepayment Features with Negative Compensation* (*Amendments to* PFRS 9). The amendments cover the following areas:

  - Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

    The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

  - Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e., the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

  If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- *Long-term Interests in Associates and Joint Ventures* (*Amendments to* PAS 28). The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests (LTIs) that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

Deferral of the local implementation of Amendments to PFRS 10 *and* PAS 28*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to* PFRS 10 *and* PAS 28*).* The amendments 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.

<u>Financial Assets and Financial Liabilities</u>
Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at 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 financial assets at fair value through profit or loss (FVPL), includes transaction costs.

Financial assets are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities. The Group determines the classification of financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

The Group does not have HTM investments and financial assets and liabilities at FVPL.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities 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 financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Finance income" in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Finance income" in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

The Group's cash and cash equivalents, trade and other receivables and deposits are included in this category (see Notes 6, 7, 12 and 25).

The combined carrying amounts of financial assets under this category amounted to ₱7.5 billion and ₱6.3 billion as at December 31, 2017 and 2016, respectively (see Note 25).

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" in equity. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in quoted and unquoted shares are included under "Other noncurrent assets" account and classified under this category (see Note 12).

The carrying amount of financial assets under this category amounted to ₱2.7 million as at December 31, 2017 and 2016 (see Note 25).

<u>Financial Liabilities</u>
Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

Included in this category are the Group's trade and other payables and port concession rights payable (see Notes 14 and 25).

BOARD OF DIRECTORS

The combined carrying amounts of financial liabilities under this category amounted to ₱10.9 billion and ₱10.5 billion as at December 31, 2017 and 2016, respectively (see Note 25).

Measurement of Fair Values. A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The fair value financial instruments not listed in an active market is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation methods.

When measuring fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy, described as follows:

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

If the inputs used to measure the fair value of an asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input that is significant to the entire measurement.

Fair values of financial instruments are discussed in Note 25 to the consolidated financial statements.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions of 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' profit) in profit or loss. In cases where no observable data are used, the difference between the transaction price and model value is only recognized in 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' profit amount.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired; or
- 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 the 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 nor transferred control 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 the 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, cancelled or expired. Where 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 an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

<u>Impairment of Financial Assets</u>
The Group assesses at each reporting date whether a financial asset or 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 have 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 the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group 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.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower.

For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of 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) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair values, less any impairment loss on that financial asset previously recognized in profit or loss is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Spare Parts and Supplies
Spare parts and supplies are stated at the lower of cost and net realizable value (selling price less cost to complete and sell). Cost is determined using the weighted average method and includes all expenditures incurred in acquiring and bringing them to their existing location and condition.

Investment in a Subsidiary
A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling Interest
Non-controlling interest (NCI) is measured at its proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of Control
When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Investment in an Associate
The Group's 35.71% investment in its associate, South Cotabato Integrated Port Services, Inc. (SCIPSI), is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence but not control or joint control, over the financial and operating policies.

Under the equity method, the investment in the associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and other comprehensive income of the associate after the date of acquisition. The Group's share in the profit or loss and other comprehensive income of the associate is recognized in the Group's consolidated statements of income. Dividends received from the associate reduce the carrying amount of the investment. Adjustment to the carrying amount, may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized.

The financial statements of the associate are prepared for the same reporting period as the Group. The accounting policies of the associate conform to those used by the Group for like transactions and events in similar circumstances.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization and any accumulated impairment. Such cost includes the cost of replacing part of such property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing.

The initial cost of property and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Port facilities and equipment include spare parts that the Group expects to use for more than one year. These are not depreciated until ready for its intended use. However, these are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the spare parts may not be recoverable.

Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are substantially completed and ready for its intended use.

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

	Number of Years
Port facilities and equipment	2 - 25 years or life of the operating contract, whichever is shorter
Leasehold improvements	2 - 40 years or term of the lease, whichever is shorter
Furniture, fixtures and equipment	2 - 5 years
Transportation and other equipment	2 - 5 years

The remaining useful lives, residual values, depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts 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 are recognized in profit or loss.

An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. Subsequent to initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized using the straight-line method over the period covered by the contract or useful life, whichever is shorter. The amortization period and the amortization method are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are 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 intangible asset. Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss and measured as the difference between the net disposal proceeds and the carrying amount of the asset.

Port Concession Rights
The Group recognizes port concession rights as intangible assets arising from a service concession arrangement in which the grantor controls or regulates the services provided and the prices charged, and also controls any significant residual interests in the infrastructure at the end of the term of the arrangement, such as property and equipment, if the infrastructure is existing infrastructure of the grantor or the infrastructure is constructed or purchased by the Group as part of the service concession arrangement.

Port concession rights consist of:

a. Upfront fees payments on the concession contracts;

b. The cost of port infrastructure constructed and port equipment purchased, which are not recognized as property and equipment of the Group but as intangible asset received as consideration for such cost; and

BOARD OF DIRECTORS

c. Future fixed government share considerations in exchange for license or right. Fixed government share are recognized at present value using the discount rate at the inception date with a corresponding liability recognized. Interest on the unwinding of discount of the liability and foreign exchange differences arising from translations are recognized in profit or loss.

Port concession rights are determined as intangible assets with finite useful lives and are amortized using the straight-line method over the concession period or useful life, whichever is shorter. The amortization period and the amortization method are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are 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 intangible asset. Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss and measured as the difference between the net disposal proceeds and the carrying amount of the asset.

Port concession rights are amortized using the straight-line method over the term of service concession arrangement or useful life ranging from 2 to 25 years.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Impairment is determined by assessing the recoverable amount of the investment to which the goodwill relates. Where the recoverable amount is less than the carrying amount of the investment, an impairment loss is recognized. An impairment loss in respect of goodwill is not reversed. Where part of the operation within the investment is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of Non-financial Assets
The carrying amounts of investment in an associate, property and equipment and intangible assets other than goodwill are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less costs to sell. 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 assessment 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 cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in 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 losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and 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.

Provisions
Provisions are recognized when the Group has: (a) a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. 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 assessment of the time value of money and those 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 some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Share Capital
Capital Stock
Capital stock is classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital
The amount of contribution in excess of par value is accounted for as "Additional paid-in capital." Additional paid-in capital also arises from additional capital contributions from the shareholders.

Retained Earnings and Dividend Distribution
Retained earnings include current and prior years' results, net of transactions with shareholders and dividends declared, if any.

Dividend distribution to the Group's shareholders is recognized as a liability, and deducted from equity in the Group's consolidated statements of financial position in the period in which the dividends are approved and declared by the Group's BOD.

Retained earnings may also include prior year adjustments and the effect of changes in accounting policies as may be required by the standards' transitional provisions.

Revenue, Cost and Expense Recognition
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, net of discounts, rebates and applicable taxes. The following are specific recognition policies of the Group:

- Revenues from cargo handling operations are recognized when services are rendered.
- Passenger terminal fees are recognized upon sale of terminal tickets.
- Finance income is recognized on a time proportion basis that reflects the effective yield on the investment.
- Other income is recognized when earned.

Construction Revenues and Costs
The Group recognizes revenue related to construction and upgrade of services under service concession arrangement based on the stage of completion of work performed in accordance with PAS 11, *Construction Contracts.* When the construction or upgrade services are provided or delivered under concession arrangement accounted within the scope of IFRIC 12, the consideration is measured at the fair value of the construction services provided. No margin has been recognized since the fair value of the construction services provided approximates the construction cost.

Cost and Expense Recognition
Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Borrowing Costs
Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs: (a) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (b) is suspended during extended periods in which active development, improvement and construction of the assets are interrupted; and (c) ceases when substantially all the activities necessary to prepare the assets are complete. These costs are amortized using the straight-line method over the estimated useful life of the related property, plant and equipment to which it is capitalized.
Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss in the period in which these are incurred using the effective interest method.

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. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; and

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Operating Lease
Group as Lessee. 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 an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Employee Benefits

a. *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.

b. *Pensions*
ATI and ATIB have funded, defined benefit pension plans, administered by a common pension trustee, covering their permanent employees. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligation is to be settled directly. The value of any plan asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Foreign Currency Transactions
The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. All differences are taken to the profit or loss. Foreign currency gains and losses are reported on a net basis.

Cash Flow Hedge of a Forecast Transaction Using a Non-derivative Instrument
The port concession rights payable i.e. hedging instrument is a non-derivative monetary item. A non-derivative financial instrument is permitted to be used as a hedging instrument only for hedges of foreign currency risk. The effective portion of the foreign exchange gains and losses on the hedging instrument is recognized in other comprehensive income. Any ineffective portion is recognized in profit or loss.

The spot movement of the port concession rights payable that is recognized in other comprehensive income is reclassified to profit or loss when the hedged item i.e. the highly probable forecast revenue transaction affects profit or loss. Since the impact of the hedged risk on profit or loss arising from the highly probable forecast transaction is expected to impact profit or loss over future periods, the amount recognized in the hedging reserve will remain in other comprehensive income until the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires, terminated or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

Taxes
Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates (tax laws) enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in a domestic subsidiary and an associate.

The carrying amount of deferred tax assets is reviewed at each reporting date 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 asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (tax laws) that have been enacted or substantively enacted by the end of the reporting period.

BOARD OF DIRECTORS

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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

Value Added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with amount of VAT included.

The net amount of VAT recoverable from, or payable to, the tax authority is included as part of receivables or payables in the consolidated statements of financial position.

Earnings Per Share (EPS)
Basic EPS is calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to any stock dividends declared during the year.

The Group does not have potential common shares or other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

Operating Segments
The Group's operating businesses are organized and managed separately according to the lines of business: port and non-port, with each segment representing a strategic business unit that serves different markets. Management reviews segment reports on a regular basis.

The Group has a single reportable operating segment, as its business has been mainly on port operations since 2010.

The Group operates only in the Philippines which is treated as a single geographical segment.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment and intangible assets other than goodwill.

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

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements in accordance with PFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future periods affected.

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:

Functional Currency. Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Parent Company and its subsidiary has been determined to be the Philippine peso. It is the currency that mainly influences the price and cost of providing services

Operating Lease. The Group has entered into various lease agreements as a lessee. The Group had determined that significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent expense charged to consolidated statements of income amounted to ₱139.9 million, ₱152.5 million and ₱150.3 million in 2017, 2016 and 2015, respectively (see Note 18).

Estimates and Assumptions
The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Hedging of Highly Probable Forecast Transaction using a Non-derivative Instrument.
Estimates and assumptions are required on the determination of the Group's highly probable dollar denominated stevedoring revenue to determine the Group's exposure on spot rate changes that will be hedged using a non-derivative financial instrument which is the Group port concession rights payable which is denominated in US Dollars. On the inception of the hedge, the management is required to develop a highly probable revenue forecast using the Group's budgeted stevedoring revenues which are adjusted based on the actual to budget historical deviation rate. The Group believes that, while the assumptions used are reasonable and appropriate, these estimates and assumptions can materially affect the consolidated financial statements.

6. CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand and in banks	**₱355,108**	₱211,948
Short-term investments	**6,590,081**	5,669,259
	₱6,945,189	₱5,881,207

Cash in banks earns interest at floating rates based on daily bank deposit rates. Short-term investments are made for varying periods of between one and sixty days depending on the cash requirements of the Group, and earn interest at the prevailing short-term deposit rates amounting to ₱83.8 million and ₱60.4 million in 2017 and 2016, respectively (see Note 19).

7. TRADE AND OTHER RECEIVABLES

	Note	2017	2016
Trade receivables		**₱427,867**	₱390,093
Advances to officers and employees		**23,294**	20,977
Due from related parties	*20*	**19,015**	11,121
Receivable from escrow fund		**13,635**	13,174
Interest receivable		**2,898**	4,440
Receivable from insurance		**-**	149
Other receivables		**22,359**	5,114
		509,068	445,068
Allowance for impairment losses		**(18,602)**	(18,602)
		₱490,466	₱426,466

Trade and other receivables are noninterest-bearing and generally have credit term of thirty (30) days.

Movements in the allowance for impairment losses on trade and other receivables are as follows:

	Individually Impaired	Collectively Impaired	Total
Balance at January 1, 2016	₱17,461	₱6,141	₱23,602
Provisions during the year	-	8,301	8,301
Reversals during the year	(13,301)	-	(13,301)
Balance at December 31, 2016	4,160	14,442	18,602
Provisions during the year	-	864	864
Reversals during the year	(864)	-	(864)
Balance at December 31, 2017	**₱3,296**	**₱15,306**	**₱18,602**

As at December 31, 2017 and 2016, the aging analysis of trade and other receivables is as follows:

2017

	Total	Neither Past Due nor Impaired	Past Due but not Impaired: < 30 Days	30 - 60 Days	61 - 90 Days	Over 90 Days	Past Due and Impaired
Trade receivables	**₱427,867**	**₱415,739**	**₱2,500**	**₱ -**	**₱ -**	**₱ -**	**₱9,628**
Other receivables	**81,201**	**24,675**	**5,571**	**13,333**	**4,205**	**24,443**	**8,974**
	₱509,068	**₱440,414**	**₱8,071**	**₱13,333**	**₱4,205**	**₱24,443**	**₱18,602**

2016

	Total	Neither Past Due nor Impaired	Past Due but not Impaired: < 30 Days	30 - 60 Days	61 - 90 Days	Over 90 Days	Past Due and Impaired
Trade receivables	₱390,093	₱379,295	₱1,170	₱ -	₱ -	₱ -	₱9,628
Other receivables	54,975	12,025	8,632	362	1,726	23,256	8,974
	₱445,068	₱391,320	₱9,802	₱362	₱1,726	₱23,256	₱18,602

8. PREPAID EXPENSES

	Note	2017	2016
Taxes		**₱545,647**	₱393,342
Insurance		**45,937**	41,099
Advances to contractors		**9,352**	13,951
Rental	*12, 23*	**5,926**	13,276
Advances to government agencies		**101**	101
Others		**22,909**	6,170
		₱629,872	₱467,939

Taxes pertain to the Group's input VAT credits.

9. INVESTMENT IN AN ASSOCIATE

ATI has a 35.71% interest in SCIPSI, which is engaged in arrastre, stevedoring and other related cargo handling services, except porterage, in Makar Wharf, General Santos City, Philippines. SCIPSI is not listed in any public exchange. The carrying amounts of investment in an associate as at December 31 are as follows:

	Note	2017	2016
Acquisition cost		**₱11,222**	₱11,222
Accumulated equity in net earnings:			
Balance at beginning of year		**43,432**	42,115
Equity in net earnings for the year	*19*	**46,701**	47,170
Dividends received during the year		**(14,328)**	(45,853)
		75,805	43,432
		₱87,027	₱54,654

The following table shows the summarized financial information of SCIPSI:

	2017	2016
Current assets	**₱187,757**	₱116,503
Noncurrent assets	**79,988**	53,669
Total assets	**₱267,745**	₱170,172
Current liabilities	**₱153,719**	₱35,187
Noncurrent liabilities	**2,318**	3,891
Total liabilities	**₱156,037**	₱39,078
Revenues	**₱330,018**	₱314,666
Expenses	**(199,455)**	(182,583)
Net income	**₱130,563**	₱132,083

Based on unaudited financial statements

Dividend income of ₱14.3 million and ₱45.9 million was received in 2017 and 2016, respectively.

BOARD OF DIRECTORS

10. PROPERTY AND EQUIPMENT

The movements in this account are as follows:

2017

	Port Facilities and Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation and Other Equipment	Construction in-progress	Total
Cost						
Balance at beginning of year	₱143,972	₱553,924	₱424,413	₱170,310	₱18,687	₱1,311,306
Additions	7,701	5,605	77,211	26,071	81,040	197,628
Disposals	-	-	(767)	(5,548)	-	(6,315)
Reclassifications	411	966	12,970	883	(15,230)	-
Retirements	-	-	(166)	(753)	-	(919)
Balance at end of year	152,084	560,495	513,661	190,963	84,497	1,501,700
Accumulated Depreciation						
Balance at beginning of year	116,034	356,260	247,575	108,265	-	828,134
Depreciation	8,541	16,229	69,952	20,183	-	114,905
Disposals	-	-	(687)	(5,548)	-	(6,235)
Retirements	-	-	(146)	(576)	-	(722)
Balance at end of year	124,575	372,489	316,694	122,324	-	936,082
Carrying Amount	₱27,509	₱188,006	₱196,967	₱68,639	₱84,497	₱565,618

2016

	Port Facilities and Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation and Other Equipment	Construction in-progress	Total
Cost						
Balance at beginning of year	₱74,031	₱554,776	₱382,029	₱158,411	₱35,145	₱1,204,392
Additions	3,592	-	42,084	20,501	15,534	81,711
Disposals	-	-	(15,455)	(8,286)	-	(23,741)
Reclassifications	66,544	-	22,462	-	(31,992)	57,014
Retirements	(195)	(852)	(6,707)	(316)	-	(8,070)
Balance at end of year	143,972	553,924	424,413	170,310	18,687	1,311,306
Accumulated Depreciation						
Balance at beginning of year	52,968	340,836	223,135	96,423	-	713,362
Depreciation	6,797	16,276	46,533	19,489	-	89,095
Disposals	-	-	(15,455)	(7,331)	-	(22,786)
Reclassifications	56,464	-	-	-	-	56,464
Retirements	(195)	(852)	(6,638)	(316)	-	(8,001)
Balance at end of year	116,034	356,260	247,575	108,265	-	828,134
Carrying Amount	₱27,938	₱197,664	₱176,838	₱62,045	₱18,687	₱483,172

The Group modified classification of some items of property and equipment that were identified as part of the concession arrangements with the Grantor. Accordingly, these items with a cost of nil and ₱57.0 million were reclassified to intangible assets in 2017 and 2016, respectively (see Note 11).

11. INTANGIBLE ASSETS

The movements in this account are as follows:

2017

	Port Concession Rights					
	Upfront Fees	Fixed Government Share	Port Infrastructure	Subtotal	Goodwill	Total
Cost						
Balance at beginning of year	₱282,000	₱9,279,694	₱12,982,273	₱22,543,967	₱42,060	₱22,586,027
Additions	-	-	2,102,478	2,102,478	-	2,102,478
Disposals	-	-	(141)	(141)	-	(141)
Balance at end of year	282,000	9,279,694	15,084,610	24,646,304	42,060	24,688,364
Accumulated Amortization						
Balance at beginning of year	40,814	2,399,582	5,429,133	7,869,529	-	7,869,529
Amortization	11,280	386,596	667,943	1,065,819	-	1,065,819
Disposals	-	-	(141)	(141)	-	(141)
Balance at end of year	52,094	2,786,178	6,096,935	8,935,207	-	8,935,207
Carrying Amount	₱229,906	₱6,493,516	₱8,987,675	₱15,711,097	₱42,060	₱15,753,157

2016

	Port Concession Rights					
	Upfront Fees	Fixed Government Share	Port Infrastructure	Subtotal	Goodwill	Total
Cost						
Balance at beginning of year	₱282,000	₱9,279,694	₱12,396,335	₱P21,958,029	₱42,060	₱22,000,089
Additions	-	-	832,918	832,918	-	832,918
Disposals	-	-	(186,722)	(186,722)	-	(186,722)
Reclassifications	-	-	(57,014)	(57,014)	-	(57,014)
Retirements	-	-	(3,244)	(3,244)	-	(3,244)
Balance at end of year	282,000	9,279,694	12,982,273	22,543,967	42,060	22,586,027
Accumulated Amortization						
Balance at beginning of year	29,534	2,012,986	5,023,243	7,065,763	-	7,065,763
Amortization	11,280	386,596	649,561	1,047,437	-	1,047,437
Disposals	-	-	(184,107)	(184,107)	-	(184,107)
Reclassifications	-	-	(56,464)	(56,464)	-	(56,464)
Retirements	-	-	(3,100)	(3,100)	-	(3,100)
Balance at end of year	40,814	2,399,582	5,429,133	7,869,529	-	7,869,529
Carrying Amount	₱241,186	₱6,880,112	₱7,553,140	₱14,674,438	₱42,060	₱14,716,498

No borrowing costs were capitalized in 2017 and 2016. The unamortized capitalized borrowing costs as at December 31, 2017 and 2016 amounted to ₱78.3 million and ₱83.3 million, respectively.

Goodwill
Key Assumptions
In testing impairment of goodwill, the recoverable amount of ATIB is the value in use, which has been determined by calculating the present value of cash flow projections from the operations of ATIB. The average revenue growth rate assumption used was 8%. The discount rate applied to cash flow projections is 5.8% in 2017 and 5.55% in 2016 based on the industry's weighted average cost of capital (WACC).

Sensitivity to Changes in Assumptions
The estimated recoverable amount of ATIB exceeds its carrying amount by approximately ₱2.2 billion and ₱3.5 billion in 2017 and 2016, respectively. Management has identified that earnings before interest and tax and discount rates are the key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount.

12. OTHER NONCURRENT ASSETS

	Note	2017	2016
Deposits	25	**₱33,845**	₱34,958
Taxes		**20,387**	20,106
Rental		**2,297**	3,281
AFS financial assets	25	**2,652**	2,652
		₱59,181	₱60,997

Deposits mainly represent payments related to property leases and utilities. This account includes noninterest-bearing rental deposits on a lease agreement that was carried at fair value as of initial recognition determined based on the present value of future cash flows discounted using effective interest rate of 3.70%. The carrying amounts of these deposits at amortized cost amounted to ₱12.6 million and ₱10.8 million as at December 31, 2017 and 2016, respectively. The difference between the original amount of noninterest-bearing rental deposits and their present values at "Day 1" qualified for recognition as prepaid rental. The prepaid rental (included in current and noncurrent prepayment) amounted to ₱3.3 million and ₱4.3 million as at December 31, 2017 and 2016, respectively.

The current portion of such prepaid rental, presented under "Prepaid expenses - rental" account amounted to ₱5.9 million and ₱13.3 million as at December 31, 2017 and 2016, respectively (see Note 8).

Taxes pertain to noncurrent portion of the value-added input tax on capital goods exceeding ₱1 million.

AFS financial assets consist of investments in quoted and unquoted shares.

13. INCOME TAX

A reconciliation between the statutory tax rate and the effective tax rate on income before income tax follows:

	2017	2016	2015
Statutory income tax rate	**30.00%**	30.00%	30.00%
Changes in income tax rate resulting from:			
Income subjected to final tax	**(0.84)**	(0.89)	(1.09)
Others	**(1.65)**	(2.25)	(1.58)
Effective income tax rate	**27.51%**	26.86%	27.33%

The movements in deferred tax balances are as follows:

					December 31		
2017	*Note*	**Net Balance at January 1**	**Recognized in Profit or Loss**	**Recognized in OCI**	**Deferred Tax Assets**	**Deferred Tax Liabilities**	**Net**
Port concession rights payable related to fixed government share		**₱340,742**	**₱51,090**	**₱ -**	**₱391,832**	**₱ -**	**₱391,832**
Cash flow hedge		**178,029**	**-**	**(89,050)**	**88,979**	**-**	**88,979**
Unrealized foreign exchange loss - net		**159,525**	**98,232**	**-**	**257,757**	**-**	**257,757**
Pension liability	21	**43,006**	**6,927**	**(16,541)**	**33,392**	**-**	**33,392**
Provisions for claims		**15,284**	**46,080**	**-**	**61,364**	**-**	**61,364**
Excess of cost over net realizable value of spare parts and supplies		**11,469**	**-**	**-**	**11,469**	**-**	**11,469**
Impairment losses on receivables	7	**5,298**	**-**	**-**	**5,298**	**-**	**5,298**
Accrued operating lease		**4,971**	**(628)**	**-**	**4,343**	**-**	**4,343**
Rental deposit		**1,835**	**(248)**	**-**	**1,587**	**-**	**1,587**
Unamortized capitalized borrowing costs and custom duties		**(26,709)**	**1,714**	**-**	**-**	**(24,995)**	**(24,995)**
Net tax assets (liabilities)		**₱733,450**	**₱203,167**	**(₱105,591)**	**₱856,021**	**(₱24,995)**	**₱831,026**

BOARD OF DIRECTORS

2016	Note	Net Balance at January 1	Recognized in Profit or Loss	Recognized in OCI	December 31 Deferred Tax Assets	Deferred Tax Liabilities	Net
Port concession rights payable related to fixed government share		₱275,486	₱65,256	₱ -	₱340,742	₱ -	₱340,742
Cash flow hedge		122,819	-	55,210	178,029	-	178,029
Unrealized foreign exchange loss - net		96,245	63,280	-	159,525	-	159,525
Pension liability	21	58,295	9,169	(24,458)	43,006	-	43,006
Provisions for claims		16,062	(778)	-	15,284	-	15,284
Excess of cost over net realizable value of spare parts and supplies		11,469	-	-	11,469	-	11,469
Impairment losses on receivables	7	6,798	(1,500)	-	5,298	-	5,298
Accrued operating lease		5,617	(646)	-	4,971	-	4,971
Rental deposit		2,006	(171)	-	1,835	-	1,835
Unamortized capitalized borrowing costs and custom duties		(28,466)	1,757	-	-	(26,709)	(26,709)
Net tax assets (liabilities)		₱566,331	₱136,367	₱30,752	₱760,159	(₱26,709)	₱733,450

Net deferred tax assets have been recognized because management believes that the Group will earn sufficient future taxable profits against which it can utilize the benefits therefrom.

14. TRADE AND OTHER PAYABLES

	Note	2017	2016
Trade		**₱379,642**	₱129,655
Accrued expenses:			
Marketing, commercial and promotion		**446,945**	261,910
Personnel costs		**165,279**	161,570
Professional fees		**153,683**	156,105
Finance costs		**152,744**	157,198
Repairs and maintenance		**92,788**	97,743
Rental	23	**70,693**	31,145
Security expenses		**44,037**	12,417
Trucking expense		**28,774**	28,083
Corporate social responsibility		**14,712**	38,830
Utilities		**12,104**	10,495
Safety and environment		**4,314**	1,897
Miscellaneous accrued expenses		**69,518**	98,753
Due to government agencies	23	**610,006**	532,515
Equipment acquisitions		**214,012**	110,381
Shippers' and brokers' deposits		**84,433**	76,233
Due to related parties	20	**7,881**	9,115
Other payables		**138,647**	86,314
		₱2,690,212	₱2,000,359

Following are the terms and conditions of the above liabilities:

- Trade payables are non-interest bearing and are normally settled on 30 to 60-day terms.
- Accrued finance costs are normally settled quarterly and semi-annually throughout the financial year.
- Other payables are non-interest bearing and are normally settled within twelve months from inception date.

15. PROVISIONS FOR CLAIMS

	2017	2016
Balance at beginning of year	**₱50,944**	₱53,539
Provisions during the year	**154,090**	5,814
Payments during the year	**(490)**	(8,409)
Balance at end of year	**₱204,544**	₱50,944

Provisions relate to property, equipment and cargo damage and other claims. It is expected that most of these provisions will be settled within the next financial year or on demand.

16. EQUITY

Pursuant to the registration statement rendered effective by the SEC and permit to sell issued by the SEC both dated April 7, 1995, 1 billion common shares of the Parent Company were registered and may be offered for sale at an offer price of ₱5.10 per common share. On March 26, 1999, another registration statement was rendered effective by the SEC and permit to sell issued by the SEC for 1 billion common shares of the Parent Company and may be offered for sale at an offer price of ₱1.00 per common share. As at December 31, 2017, the Parent Company has a total of 2 billion issued and outstanding common shares and 835 stockholders.

Capital Stock - ₱1 Par Value
The Parent Company has 2.0 billion issued and fully paid capital stock, from its 4.0 billion authorized common shares, as at December 31, 2017 and 2016.

Retained Earnings
The balance of the Group's retained earnings includes a subsidiary and an associate's undistributed net earnings of ₱91.1 million and ₱93.7 million as at December 31, 2017 and 2016, respectively, which are available for distribution only upon declaration of dividends by such subsidiary and associate to the Parent Company. Cash dividends are distributed yearly since 2000.

On April 27, 2017, the BOD approved the declaration of cash dividends amounting to ₱860.0 million or ₱0.43 per share payable on June 15, 2017 to common shareholders of record as at May 19, 2017.

On April 28, 2016, the BOD approved the declaration of cash dividends amounting to ₱820.0 million or ₱0.41 per share payable on June 15, 2016 to common shareholders of record as at May 20, 2016.

On December 18, 2015, the Group's BOD approved the reversal to the unappropriated retained earnings of the amount of ₱2.6 billion out of the already approved appropriation of ₱4.7 billion, for capital expenditure for 2014 and 2015. Furthermore, the Group's BOD approved an appropriation of the retained earnings amounting to P4.0 billion for capital expenditures which include yard and berth development as well as equipment acquisition over the next 2 years. The Group's BOD also approved on the same date a budget amounting to ₱9.4 billion for capital expenditures which include yard and berth development as well as construction of new facilities and equipment acquisition over the next 3 years. The capital expenditure will strengthen the Group's operations and capability to handle growth.

On December 19, 2016, the Group's BOD approved the reversal to the unappropriated retained earnings of the amount of ₱800 million out of the already approved appropriation of ₱6.1 billion, for capital expenditures for 2014 and 2015. Furthermore, the Group's BOD approved an appropriation of the retained earnings amounting to ₱2.60 billion for capital expenditures for the next 2 years. The Group's BOD also approved on the same date a budget amounting to ₱4.6 billion for capital expenditures which include yard and berth development as well as construction of new facilities and equipment acquisition for 2017. The capital expenditures will strengthen the Group's operations and capability to handle growth.

On December 19, 2017, the Group's BOD approved the reversal to the unappropriated retained earnings of the amount of ₱1.1 billion out of the already approved appropriation of ₱7.9 billion, for capital expenditures for 2015 and 2016. Furthermore, the Group's BOD approved an appropriation of the retained earnings amounting to ₱2.9 billion for capital expenditures for the next 2 years. The Group's BOD also approved on the same date a budget amounting to ₱8.8 billion for capital expenditures which include yard and berth development as well as construction of new facilities and equipment acquisition for 2018. The capital expenditures will strengthen the Group's operations and capability to handle growth.

Fair Value Reserve
Fair value reserve amounting to ₱5.8 million as at December 31, 2017 and 2016 represents unrealized loss on AFS financial assets.

Hedging Reserve
The hedging reserve includes the effective portion of the cumulative net change in the fair value of the port concession payable used as cash flow hedge against foreign currency risk.

For the years ended December 31, 2017, 2016 and 2015, the effective fair value changes of the Group's cash flow hedge that was recognized in the comprehensive income amounted to ₱22.0 million, ₱269.0 million and ₱242.6 million, respectively, net of tax.

For the years ended December 31, 2017, 2016 and 2015, the Group's cash flow hedge that was reclassified to profit or loss in the comprehensive income amounted to ₱229.8 million, ₱140.2 million and ₱62.9 million, respectively, net of tax.

17. GOVERNMENT SHARE IN REVENUES

This account consists of port authorities' share in revenues of the Group as stipulated in the agreements with port authorities where the Group operates (Note 2). Port authorities' share in gross revenues includes variable government share amounting to ₱1.9 billion, ₱1.7 billion and ₱1.4 billion in 2017, 2016 and 2015, respectively (see Note 23).

18. COSTS AND EXPENSES EXCLUDING GOVERNMENT SHARE IN REVENUES

	Note	**2017**	2016	2015
Labor costs		**₱1,282,910**	₱1,192,514	₱1,091,422
Depreciation and amortization	*10, 11*	**1,180,724**	1,136,532	944,926
Equipment running		**595,449**	485,263	482,841
Taxes and licenses		**256,132**	254,873	279,253
Security, health, environment and safety		**181,801**	161,277	160,190
Provision for claims	*15*	**154,090**	5,814	7,402
Facilities-related expenses		**151,910**	183,602	161,622
Management fees	*20*	**149,706**	112,965	105,230
Rental	*23*	**139,905**	152,469	150,295
Insurance		**66,295**	66,942	64,393
Marketing, commercial and promotion		**45,740**	136,226	36,705
General transport		**41,133**	14,894	21,532
Professional fees		**24,460**	174,313	47,746
Entertainment, amusement and recreation		**5,170**	5,921	4,730
Others		**160,778**	217,347	177,831
		₱4,436,203	₱4,300,952	₱3,736,118

Labor costs include salaries, benefits and pension expense.

Spare parts and supplies used and included under equipment running amounted to ₱227.3 million, ₱165.7 million and ₱141.9 million in 2017, 2016 and 2015, respectively.

19. OTHER INCOME AND EXPENSES

Finance cost is broken down as follows:

	Note	**2017**	2016	2015
Interest on port concession rights payable		**₱559,779**	₱573,110	₱543,141
Interest component of pension expense	*21*	**7,589**	7,953	5,490
Interest on bank loans/credit facilities		**365**	153	153
		₱567,733	₱581,216	₱548,784

Interest on port concession rights payable pertains to the interest on the unwinding of discount of said liability (see related policy on port concession rights in Note 4).

Finance income is broken down as follows:

	Note	**2017**	2016	2015
Interest on cash in banks and short-term investments	*6*	**₱83,787**	₱60,438	₱50,140
Accretion of rental deposits	*23*	**1,817**	1,556	1,349
		₱85,604	₱61,994	₱51,489

Others consist of the following:

	Note	**2017**	2016	2015
Equity in net earnings of an associate	*9*	**₱46,701**	₱47,170	₱38,741
Lease and other income - net		**34,656**	28,585	9,718
Foreign exchange gains - others		**10,243**	91	6,872
Management income	*20*	**8,806**	9,184	7,260
Income from insurance claims		**264**	74,167	354
Foreign exchange (losses) - port concession rights payable		**(107,169)**	(60,277)	(35,391)
Foreign exchange losses - cash flow hedge		**(329,386)**	(211,856)	(99,501)
		(₱335,885)	(₱112,936)	(₱71,947)

Foreign exchange losses - port concession rights payable resulted from revaluation of foreign currency denominated port concession rights payable.

20. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

The Group, in the normal course of business, has the following transactions with its related parties:

A. Amount owed by SCIPSI pertains to management fees equivalent of 6% of gross revenue.

B. The Parent Company and its subsidiary have separate, noncontributory, defined benefit retirement plans covering all its regular employees, in the form of a trust being maintained by a trustee bank. The benefits are based on the employee's years of service and final plan salary. Contributions were made in 2017 and 2016 amounted to ₱21.9 million and ₱18.4 million, respectively (see Note 21).

BOARD OF DIRECTORS

C. The Parent Company's management agreement with POMS was renewed on September 1, 2010 for another five years until August 31, 2015. The terms of the agreement provide for the payment of a monthly management fee equivalent to 5% of ATI's consolidated income before income tax of the immediately preceding month. On August 20, 2015, the Parent Company's management decided to renew its contract with POMS for another five years until August 31, 2020.

D. Amount owed by DP World Asia Holdings Limited-Regional Operating Headquarters pertains to reimbursements for expenses paid by the Group.

				Outstanding Balance			
Category/ Transaction	**Ref**	**Year**	**Amount of the Transaction**	**Due from Related Parties**	**Due to Related Parties**	**Terms**	**Conditions**
Associate							
▪ Management income	*A*	**2017**	**₱8,806**	**₱1,032**	**₱ -**	**Payable on demand**	**Unsecured; no impairment**
		2016	9,184	1,642	-	Payable on demand	Unsecured; no impairment
Post Employment Benefit Plan							
▪ Retirement fund	*B*	**2017**	**39,354**	**17,721**	**-**	**Payable on demand**	**Unsecured; no impairment**
		2016	47,504	8,970	-	Payable on demand	Unsecured; no impairment
Others							
▪ Management fees	*C*	**2017**	**149,706**	**-**	**7,881**	**Payable within ten (10 days) of the following month**	**Unsecured**
		2016	112,965	-	9,115	Payable within ten (10) days of the following month	Unsecured
▪ Advances	*D*	**2017**	**2,622**	**262**		Payable on demand	Unsecured; no impairment
		2016	2,792	509	-	Payable on demand	Unsecured; no impairment
TOTAL		**2017**		**₱19,015**	**₱7,881**		
TOTAL		2016		₱11,121	₱9,115		

The compensation and benefits of key management personnel are as follows:

	2017	2016
Short-term employee benefits	**₱164,256**	₱170,903
Post-employment benefits	**10,884**	12,160
	₱175,140	₱183,063

21. PENSIONS

The Group's latest actuarial valuation reports are dated December 31, 2017. Valuations are obtained on a periodic basis. The following tables summarize the components of pension expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the plans of ATI and ATIB:

Pension Expense

	ATI			ATIB		
	2017	2016	2015	**2017**	2016	2015
Current service cost	**₱36,651**	₱41,983	₱39,501	**₱2,052**	₱3,241	₱2,736
Interest cost on defined benefit obligation	**28,144**	28,808	26,022	**1,685**	2,012	1,765
Interest income on plan assets	**(20,587)**	(21,288)	(20,909)	**(1,653)**	(1,579)	(1,388)
Net pension expense	**₱44,208**	₱49,503	₱44,614	**₱2,084**	₱3,674	₱3,113

Current service cost is included in "Costs and expenses" in the consolidated statements of income. Interest cost on defined benefit obligation and interest income on plan assets are included in "Finance cost" account in the consolidated statements of income (see Note 19).

Pension Liability as at December 31

	ATI		ATIB	
	2017	2016	**2017**	2016
Present value of pension obligations	**(₱527,936)**	(₱553,235)	**(₱29,298)**	(₱31,330)
Fair value of plan assets	**413,305**	411,724	**30,856**	28,984
Pension asset (liability)	**(₱114,631)**	(₱141,511)	**₱1,558**	(₱2,346)

Changes in the Present Value of Pension Obligations

	ATI		ATIB	
	2017	2016	**2017**	2016
Present value of pension obligations at beginning of year	**₱553,235**	₱603,253	**₱31,330**	₱40,609
Current service cost	**36,651**	41,983	**2,052**	3,241
Interest cost	**28,144**	28,808	**1,685**	2,012
Benefits paid	**(30,093)**	(39,148)	**(498)**	(858)
Actuarial gain	**(60,001)**	(81,661)	**(5,271)**	(13,674)
Present value of pension obligations at end of year	**₱527,936**	₱553,235	**₱29,298**	₱31,330

Changes in the Fair Value of Plan Assets

	ATI		ATIB	
	2017	2016	**2017**	2016
Fair value of plan assets at beginning of year	**₱411,724**	₱423,663	**₱28,984**	₱29,606
Actual return on plan assets:				
Interest income	**20,587**	21,288	**1,653**	1,579
Actual contributions	**21,050**	17,106	**891**	1,282
Remeasurement loss on plan assets	**(9,963)**	(11,185)	**(174)**	(2,625)
Benefits paid	**(30,093)**	(39,148)	**(498)**	(858)
Fair value of plan assets at end of year	**₱413,305**	₱411,724	**₱30,856**	₱28,984

The components of retirement benefits recognized in other comprehensive income are as follows:

	ATI			ATIB		
	2017	2016	2015	**2017**	2016	2015
Actuarial gain (loss) due to:						
Changes in financial assumptions	**₱16,666**	₱63,446	₱24,692	**₱938**	₱5,360	₱2,067
Changes in demographic assumptions	**(1,068)**	24,308	-	**3,919**	4,513	-
Experience adjustment	**44,403**	(6,093)	(19,465)	**414**	3,801	1,016
Remeasurement loss on plan assets	**(9,963)**	(11,185)	(27,579)	**(174)**	(2,625)	(1,768)
	₱50,038	₱70,476	(₱22,352)	**₱5,097**	₱11,049	₱1,315

The cumulative amount of actuarial gains recognized in the consolidated statements of changes in equity is ₱70.2 million and ₱15.1 million as at December 31, 2017 and 2016, respectively.

Plan Assets
The plan entitles a retired regular or full-time employee to receive a lump sum amount equivalent to one (1) month salary for every year of credited service. Period of service shall be reckoned from date of hire to date of retirement, death, permanent disability, or severance.

This defined benefit plan exposes the Group to actuarial risks, such as interest rate risk and market (investment) risk.

Contributions will be made at the start of each year based on the funding requirements and recommendations indicated in the latest actuarial valuation reports.

The Group's plan assets consist of the following:

	ATI		ATIB	
	2017	2016	**2017**	2016
Cash and cash equivalents	**₱28,745**	₱79,628	**₱1,514**	₱3,722
Investment in UITF	**56,590**	4,968	**2,400**	360
Equity instruments	**65,691**	61,345	**4,924**	4,145
Investment in government securities	**238,536**	254,312	**20,148**	19,770
Debt instruments	**7,634**	7,728	**701**	713
Other receivables	**16,109**	3,743	**1,169**	274
	₱413,305	₱411,724	**₱30,856**	₱28,984

All equity instruments and government securities have quoted prices in active markets.

All government securities are issued by the Philippine government and are rated Baa3 by Moody's or BBB by Standard & Poor's.

The principal assumptions used in determining pension benefit obligations for the Group's plans are shown below:

	ATI		ATIB	
	2017	2016	**2017**	2016
Discount rate at end of year	**5.7%**	5.3%	**5.8%**	5.4%
Salary increase rate	**3.0%-5.0%**	3.0%-5.0%	**5.0%**	5.0%

Assumptions for mortality rate are based on the 2017 Philippine Intercompany Mortality Table.

The weighted average duration of defined benefit obligation is as follows:

	ATI		ATIB	
	2017	2016	**2017**	2016
Average expected future service years	**14**	13	**11**	13

Maturity analysis of the benefit payments:

	2017	
	Expected Benefit Payments	
	ATI	ATIB
Within 1 Year	**₱48,568**	**₱1,192**
Within 1 - 5 Years	**194,834**	**8,810**
More than 5 Years	**2,102,931**	**124,234**

BOARD OF DIRECTORS

	2016	
	Expected Benefit Payments	
	ATI	ATIB
Within 1 Year	₱52,379	₱577
Within 1 - 5 Years	199,240	9,972
More than 5 Years	2,041,800	159,957

Sensitivity Analysis

As at December 31, 2017, the reasonably possible changes to the relevant actuarial assumptions holding other assumptions constant, would have affected the defined benefit obligation by the amounts below:

	ATI		ATIB	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	₱488,322	₱573,644	₱26,746	₱32,258
Salary increase rate	576,301	485,335	32,396	26,585

The Group expects to pay ₱60.5 million in contributions to defined benefit plans in 2018.

22. EARNINGS PER SHARE (EPS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic EPS is computed as follows:

	2017	2016	2015
(a) Net income attributable to Equity Holders of the Parent Company (in thousands)	**₱2,486,993**	₱1,902,391	₱1,764,167
(b) Weighted average number of common shares outstanding (in thousands)	**2,000,000**	2,000,000	2,000,000
Basic/diluted EPS attributable to Equity Holders of the Parent Company (a/b)	**₱1.24**	₱0.95	₱0.88

The Parent Company does not have potential common shares or other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

23. COMMITMENTS AND CONTINGENCIES

Agreements within the Scope of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*

a. The Parent Company is authorized by the PPA to render cargo handling services at the South Harbor until May 2013. On October 19, 2007, the cargo handling services contract was extended until May 2038 under the terms mutually agreed upon with the PPA.

   i. In accordance with the Investment Plan which was revised in December 2014 pursuant to the Third Supplement to the Cargo Handling Contract, the Parent Company has committed to invest US$385.7 million from 2010 to 2028, for the rehabilitation, development and expansion of the South Harbor facilities. The commitment is dependent on container volume. The Investment Plan is subject to joint review every two (2) years, or as often as necessary as mutually agreed, to ensure that the same conforms to actual growth levels, taking into account introduction of new technologies and allowing the Parent Company the opportunity of a fair return on investment.

   ii. Government Share

      - For storage operations, the Parent Company shall pay an annual fixed government share of ₱55 million payable quarterly and a government share of 30% of its annual gross storage revenue in excess of ₱273 million.

      - For international containerized cargo operations, the Parent Company shall pay a quarterly fixed government share of US$1.15 million plus variable government share amounting to 8% of its total gross revenues, or 20% of its total quarterly gross revenues, whichever is higher, until May 2013. After May 2013, the Parent Company shall pay quarterly fixed government share of US$2.25 million plus a variable government share amounting to 20% of its total gross revenues.

      - For general cargo operations, the Parent Company shall remit government share amounting to 20% of its total gross revenues collected from arrastre services and 14% of its total gross revenues collected from stevedoring services for general cargoes.

      - For domestic terminal operations, the Parent Company shall remit government share amounting to 10% of its total gross revenues derived from its domestic cargo handling and passenger terminal operations.

b. The Parent Company is authorized by the PPA to render cargo handling services at the Container Terminal "A-1," Phase 2 at the Port of Batangas for 25 years starting July 1, 2010. For arrastre operations, the Parent Company shall pay an annual fixed government share of US$2.26 million for the first 2 years, US$4.68 million for the 3rd year, US$5.08 million for the 4th-7th year, and US$5.33 million for the 8th-25th year. The Parent Company shall also remit annual variable government share based on committed yearly percentage share multiplied by whichever is higher of the projected gross income in the bid proposal or actual gross income.

c. ATI and ATIB are authorized by the PPA to render cargo handling and passenger services, supply base operations, porterage services, berth management, parking services, passenger terminal retail outlets, weighbridge or weighing operations, water supply services, vehicle booking system, security services, and leasing/sub-leasing of areas and facilities in the Port of Batangas Phase 1 from October 1, 2015 until September 30, 2025. For these operations, ATI and ATIB shall pay a fixed government share amount of ₱112.7 million for the first 3 years, which shall escalate by 5% and 4% on the 4th and 5th years and 3% for the remaining 5 years. In addition, ATI and ATIB shall remit annual volume-triggered government share of 10% and 20% for domestic cargoes and passenger terminal fees and for foreign cargoes, respectively, once defined threshold volumes are met.

<u>Agreements outside the Scope of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*</u>

a. The Parent Company has a 5-year lease agreement with PPA effective April 3, 2012 covering a land adjacent to the CFS area of the Container Terminal "A-1" with a monthly lease rental of ₱0.4 million, subject to a yearly escalation of 5%.

The Parent Company and PPA agreed to extend the use of this land to another 5 years ending March 2022, with a monthly lease of ₱0.5 million subject to the same yearly escalation clause of 5%. As of December 31, 2017, the contract is still in the process of finalization but the Parent Company is already paying the monthly lease of ₱0.5 million.

As at December 31, the Parent Company has outstanding commitments for future minimum lease payments under the above operating lease, which fall due as follows:

	2017	2016
Within one year	**₱6,357**	₱1,459
After one year but not more than five years	**22,904**	-
	₱29,261	₱1,459

b. The Parent Company has a 25-year lease agreement until April 2021 covering the land in Calamba, Laguna to be used exclusively as an Inland Container Depot for which the Parent Company pays an annual rental of ₱0.1 million, subject to an escalation of 7% once every two years.

The contract was revised in 2004, changing the monthly rate to ₱0.5 million in January 1, 2002 to December 31, 2003 and ₱0.7 million in January 1, 2004 to December 31, 2005, subject to an escalation of 8% every 2 years starting January 1, 2006.

The future minimum rentals payable under operating leases as at December 31 are as follows:

	2017	2016
Within one year	**₱14,396**	₱13,330
After one year but not more than five years	**45,492**	59,888
After more than five years	**-**	-
	₱59,888	₱73,218

c. The Parent Company has a 5-year lease contract commencing on February 1, 2017 over two parcels of land located in Sta. Mesa, City of Manila with a monthly lease rental of ₱0.6 million, subject to an escalation of 7% once every two years. This land is being exclusively used as an off-dock container depot.

The future minimum rentals payable under operating lease as at December 31 are as follows:

	2017	2016
Within one year	**₱6,732**	₱ -
After one year but not more than five years	**23,073**	-
	₱29,805	₱ -

d. The Parent Company has a 2.5-year lease agreement until February 28, 2017, covering the land in Lawa, Calamba, to be used exclusively for warehousing and logistics purposes with a monthly lease rental of ₱2.8 million.

As at December 31, the Parent Company has outstanding commitments for future minimum lease payments under the above operating lease, which fall due as follows:

	2017	2016
Within one year	**₱ -**	₱5,500
After one year but not more than five years	**-**	-
	₱ -	₱5,500

e. The Group has contingent liabilities for lawsuits and various other matters occurring in the ordinary course of business. On the basis of information furnished by its legal counsel, management believes that none of these contingencies will materially affect the Group's financial position and financial performance.

24. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial assets and liabilities such as cash and cash equivalents, trade and other receivables, deposits, trade and other payables, and port concession rights payable which arise directly from its operations. The main purpose of these financial instruments is to raise financing for the Group's capital expenditures and operations. Other financial instruments include AFS financial assets.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The BOD reviews and agrees on policies for managing each of these risks.

<u>Interest Rate Risk</u>
The Group's interest rate risk management policy centers on reducing the Group's overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's cash in banks and cash equivalents.

As at December 31, 2017 and 2016, the interest rate profile of the Group's interest bearing financial instrument is as follows:

	2017	2016
Fixed Rate Instruments		
Cash in banks and cash equivalents	**₱6,944,580**	₱5,880,613

Excluding cash on hand amounting to ₱0.6 million as at December 31, 2017 and 2016.

Fair Value Sensitivity Analysis for Fixed Rate Instruments
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore, a change in interest rates at the reporting date would not affect profit or loss.

<u>Liquidity Risk</u>
The Group monitors its risk of shortage of funds using a liquidity planning tool. This tool considers the maturity of both the Group's financial investments and financial assets and projected cash flows from operations, among others. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

		Contractual Cash Flows					
As at December 31, 2017	**Carrying Amount**	**On Demand**	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**> 5 Years**	**Total**
Trade and other payables*	**₱2,080,206**	**₱269,094**	**₱764,116**	**₱1,046,996**	**₱ -**	**₱ -**	**₱2,080,206**
Port concession rights payable	**8,806,580**	**-**	**195,800**	**587,400**	**3,983,707**	**9,181,705**	**13,948,612**
Total	**₱10,886,786**	**₱269,094**	**₱959,916**	**₱1,634,396**	**₱3,983,707**	**₱9,181,705**	**₱16,028,818**

**excluding due to government agencies amounting to ₱610.0 million*

		Contractual Cash Flows					
As at December 31, 2016	Carrying Amount	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	> 5 Years	Total
Trade and other payables*	₱1,467,844	₱228,707	₱425,565	₱813,572	₱ -	₱ -	₱1,467,844
Port concession rights payable	8,985,869	-	194,019	582,056	3,962,327	9,986,285	14,724,687
Total	₱10,453,713	₱228,707	₱619,584	₱1,395,628	₱3,962,327	₱9,986,285	₱16,192,531

**excluding due to government agencies amounting to ₱532.5 million*

BOARD OF DIRECTORS

Credit Risk
The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. A regular/annual review and evaluation of accounts is being executed to assess the credit standing of customers. In addition, a portion of revenues is on cash basis.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash in bank and cash equivalents, trade receivables, deposits and AFS financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Since the Group trades only with recognized third parties, there is no requirement for collateral.

Financial information on the Group's maximum exposure to credit risk as at December 31, 2017 and 2016, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	Note	**2017**	2016
Cash in banks and cash equivalents*	*6*	**₱6,944,580**	₱5,880,613
Trade and other receivables - net	*7*	**490,466**	426,466
Deposits	*12*	**33,845**	34,958
AFS financial assets	*12*	**2,652**	2,652
		₱7,471,543	₱6,344,689

**excluding cash on hand amounting to ₱0.6 million as at December 31, 2017 and 2016.*

There are no significant concentrations of credit risk within the Group. Of the total trade and other receivables which are neither past due nor impaired, 100% are of high grade quality instruments because there was no history of default on the agreed terms of the contract.

Foreign Currency Risk
The Group has foreign currency financial assets and liabilities arising from US dollar denominated revenues, lease payments, government share, and other foreign currency-denominated purchases by operating units.

The Group's policy is to manage its foreign currency risk by using a combination of natural hedges and selling foreign currencies at spot rates where necessary to address short-term imbalances.

As part of its foreign currency risk strategy, commencing July 1, 2014, the Group hedges the spot exchange risk on the highly probable forecast US dollar revenue transactions using a non-derivative financial instrument, port concession rights payable, which is denominated in US dollar. The financial liability creates an exposure to the functional currency which offsets the foreign currency exposure on the highly probable US dollar revenue stream. This type of hedging relationship is designated as cash flow hedge.

The Group has assessed that 80% of the US dollar denominated stevedoring revenue for the designated period is highly probable. However, the Group has designated 67% of the monthly US dollar revenue as the hedged items for the next thirty six months from the date of designation i.e., July 1, 2014.

In 2017, the designated hedged item reached its 3rd year and ceased accordingly. The Group re-designated 50% of the monthly US dollar revenue as the hedged item for the next forty two months.

The Group uses the port concession rights payable as a hedging instrument to hedge the spot exchange risk in the highly probable forecast transactions.

The Group's foreign currency-denominated accounts as at December 31 are as follows:

	2017	2016
Assets		
Cash and cash equivalents	**US$386**	US$307
Trade and other receivables	**190**	122
	576	429
Liabilities		
Trade and other payables	**2,860**	1,235
Port concession rights payable	**146,156**	149,341
	149,016	150,576
Net foreign currency-denominated liabilities	**(US$148,440)**	(US$150,147)
Peso equivalent	**(₱7,411,609)**	(₱7,465,309)

The exchange rates applicable for US dollar as at December 31, 2017 and 2016 are ₱49.93 and ₱49.72, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's income before income tax and equity.

Increase (Decrease) in U.S. dollar Exchange Rate		Effect on Income Before Income Tax	Effect on Equity
2017			
	+5%	**(₱370,580)**	**(₱259,406)**
	-5%	**370,580**	**259,406**
2016			
	+5%	(₱373,265)	(₱261,286)
	-5%	373,265	261,286

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group considers capital to include capital stock, additional paid-in capital, retained earnings, fair value reserve and hedging reserve. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust its capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes from prior year.

The Group is not subject to externally imposed capital requirements.

The table below shows the capital structure of the Group as at December 31:

	Note	**2017**	2016
Capital stock		**₱2,000,000**	₱2,000,000
Additional paid-in capital		**264,300**	264,300
Retained earnings		**11,575,652**	9,910,095
Hedging reserve		**(207,620)**	(415,403)
Fair value reserve		**(5,820)**	(5,820)
Total	*16*	**₱13,626,512**	₱11,753,172

25. FINANCIAL INSTRUMENTS

The table below presents a comparison by category of carrying amounts and estimated fair values of all the Group's financial instruments as at December 31, 2017 and 2016.

		2017		2016	
	Note	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	*6*	**₱6,945,189**	**₱6,945,189**	₱5,881,207	₱5,881,207
Trade and other receivables - net	*7*	**490,466**	**490,466**	426,466	426,466
Deposits	*12*	**33,845**	**39,589**	34,958	41,426
		7,469,500	**7,475,244**	6,342,631	6,349,099
AFS financial assets	*12*	**2,652**	**2,652**	2,652	2,652
		₱7,472,152	**₱7,477,896**	₱6,345,283	₱6,351,751
Financial Liabilities					
Other financial liabilities:					
Trade and other payables	*14*	**₱2,080,206**	**₱2,080,206**	P1,467,844	₱1,467,844
Port concession rights payable		**8,806,580**	**9,895,597**	8,985,869	10,416,292
		₱10,886,786	**₱11,975,803**	₱10,453,713	₱11,884,136

**excluding due to government agencies amounting to ₱610.0 million and ₱532.5 million in 2017 and 2016, respectively.*

Fair Value of Financial Instruments
The fair values of cash and cash equivalents, trade and other receivables and trade and other payables are approximately equal to their carrying amounts due to their relatively short-term nature.

Nonderivative Financial Instruments
Quoted market prices have been used to determine the fair values of listed AFS financial assets. The fair values of unquoted AFS financial assets are not reliably determinable.

For noninterest-bearing deposits, the fair value is estimated as the present value of all future cash flows discounted using the prevailing market rate on interest for a similar instrument. The discount rates used are 4.3% in 2017 and 4.7% in 2016.

The fair value of port concession rights payable was estimated at the present value of all future cash flows discounted using the applicable rates for similar types of loans ranging from 5.42% to 5.78% in 2017 and 4.80% to 5.52% in 2016.

Fair Value Hierarchy
The table below presents the fair value hierarchy of the Group's financial instruments:

As at December 31, 2017	*Note*	**Level 1**	**Level 2**	**Level 3**
AFS financial assets	*12*	**₱933**	**₱ -**	**₱1,719**
Port concession rights payable		**-**	**9,895,597**	**-**
		₱933	**₱9,895,597**	**₱1,719**

As at December 31, 2016	*Note*	Level 1	Level 2	Level 3
AFS financial assets	*12*	₱933	₱ -	₱1,719
Port concession rights payable		-	10,416,292	-
		₱933	₱10,416,292	₱1,719

There have been no transfers from one level to another in 2017 and 2016.

ANDREW R. HOAD
Chairman

EUSEBIO H. TANCO
President/Director

FELINO A. PALAFOX, JR.
Director

MATTHEW LEECH
Director

BOARD OF DIRECTORS

ANDREW R. HOAD
Chairman

CEO and Managing Director
- DP World Asia Pacific

EUSEBIO H. TANCO
President/Director

President
- Philippines First Insurance Co.
- Global Resource for Outsourced Workers, Inc.
- Bloom with Looms Logistics, Inc.
- Total Consolidated Asset Management Inc.
- Eujo Philippines, Inc.
- Tantivy Holdings, Inc
- Mar-Bay Homes Inc.
- Cement Center, Inc.
- Biolim Holdings and Management Corp.

Chairman
- STI Education Systems Holdings, Inc.
- STI West Negros University
- Mactan Electric Company
- DLS-STI College
- Eximious Holdings, Inc.
- GROW Vite
- Venture Securities, Inc.

Executive Committee Chairman
- STI Education Services Group, Inc.

Chairman and President
- Prime Power Holdings
- Prudent Resources, Inc.

Director
- Philippine Stock Exchange
- iACADEMY
- Philhealthcare Inc.
- Philplans First, Inc.
- Philippine Life Financial Assurance
- United Coconut Chemicals, Inc.
- M.B. Paseo
- Philippine Health Educators, Inc.
- First Optima Realty Corporation
- Maestro Holdings, Inc.
- Philippine Racing Club
- Leisure & Resorts World Corporation

MONICO V. JACOB
Director

President
- STI Education Systems Holdings Inc.
- STI West Negros University

CEO and Vice-Chairman
- STI Education Services Group

Chairman
- PhilPlans Inc.
- Philippine Life Financial Assurance, Inc.
- Rosehills Memorial Management, Inc.
- Philippine Life Financial Assurance, Inc.
- Global Resource for Outsourced Workers, Inc.
- Total Consolidated Asset Management Inc.
- GROW-Vite

Director
- iACADEMY
- PhilCare

Independent Director
- Jollibee Foods, Inc.
- 2Go Group
- Phoenix Petroleum Philippines
- Rockwell Land Inc.
- Lopez Holdings, Inc.

Member
- Integrated Bar of the Philippines
- Management Association of the Philippines

FELINO A. PALAFOX, JR.
Director

Founder
- Principal Architect-Urban Planner & Managing Partner Palafox Associates

Chairman
- National Real Estate Association

President
- FIABCI Philippines (International Real Estate Federation)

MONICO V. JACOB
Director

ARTEMIO V. PANGANIBAN
Independent Director

TEODORO L. LOCSIN JR.
Independent Director

AHMAD YOUSEF AHMAD ALHASSAN AL SIMREEN
Director

Affiliations
- American Institute of Architects, International Associate
- Council of Tall Buildings and Urban Habitat, Country Leader

Member
- US Green Building
- US Urban Land Institute
- US Congress of New Urbanism
- American Planning Association
- US International Council of Shopping Centers

TEODORO L. LOCSIN, JR.
Independent Director

Philippine Representative
- United Nations, New York

Director
- STI Education Systems Holdings, Inc

Independent Director
- The Medical City

Member
- iAcademy Board of Governors
- Integrated Bar of the Philippines

ARTEMIO V. PANGANIBAN
Independent Director

Supreme Court of the Philippines
- Chief Justice (2005 to 2006)
- Associate Justice (1995 to 2005)

Independent Director
- GMA Network, Inc.
- First Philippine Holdings Corp.
- Metro Pacific Investments Corp.
- Manila Electric Company
- Robinsons Land Corp.
- GMA Holdings, Inc.
- Bank of the Philippine Islands
- Petron Corporation
- PLDT Inc.

Non-executive Director
- Jollibee Foods Corporation

Senior Adviser
- Metrobank

Adviser
- DoubleDragon Properties Corp.

MATTHEW WELLS LEECH
Director

Chief Operating Officer
- DP World Ports & Terminals

AHMAD YOUSEF AHMAD ALHASSAN AL SIMREEN
Director

Head of Finance
- DP World Asia Pacific

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MAYA U. MARIANO
Payroll Manager

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MAYBEL M. LOMEDA
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YSMAEL M. ESTACIO
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MAXILINDA M. LEE
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JANICE S. PICARDAL
HSES Manager

CRESILDA C. REBUSTILLO
HSES Manager

MAILA T. REYES
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Via Manila: +632 5286000 local 1872

ATI BATANGAS INC.
ATI Batangas Port Office
Batangas Port Phase 1,
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Line: +6343 723-3487
Fax: +6343 723-0571
Via Manila: +632 5286000 local 1895

BATANGAS CONTAINER TERMINAL
BCT Operation Center
Batangas Port Phase 2,
Sta. Clara, Batangas City
5286000 local 1814

SOUTH COTABATO INTEGRATED PORT
Makar Wharf, General Santos City
South Cotabato, 9500, Philippines
Tel: (63-83) 552-4212
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STOCK TRANSFER AGENT:
Rizal Commercial Banking Corporation

INDEPENDENT PUBLIC ACCOUNTANTS:
R.G. Manabat & Co.

CONCEPT AND DESIGN:
Perez Numedia, Inc.

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