Asian Terminals Incorporated

ALL SYSTEMS GO

ANNUAL REPORT 2018

VISION

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

PRINCIPLES

Create Growth

- Always looking for opportunities.
- Sees what others don't.
- Takes risks.

Drive Results

- End-result focused.
- Delivers in the midst of adversity.
- Finds a solution.

Make Others Excel

- Creates an environment where others succeed.
- Has no comfort zone.
- Efficient with time.

Adapt & Evolve

- 'No!' is never the first reaction.
- Looks for practical ways.
- Always curious.

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

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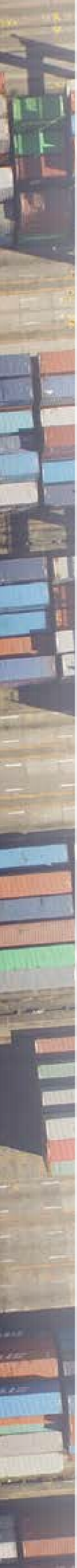
CHAIRMAN'S & PRESIDENT'S MESSAGE

Operating within a positive economic backdrop, Asian Terminals Inc. sustained its growth momentum last year as we delivered another record overall performance as a trade enabler and operator of strategic economic gateways for the Philippine economy.



The Philippines again demonstrated its strength and resilience in 2018, maintaining its pace as among the fastest growing economies in Asia despite the headwinds in global trade.

For the seventh straight year, the economy grew by over 6-percent driven by robust private sector spending, steady overseas remittances and government expenditures on various infrastructure projects.

Operating within this positive economic backdrop, we are very pleased to report that Asian Terminals Inc. sustained its growth momentum last year as we delivered another record overall performance as a trade enabler and operator of strategic economic gateways.

For the first time in over 30 years, ATI handled its highest consolidated container throughput at over 1.47 million teus (twenty-foot equivalent units), representing a 10-percent growth compared to 2017 figures. While Manila South Harbor contributed majority of the volume at over 1.18 million teus, it was our Batangas Container Terminal which grew fastest with volume increasing by over 25-percent to nearly 250,000 teus.

Passenger and international roll-on/roll-off volume in Batangas likewise remained bullish, reaching a record 4.1 million passengers and over 160,000 completely built car units. CBUs now have a new home in Batangas with the modern multilevel carpark we inaugurated last year.

These record figures speak volumes about our effective strategy of operating complementary terminals in Manila and Batangas which keep goods flowing in Metro Manila and Southern Luzon, respectively. More importantly, our Company booked these achievements while operating safely and efficiently, following global standards.

Consistently, at the financial front, ATI delivered its strongest results bannered by revenues amounting to Php12.3 billion, 15.8-percent higher than Php10.7 billion in 2017. By year-end, our net income reached Php2.9 billion, or 15.9-percent higher than Php2.5 billion previously.

Year-on-year, our Company has ended with a stronger balance sheet and robust cash flows backed by our operational discipline, our diligent cost management efforts and the careful execution of our business plans. This puts us on a solid financial footing to further expand our port facilities, target emerging local and international opportunities, and pursue innovation projects to better serve our customers and further grow value for our stockholders.

From 2019 to 2020, we are spending approximately Php14.7 billion to pursue our growth strategy. This will support the ongoing berth and yard expansion projects in Manila South Harbor to bring capacity to over 1.5 million teus, annually. We are also constructing new cargo storage facilities outside our main terminals to support industry growth. Just recently, we have upgraded our Batangas Container Terminal which is now equipped with more berths, four quay cranes, eight yard cranes and other container handling equipment, effectively increasing its capacity to over 450,000 teus.

These are indeed exciting times for our Company. For all our accomplishments, we thank our colleagues in the Board of Directors, our fellow shareholders, our valued customers, the port authorities and our employees whose contributions have been so valuable.

Inspired by these achievements and driven by our vision for growth, we can confidently say that the future looks bright for ATI.

ANDREW R. HOAD
Chairman of the Board

EUSEBIO H. TANCO
President

EVP'S REVIEW OF BUSINESS ACTIVITIES

Over the next two years, we are spending a minimum of Php14.7 billion as we develop more cargo storage spaces outside the port zones, construct more berth and yard facilities specifically at Manila South Harbor and invest in new innovations and technologies as we respond to the growth of the industry.

I am very pleased to report that Asian Terminals Inc. delivered its best overall operational performance in 2018 as our Company continuously fulfilled its vital role as a major trade enabler and economic gateway for the Philippines.

The year was bannered by record volumes handled by our terminals in Manila and Batangas as well as the completion of major projects which have enabled us to keep economic goods flowing along the supply-chain.

In synergy, our Manila South Harbor and Batangas Port facilitated the delivery of over 1.47 million teus (twenty-foot equivalent units) of containerized cargoes, making this our highest consolidated throughput in over three decades of operation.

Of these, Manila South Harbor handled over 1.18 million teus, representing a growth of around 6 percent compared to 2017 volume. In seven out of the 12-month period, the terminal efficiently handled over 100,000 teus per month, a record achievement further demonstrating its experience and capability in handling growing volumes, especially with bigger vessels deployed by our shipping line partners.

Cruise tourism also continued to boom via Manila South Harbor as we welcomed over 100 cruise ships and a record tourist arrival of nearly 170,000 last year. Located at the heart of the country's capital, our port is a strategic showcase to Philippine culture and history, with national parks, museums and heritage centers a brief walking distance from Manila South Harbor.

Over to Southern Luzon, our dynamic Batangas Port continued to support government's drive for inclusive growth outside the metropolis by opening direct market connectivity and delivering competitive port services to shippers based in Calabarzon (Cavite, Laguna Batangas, Rizal and Quezon).

Sustaining its growth momentum over the past four years, Batangas Container Terminal (BCT) ended 2018 with an annual throughput of nearly 250,000 teus, representing a volume growth of over 25-percent from 2017 figures. Equally significant, this meant reducing over 125,000 truck trips along Metro Manila roads, with more consignees routing containerized cargoes via south Luzon's preferred international gateway port.

Last year was also an exciting period for Batangas as we took delivery of new equipment and completed engineering works as part of our major capacity and efficiency build-up for BCT. As of this writing, BCT has now increased its annual handling capacity to over 450,000 teus, equipped with more berths and larger yard spaces which are complemented by four quay cranes, eight rubber-tired gantry cranes and other container handling equipment.

Batangas also remained the biggest car carrier port of the country in 2018, handling over 160,000 completely-built car units (CBU) for the major car manufacturers. Last year, we inaugurated the country's largest multilevel CBU storage facility which further grew Batangas Port's capacity to handle over 13,000 car units at any one time.

Meanwhile, at the domestic front, Batangas Port safely handled over four million outbound passengers and nearly 400,000 domestic vehicles crossing to neighboring island destinations.

Our achievements are truly remarkable, but ATI's growth journey does not stop here. Over the next two years, we are spending a minimum of Php14.7 billion as we develop more cargo storage spaces outside the port zones, construct more berth and yard facilities specifically at Manila South Harbor and invest in new innovations and technologies as we respond to the growth of the industry.

Sustaining ATI's winning tradition given today's ever evolving business climate relies upon an organizational culture which embraces diversity and promotes people empowerment, leadership and excellence. Cognizant of these, we adopted DP World's Founders Principles last year which now serves as our compass towards greater success into the future. We also pursued various engagement programs and trainings to enhance the skills of our personnel. This includes world-class leadership modules in partnership with online learning platform Coursera attended by our key managers.

As to Safety, this corporate culture continued to resonate across the entire organization as our Company remained among the regional benchmarks with a Reportable Injury Frequency Rate (RIFR) of 0.73. An RFIR is a global parameter measuring safety performance wherein a lower figure indicates better risk mitigation. A big part of this accomplishment is the shared safety responsibility and proactiveness of dockworkers, the supervisors, safety department and all business units. We also hosted last year a pioneering Regional Safety Conference which gathered safety practitioners from terminals affiliated with DP World in the Asia Pacific to collaborate and exchange valuable insights and experiences to level-up the practice of safety, environment and security management across terminals.

Finally, our Sustainability Programs in 2018 have continued to build self-reliant and thriving communities. Our employees generously contributed over 2,000 volunteering hours for various advocacies such as educating children through the Global Education Program, cleaning seashores, planting trees and extending medical aid, among others. We also drew nearly 500 runners from our industry partners in a fun run event we hosted for the promotion of women empowerment. Moreover, our highly successful Scholarship Program has continued to fuel dreams, sending over 100 children to school last year. Our partnership with Cribs Foundation likewise continued to flourish as we help secure a better future for the underprivileged babies cared for by the institution.

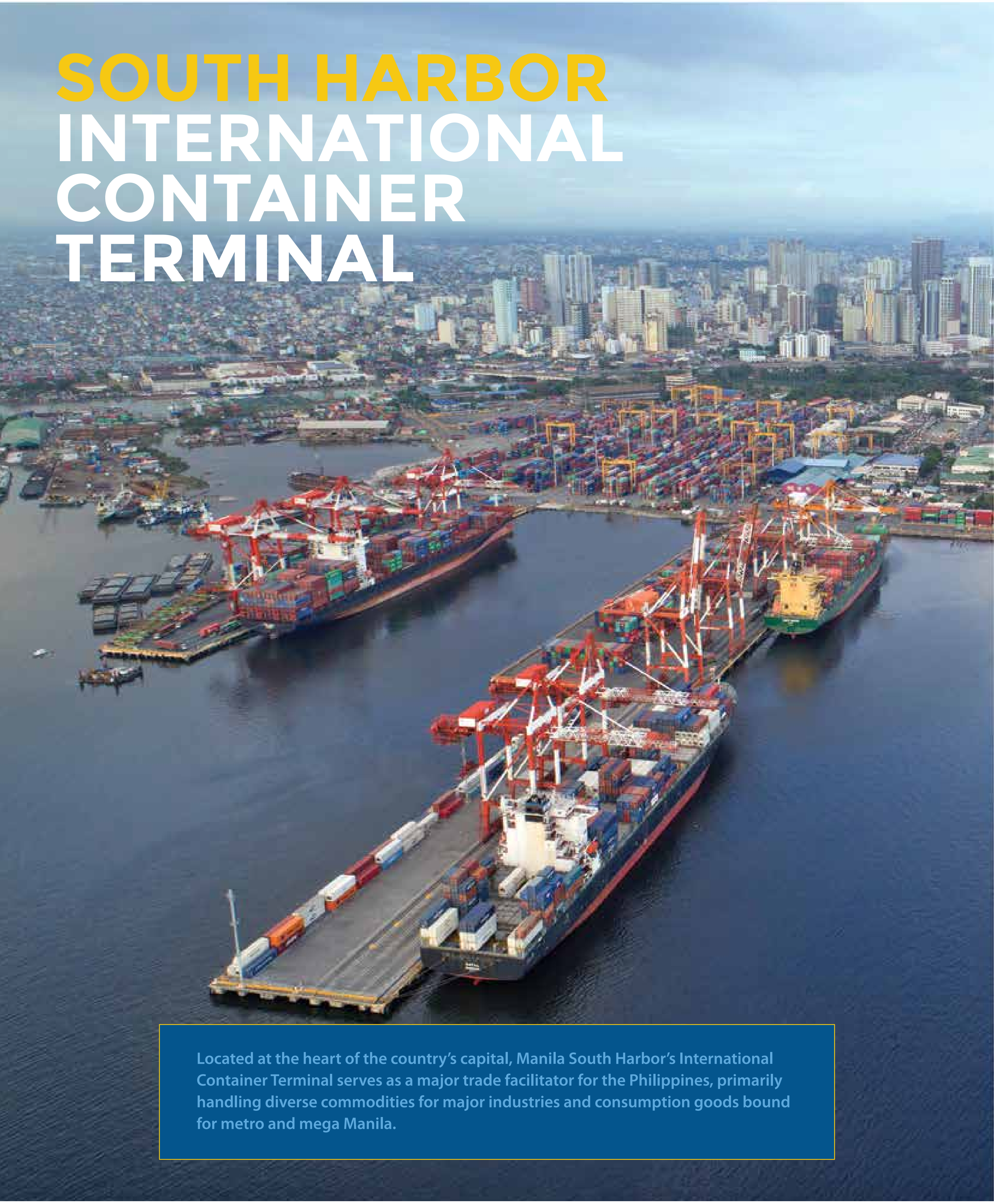
Indeed, ATI has grown significantly in the course of over a year and our accomplishments were added testament to our reputation as a progressive and responsible port organization.

We thank our valued customers, management, staff, port unions, and stakeholders for these achievements, and we look forward to your continued support and patronage as we write our Company's next chapters of success in the years ahead.

All systems go for ATI.

WILLIAM W. KHOURY
Executive Vice President

SOUTH HARBOR INTERNATIONAL CONTAINER TERMINAL



Located at the heart of the country's capital, Manila South Harbor's International Container Terminal serves as a major trade facilitator for the Philippines, primarily handling diverse commodities for major industries and consumption goods bound for metro and mega Manila.

RECORD VOLUME

Manila South Harbor continued to fulfill its important role as a major trade facilitator and economic gateway, keeping goods and commodities flowing through the Philippine supply chain.

Sustaining its growth momentum in past years, Manila South Harbor delivered another solid performance capped by its highest annual throughput at 1.18 million teus (twenty-foot equivalent units) in 2018. This represented an increase of six percent from the previous year's volume, reflective of the country's resilient economy.

In seven out of the 12-month period, the terminal efficiently handled over 100,000 teus per month, a record achievement further demonstrating its experience and capability in handling growing volumes, especially with bigger ships deployed by its shipping line partners.

OPERATIONAL OPTIMIZATION

Operating within a backdrop of rapid cargo growth, Manila South Harbor kept in step with the demand by optimizing terminal resources, and converting available spaces within the expanded port zone into container storage areas. As part of this, Blocks 143 and 145 came on-stream which is now used for storing out-of-gauge, flat-track-mounted and other containerized cargoes. A bigger container freight station will also become operational soon to accommodate more stripping and stuffing activities within the terminal.

With a finger-type footprint, Manila South Harbor continuously helped the industry address the logistics challenges of recirculating empty containers. By design, the aprons along Piers 3, 5 and 9 serve as strategic staging areas for empty containers. With empties pre-positioned beside berthing facilities, the terminal can immediately load empty containers aboard vessels as soon as the discharge of laden boxes are completed, for a quicker vessel turnaround time.

Moreover, the highly successful Terminal Appointment Booking System or TABS, an online scheduling system for the delivery and pick-up of containers at the terminal, has sustained the orderly and healthy flow of cargoes from the terminal gates to factory doorsteps.

TERMINAL EXPANSION

Looking to the future and in line with its commitment to port authorities, ATI has begun an aggressive expansion program for Manila South Harbor in 2018 to further boost efficiency and increase terminal capacity to over 1.5 million teus from 1.25 million teus.

The in-filling of the Engineering Island Basin is in full swing as the terminal further expands its main container yard. Preparatory works are also underway to extend the quay length of Pier 3 to accommodate more and bigger vessels. Once these projects are completed, the terminal will welcome more quay cranes (QC) and Rubber-Tired Gantry (RTG) cranes, in additional to its current fleet of 9 QCs and 23 RTGs, respectively.

Meanwhile, additional container handling equipment have been acquired to support yard operations, including sideloaders, reachstackers and new internal transfer vehicles. A mobile mechanic truck has also been commissioned as part of ATI's comprehensive Asset Management Program to quickly troubleshoot stalled equipment anytime, anywhere.

Finally, on innovation, the terminal continues to explore the integration of a Differential Global Positioning System (DGPS) to its yard planning and execution tools to allow faster, more accurate and transparent yard management, a complementary step as the terminal transitions to a smarter Terminal Operations System developed by IT professionals from ATI and its foreign shareholder partner DP World.

RECORD VOLUME

1.18M TEUS

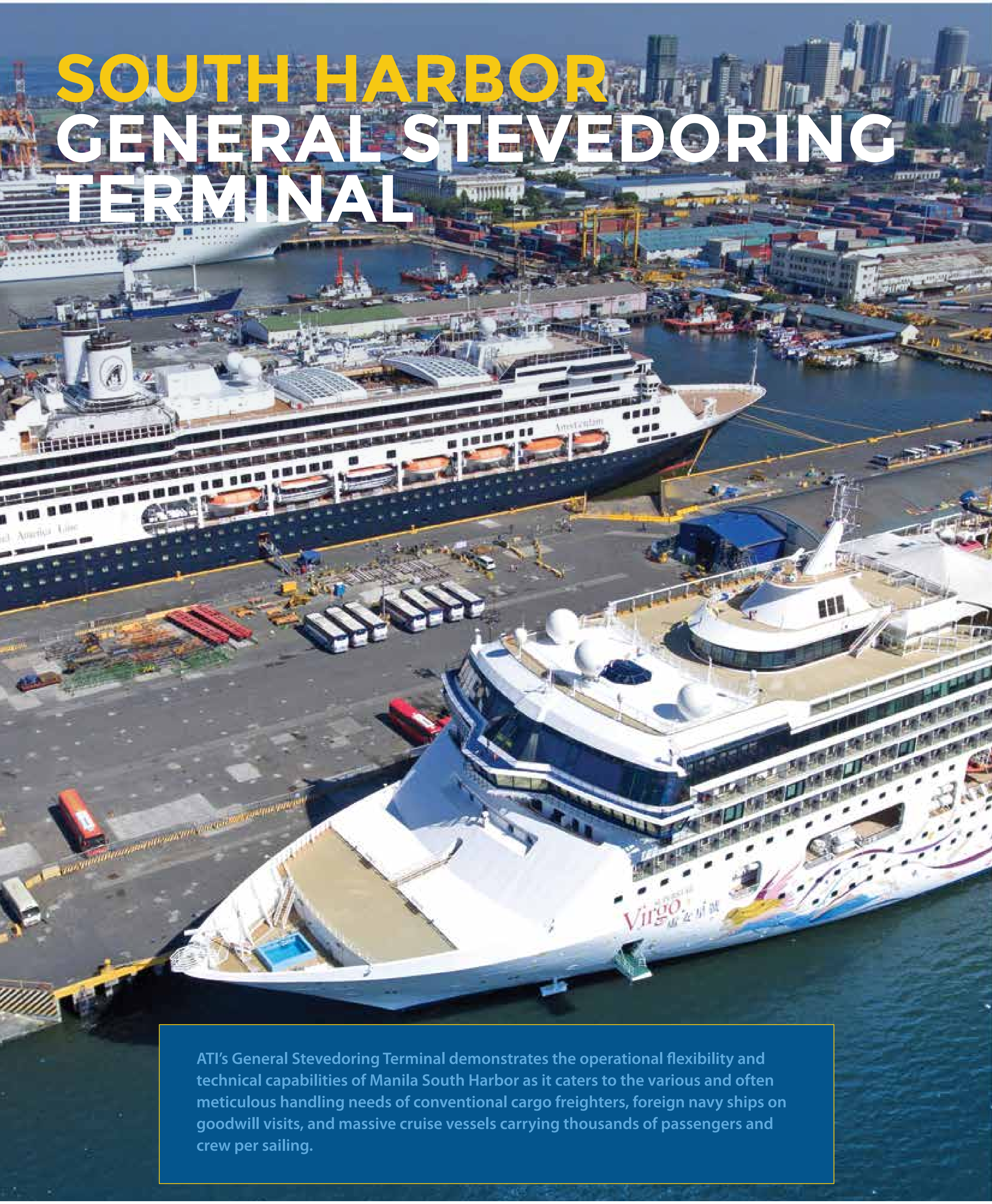
ANNUAL CAPACITY

1.25M TEUS

FUTURE CAPACITY

1.5M TEUS

SOUTH HARBOR GENERAL STEVEDORING TERMINAL



ATI's General Stevedoring Terminal demonstrates the operational flexibility and technical capabilities of Manila South Harbor as it caters to the various and often meticulous handling needs of conventional cargo freighters, foreign navy ships on goodwill visits, and massive cruise vessels carrying thousands of passengers and crew per sailing.

RECORD TOURIST ARRIVALS

Year 2018 saw the government's Cruise Tourism Program further gain traction, registering a huge wave of tourist arrivals in Manila via sea transport. ATI's General Stevedoring Terminal, operating at Pier 15 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 is a strategic showcase to Philippine culture and history, with the Rizal Park, Intramuros, Malacanang Palace, the revitalized National Museum, Chinatown, and other heritage and cultural hubs a brief walking distance from the port.

Reflective of the industry boom, Manila South Harbor handled over 100 cruise vessels and nearly 170,000 tourists last year. A significant portion of this was attributed to continuing home-porting of Genting Group's Superstar Virgo in Manila South Harbor, which was pioneered in 2017. The home-porting opened opportunities for Filipinos to avail of exciting and affordable cruise packages from Manila to major Asian destinations. More cruise vessels have since sailed to Manila during the same period.

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.

GENERAL CARGO OPERATIONS

As an industry benchmark, ATI's General Stevedoring Terminal likewise sustained its leadership in general cargo handling by continuously acquiring new equipment,

installing more light posts for better operations visibility, enhancing processes and integrating new tools and innovative ideas for better and safer general cargo operations.

Among its new equipment are heavy-duty forklifts, dedicated internal transfer vehicles, standard and low-bed chassis with steel coils and H-beam cradles, alongside other safety gadgets.

It is also practicing the periodic replacement of lifting gears over five years to ensure safety and efficiency.

Furthermore, a bigger warehouse for coils and other water sensitive shipment will soon be functional to support general cargo operations.

CRUISE VESSELS

+100 SHIPS

CRUISE PASSENGERS

NEARLY 170,000 PAX

BATANGAS CONTAINER TERMINAL

ATI's Batangas Container Terminal (BCT), a strategic sea trade infrastructure south of Manila, continues to expand its role in spurring economic activity in Calabarzon. The bigger, better and smarter Batangas Port directly connects shippers to international markets, for more competitive cargo handling solutions while at the same time helping decongest National Capital Region roads.

RECORD YEAR

Sustaining its impressive growth pace over the past four years, the Batangas Container Terminal (BCT) set another operations milestone in 2018, closing the year with a volume of nearly 250,000 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 2017 volume.

Equally significant, this meant reducing over 125,000 truck trips along Metro Manila roads, with more consignees routing containerized cargoes via south Luzon's preferred international gateway port.

MORE SHIPCALLERS

BCT officially broke through the 200,000-teu volume mark in early November, as it took delivery of container cargoes aboard Sealand's MV Balthasar Schulte. Sealand, a Maersk Company (formerly MCC Transport) and a pioneer caller of Batangas Port, has three weekly services via BCT.

Apart from Sealand, other major shipping lines now calling BCT include SITC, Evergreen, Cosco, CMA-CGM and Wan Hai Lines, combining for a total of eleven weekly services that directly connect Batangas to Hongkong, Singapore, Taiwan, Japan, Thailand, China, Vietnam, Indonesia and other regional and global trade hubs.

More international shipping lines have expressed interest in deploying additional ships and increasing frequency of calls in BCT to serve the growing Calabarzon industries.

CAPACITY EXPANSION

Recognizing its important role as trade enabler in Southern Luzon, ATI has embarked on an aggressive investment program for BCT over the past year to significantly boost terminal capacity, efficiency and safety to meet future market demands.

In line with its investment commitment with the Philippine Ports Authority, BCT took delivery of two state-of-the-art quay cranes QC and four Rubber-tired Gantry (RTG) cranes last year, effectively doubling its QC and RTG fleet to four and eight, respectively.

BCT's quay length and crane rails have likewise been extended to up to 600 meters to accommodate more and larger ships. An adjacent container yard was also developed to support larger scale operations.

Brand new mobile handling equipment, such as two reachstackers, six sideloaders and 24 internal transfer vehicles were also acquired to complement BCT's comprehensive expansion program.

With all these investments taking shape, BCT's annual throughput capacity has effectively increased to over 450,000 teus, from over 300,000 teus, previously.

It's all systems go for BCT as it eyes to sustain a world-class terminal production pace similar to global trade hubs in Singapore and Hongkong, which in turn results in faster ship turnaround time for its shipping line partners and quicker cargo delivery for 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.

RECORD VOLUME

NEARLY 250,000 TEUS

26% INCREASE

ANNUAL CAPACITY

450,000 TEUS

BERTH LENGTH

600 METERS

BATANGAS PAX, RORO & GENERAL CARGO TERMINAL

The Batangas Port – a comprehensive maritime transport infrastructure – is a strategic springboard from mainland Luzon to nearby island destinations. It 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 recorded another milestone year in 2018, as it booked its highest domestic passenger volume and began fully operating the country's biggest multilevel storage facility for completely-built imported car units.

TOP PASSENGER PORT

At the domestic front, Batangas Port handled a record-high 4.1 million outbound passengers and over 370,000 domestic vehicles as they traversed to the Mindoro, Marinduque, Romblon and Palawan (Mimaropa) region.

With public convenience as a constant priority, Batangas Port continuously combines adequate facilities with modern amenities to offer pleasant sea travel experiences to passengers. Its fully airconditioned 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, highly visible electronic boards update passengers on vessel schedules and other travel announcements. For public safety, 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

Batangas Port, the top car carrier port of the Philippines continued to support the influx of completely-built imported car units (CBUs) into the local market, especially as the country's first and biggest seaport Multilevel CBU Storage Facility (MCSF) entered full service last year.

Inaugurated in the presence of clients and port authorities, the five-storey MCSF created over 5,000 additional car storage spaces, effectively increasing Batangas Port's handling capacity by as much as 80 percent, or around 13,000 car units in a single time.

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

In all, Batangas Port handled over 160,000 CBUs in 2018, representing majority of car sales nationwide.

Aside from cars, Batangas Port supported the booming industries in nearby localities, handling general cargoes like 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

Over the long-term, a world-class maritime hub will rise in Batangas as ATI has begun laying down the groundwork of Batangas Port's modernization plan. On completion, the Batangas Port will be bannered by passenger terminal infrastructure with multipurpose commercial areas and fast craft hubs resembling those of Hongkong and Macau.

PAX VOLUME

4.1 MILLION

CBU IMPORTS

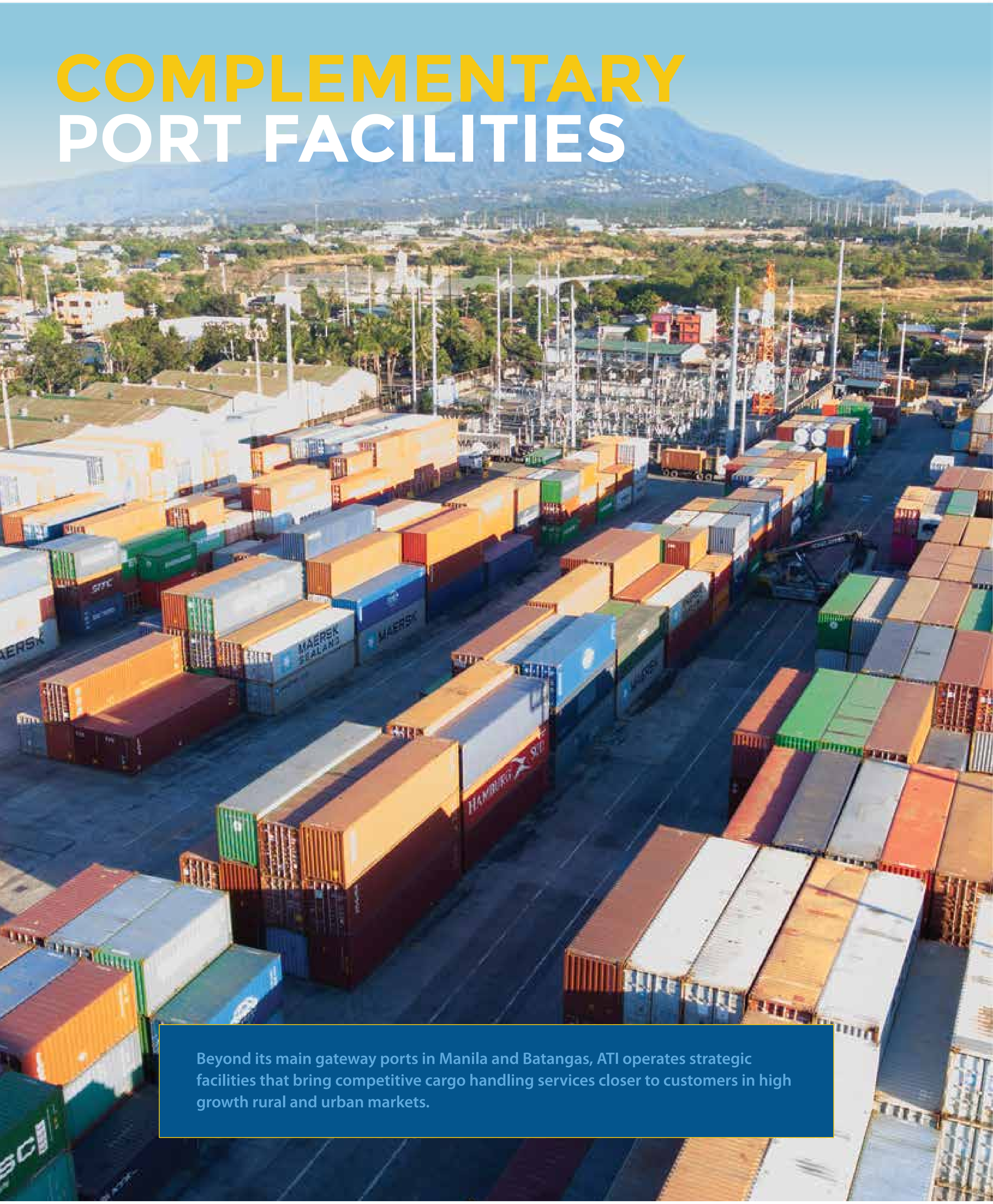
+160,000 UNITS

CAR STORAGE

+13,000 UNITS

80% INCREASE

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 to 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 secure 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 2018. Cumulatively, it handled more than 227,000 teus (twenty-foot equivalent units) of international and domestic containerized cargoes and over 270,000 metric tons of non-containerized shipment led by cement.

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 located five kilometers from the Port of Manila.

It offers valuable support for truckers and international shipping lines calling Manila South Harbor as it 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.

Recently, the operation of SMCY has been expanded to include the storage of Customs-cleared overstaying laden boxes from the Port of Manila. This materialized pursuant to the directives of the Philippine Ports Authority as part of multi-sectoral efforts to sustain high efficiency at Manila's international gateway ports.

On top of the abovementioned facilities, ATI is developing more storage spaces outside the Port of Manila in support of industry growth, including a new five-hectare container depot which will operate soon.

INLAND CLEARANCE DEPOT

4.2-HECTARES

50-KM FROM MANILA OR BATANGAS

STA. MESA YARD

2.0-HECTARES

7-KM FROM SOUTH HARBOR

SOUTH COTABATO PORT

+227,000 TEUS

HUMAN RESOURCES

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 as well as inclusiveness and empowerment.

SKILLS ENHANCEMENT

In line with ATI's strong learning culture, the Company accumulated over 33,000 training hours, covering continuous skills enhancement programs in operations, engineering, safety, and support services. This translated to more than 18 hours of training for each of ATI's more than 1,800 employees.

World-class programs on leadership and innovation, developed by the DP World Institute and its partners like online learning platform Coursera, were cascaded locally to complement professional growth. Currently, 14 ATI managers are enrolled under Coursera's Strategic Leadership and Advanced Leadership online courses, which give participants access to internationally renowned lecturers, wide-ranging quality training materials and a virtual academic platform. Attendees learn at their own pace anytime, anywhere as the courses can be accessed through laptops and other mobile devises.

ATI representatives also attended DP World Institute's Facilitation Skills Workshop, a train-the-trainer program to further improve the delivery of training modules down the line.

Aside from these, buddy trainings were sustained to sharpen the skills of new employees. New equipment operators are partnered with seasoned personnel to expedite leaning on-the-job.

INNOVATIVE LEARNING

Innovation has been a resounding theme in ATI's human resource development approach. Trainings have gone digital with the continuous implementation of ATI's electronic Learning Management System, an innovation put forward by the Company's staff. The LMS has digitized various training materials, putting these into interactive audio-visual formats with accompanying instructions rendered in the local vernacular for easier access by trainees.

Consistent with ATI's innovation DNA, employees actively engaged in DP World's InnoGate and InnoReach program, crowd-sourcing platforms for generating business solutions and process improvements from across DP World sites. Last year, a total of 98 entries were submitted by ATI employees of which 13 have been implemented locally.

TALENT DIVERSITY

In line with efforts to create a more diverse organization, ATI sustained its highly successful Graduate Management Training Program pioneered in 2013. Two women management trainees joined its ranks last year, which has since brought its total to 13 young leaders now handling more senior roles and contributing to ATI's frontline units.

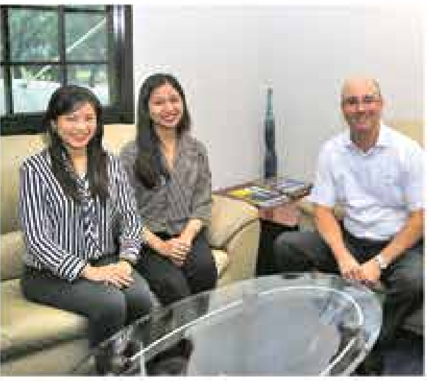
Gender equality has always been encouraged throughout the organization with more women notably joining ATI's operations. ATI also joins the entire world in celebrating Women's Month, through interactive programs which showcases the Company's conscious drive towards greater inclusivity and equality, especially in the ports which traditionally remain a male-dominated industry.

FOUNDER'S PRINCIPLES

Like DP World, ATI is a business and its continued success depends on growth. As growth extends beyond the balance sheet to encompass the development of people, the industry, economies and communities, ATI embraces common principles and culture that would chart its future.

Such culture is embodied by DP World's Founders Principles which ATI adopted last year namely: Create Growth, Drive Results, Make Others Excel, and Adapt & Evolve. Tied in with the KPIs of each employees, this serves as guideposts that will bring the company to the next waves of success in the years to come.

TOTAL EMPLOYEES	TRAINING HOURS	INNOVATION
1,800	33,000	98 IDEAS




TR247
TERBERG
CAUTION
TRAINING
ON-GOING

HEALTH, SAFETY, ENVIRONMENT & SECURITY

Safety is ATI's number one priority. This corporate culture resonates across the entire organization, from senior management down the line and is reflected in diverse programs, best practices and initiatives implemented on a 24/7 basis to ensure a safe and healthy work environment for port workers and stakeholders.

SAFETY LEADERSHIP
By its own right, ATI is recognized as an industry leader in safety. The Company has pioneered homegrown innovations such as solar-powered twist-lock pinning stations, fall arrest system, edge protector prototypes, systematic general cargo handling procedures, container lashing training platforms, and other innovations which are now being implemented or are intended for replication in its vast terminal network of affiliates.

Driven by this same safety leadership, ATI hosted last year a pioneering Regional Safety Conference which gathered the best safety practitioners from terminals affiliated with DP World in the Asia Pacific. The week-long event further elevated the practice of safety in the terminals by exchanging knowledge and insights, collaborating on best practices, and learning from the valuable experiences of regional counterparts on matters of safety, environment and security. All these were geared towards establishing a better, safer and more secure port environment for port workers and stakeholders.

SAFETY PERFORMANCE
As a testament to ATI's commitment to safety, the Company has sustained a high level of safety performance scores throughout the years. In 2018, ATI's Reportable Injury Frequency Rate (RIFR) stood at 0.73, 27% better than target of≤1.00. RFIR is a global parameter measuring safety performance wherein a lower figure indicates better risk mitigation.

A big part of this accomplishment is top management's commitment, support and hands-on involvement in safety. This includes providing adequate resources to allow the organization to sustain its safety initiatives. Also, a key part is a better structured HSE organization with focused responsibilities and a systematic approach to risk mitigation and prioritization. Plan-Do-Check-Act method has been adopted to maintain operational safety improvements. The method is composed of a four-step systematic cycle, namely: identifying areas of highest potential risk based on the safety dashboard software and process risk assessments; implementing actions plans; monitoring/reviewing of the effectiveness of control measures thru structured data trending and analysis; and re-evaluating the risk and identifying new action plans.

In addition, the Company has also been able to sustain a high level of engagement in its critical incident reporting system, gathering over 4,500 HSE inspections/observations and generating 5,163 corresponding actions. This has helped the company to systematically identify areas for improvement and proactively establish appropriate and effective controls measures.

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

HEALTH AND ENVIRONMENT
Dockworkers' health is of paramount importance to ATI and is the core foundation of its safety culture. In line with this, ATI integrates health monitoring checks such as annual physical examinations, blood pressure and sugar monitoring, random drug and alcohol tests and even warm-up exercises before dockworkers are deployed for duty.

As a business closely interwoven with the sea, ATI takes its role in protecting marine resources seriously. On its own, it conducts regular cleanup initiatives using its own resources to clear its shores of flotsam. ATI also is the first private port in the Philippines to have invested in an inflatable oil spill containment system, ready for deployment during exigencies. ATI also has an Emergency Response Team on duty 24/7 to immediately manage emergency spills and an accredited third-party responder in on-call if emergency so require. ATI's other infrastructure and initiatives include the provision of wastewater treatment facility, emergency shut-off valves, partnership with Bantay Kalikasan (Nature Watch) for recycling and disposal of used vehicle batteries and annual tree planting.

INTERNATIONAL CERTIFICATIONS
ATI's commitment is backed up by world-class management systems on health, security, quality and occupational health and safety. Last year, ATI was certified as ISO 45001:2018 compliant, officially making it the first international port operator in the Philippines to secure the upgraded global standard in occupational health and safety.

Independent audit body TUV Rheinland Philippines conferred ATI's compliance to the top-tier management system, making ATI its first auditee to successfully transition from BS OHSAS 18001:2007 to ISO 45001:2018, well ahead of the new standard's adoption deadline in 2021.

Aside from this feat, ATI was recertified for its global standards on Environment Management (ISO 14001:2015), Quality Management (ISO 9001:2015) and Supply Chain Security Management (ISO 28000:2007), to which ATI was the first Philippine company to have achieved such certification.

Over in Batangas Port, ATI's environmental efforts were also recognized by the APEC Port Services Network (APSN), particularly for its sustainable port practices.

SPILLS & INCIDENTS	RIF RATE	CIR REPORTS
ZERO	0.73	4,500


DP WORLD

INFORMATION TECHNOLOGY

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.

IT INFRASTRUCTURE

ATI constantly invests in technology and innovation to provide customers the best experience, build differentiated capabilities, and optimize operations for the benefit of the Philippine supply chain.

To support these goals, ATI continuously upgrades its information management platforms to handle the Company's growing transactions, including its powerful blade-matrix servers and core computing equipment supporting the operations of Manila and Batangas.

Focusing on applying cutting edge technologies, ATI has begun transitioning to a new and more powerful Terminal Operations System (TOS) called Zodiac, a home-grown system developed by a pool of technology experts across DP World's global terminal portfolio, including ATI's IT Group.

As of this writing, testing of Zodiac's integrated platforms covering vessel, yard, gate and equipment planning and execution are underway at Batangas Port. Once fully rolled out, focus will shift to Manila South Harbor.

Zodiac is the same TOS which drives Jebel Ali, DP World's flagship terminal and largest in marine terminal in the middle east, which can handle over 20 million teus (twenty-foot equivalent units) annually.

SEAMLESS TRADE FLOW

The game-changing Terminal Appointment Booking System (TABS), an online truck scheduling facility for picking up and delivering containers at the port sustained the seamless flow of cargoes from Manila South Harbor to the door steps of manufacturers and goods distributors.

TABS 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. The orderly arrival of trucks spread 24/7 avoided bottlenecks at the port's gates and eased traffic flow along major roads. It also allowed trucks to traverse major road networks to and from the ports even during rush hours with a valid TABS booking. To monitor road ban exemption, traffic enforcers checked the validity of the TABS booking by texting the truck's plate number to a designated toll-free number or viewing an online app.

Into its fourth year of implementation, TABS has been instrumental in sustaining operational efficiency at Manila South Harbor which last year recorded its highest cargo volume at over 1.17 million teus (twenty foot equivalent units). From a pre-TABS volume of 1,500 trucks per day, Manila South Harbor efficiently handled over 2,300 trucks in 2018 daily, which meant that it processed over 50 percent more trucks within the same operating period without causing traffic on roads or causing strain in operations.

WEB-BASED APPLICATIONS

ATI's homegrown applications continued to deliver greater convenience and transaction transparency to customers. Among these include the upgraded Web-track system and its mobile app counterpart MPort for smart gadgets which allows 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. Meanwhile, the use of ePayment in partnership with major banks have also gained traction among customers as a highly secure and convenient payment option 24/7.

More online kiosks were installed in Manila South Harbor to aid customers in their onsite transactions from checking vessel status, cargo holds, printing gate passes, booking on TABS, among others.

ATI also developed a special app that allows the Commissioner of the Bureau of Customs to better exercise its supervision and control functions over cargoes passing through the country's international ports.

CORPORATE SUSTAINABILITY

As a responsible port organization, ATI firmly believes that working sustainably is essential to building a progressive company and resilient communities. Consistent with this philosophy, ATI has sustained its high-level engagement and social investments over the past year, championing youth, women, the environment and matters like traffic management, among others.

YOUTH ENGAGEMENT

Believing in the transformative power of education, ATI continued to allocate the biggest share of its social investment on educating the Filipino youth. Its highly successful Scholarship Program has produced professionals now employed in various sectors. Last year, it supported the schooling of over 100 students, including dependents of ATI employees and children in underprivileged communities.

Related to this, ATI's rollout of DP World's Global Education Program (GEP) has gained further traction, reaching more school-aged children in various destinations last year. The GEP, which won international acclaim, educates children on the importance of seaports in global trade as well as other important matters like marine protection and wildlife conservation. ATI also partners with community-based schools for its annual nutrition program, to support the healthy development of children.

Meanwhile, in Mindoro island ATI is keeping the sailing aspirations of local youth alive by actively supporting the Small Boats Training Program (SBTP) of the Puerto Galera Yacht Club. The SBTP teaches underprivileged Mindoreño children, aged 9 to 15, the art and science of sailing during weekends for free and more importantly provides them with a healthy leisure activity which builds character, self-discipline and productive skills for the future. The program has already produced champions for the Philippines in local and international sailing competitions.

WOMEN EMPOWERMENT

To promote gender equality and inclusivity in a traditionally male-dominated port industry, ATI pioneered last year a port community wellness run dubbed Takbo para sa Kababaihan. The Women Empowerment Run, held along the historic Roxas Boulevard in central Manila, drew hundreds of participants from the import and export industry, the Bureau of Customs and the Philippine Ports Authority and other port stakeholders. In all, the volunteer runners covered over 2,435 km in accumulated distance for the advocacy run.

ATI also joins the entire world in celebrating the International Women's Month through interactive activities and programs that raise greater awareness on the important role of women in sea trade. In ATI, women occupy key leadership, managerial and supervisorial roles in the operational and support units throughout the organization.

INSTITUTIONAL DONATIONS

After bankrolling the completion of a bigger, greener and safer shelter for the children of Cribs Foundation in Antipolo City, ATI followed up its assistance by gifting the accredited charity institution with a new shuttle. This provides a more reliable and safer ride for the children and staff of Cribs while doubling as a durable vehicle for important supply runs.

ATI also handed over traffic management tools such as light truncheons, two-way radios and body cameras to Metropolitan Manila Development Authority through the Philippine Ports Authority, to aid the agency in better managing and monitoring traffic conditions throughout the metropolis, including keeping vehicular flow within and near major port zone roads uninterrupted.

On top of these, ATI is a forerunner in protecting the environment through its annual La Mesa Watershed tree planting partnership and support for the multi-sectoral efforts to resuscitate the Manila Bay led by the Department of Environment.

In all, ATI generated over 2,000 volunteering hours in 2018.

VOLUNTEERING TIME
+2,000
HOURS

RUN FOR WOMEN
2,435
KILOMETERS

ATI SCHOLARS
+100
STUDENTS


DP WORLD
ATI SHE RUN
5k
10k
ATI


START
DP WORLD


ASIAN TERMINALS INCORPORATED


GREEN


DP WORLD

BOARD OF DIRECTORS


ANDREW R. HOAD
Chairman


EUSEBIO H. TANCO
President / Director


FELINO A. PALAFOX, JR.
Director


MATTHEW LEECH
Director


MONICO V. JACOB
Director


ARTEMIO V. PANGANIBAN
Independent Director


AHMAD YOUSEF AHMAD ALHASSAN
Director


ROBERTO C. O. LIM
Independent Director

ANDREW R. HOAD
Chairman

- **CEO and Managing Director** of DP World Asia Pacific Region

EUSEBIO H. TANCO
President/Director

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

Executive Committee Chairman
- STI Education Services Group, Inc.

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

Chief Executive Officer
- Classic Finance, Inc.

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

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

Professional Associations
- Philippines-Thailand Business Council
- Philippines-UAE Business Council
- Philippine Chamber of Commerce and Industry

MONICO V. JACOB
Director

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

CEO and Vice-Chairman
- STI Education Services Group

Chairman
- 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

Principal Architect
- Urban Planner and Founder of Palafox Associates

Chairman
- National Real Estate Association

Fellow
- United Architects of the Philippines

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

APEC Architect

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.
- Petron Corporation
- Philippine Long Distance Telephone Company

Non-Executive Director
- Jollibee Foods Corporation

Senior Adviser
- Metrobank

Member of the Advisory Council
- Bank of the Philippine Islands

Adviser
- DoubleDragon Properties Corp.

MATTHEW WELLS LEECH
Director

Chief Operating Officer (COO)
- DP World's Ports & Terminals Division

ROBERTO C.O. LIM
Independent Director

Member
- Integrated Bar of the Philippines

Former positions held
- Undersecretary for Aviation and Airports, Department of Transportation
- Chairman, Global Legal Advisory Council of International Air Transport Association
- Vice President for Legal Affairs and Compliance, Philippine Airlines, Inc.,
- Director, Abacus Holdings and Abacus International Pte, Ltd.

Former affiliations
- Member, Philippine Negotiating Panel on Air Treaties, Chairman of the IATA Legal Advisory Council
- Member, Aero Political Committee of the Association of Asia Pacific Airlines.

AHMAD YOUSEF AHMAD ALHASSAN AL SIMREEN
Director

Head of Finance
- DPWorld Asia Pacific, Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues for the year ended December 31, 2018 of ₱12,276.7 million went up by 15.8% from P10,603.2 million in 2017. Revenues from South Harbor international containerized cargo and Batangas Container Terminal increased from last year by 15.6% and 37.2%, respectively, on account of higher container volumes, which grew by 6.1% and 25.9%, respectively. Further, revenue growth at the South Harbor operations was augmented by the tariff increases on vessel-related and cargo-related charges pursuant to PPA Memorandum Circular No. 07-2018, under which, tariffs on vessel and cargo handling charges on international containerized and non-containerized cargoes at the South Harbor were increased by 7.0% effective on June 5, 2018. On the other hand, revenues from Port of Batangas were down from last year by 3.3% due to lower volumes.

Port authorities' share in revenues in 2018 of ₱2,270.1 million increased by 18.6% from ₱1,914.4 million in 2017 as a result of higher revenues subject to port authorities' share.

Cost and expenses in 2018 amounted to ₱4,940.9 million, 11.4% higher than ₱4,436.2 million in 2017. Labor costs in 2018 of ₱1,462.6 million were higher by 14.0% compared to ₱1,282.9 million in 2017 due to salary rate increases and additional headcount related to higher volumes. Equipment running in 2018 went up by 34.0% to ₱798.0 million from ₱595.4 million in 2017 due to higher usage of equipment spare parts and higher fuel costs resulting from higher prices and higher consumption. Taxes and licenses in 2018 increased by 6.2% to ₱272.1 million from ₱256.1 million in 2017 due to increase in realty taxes related to increase in assessed values. Security, health, environment and safety in 2018 of ₱205.4 million were higher by 13.0% compared to ₱181.8 million in 2017 due to higher security costs brought about by rate increase and additional security posts. Facilities-related expenses in 2018 went up by 32.0% to ₱200.5 million from ₱151.9 million in 2017 due to higher repair and maintenance costs on buildings, surface and pavement, wharves and IT costs. Professional fees in 2018 of ₱80.5 million went up by 229.0% from ₱24.5 million last year due to higher legal expenses and consultancy fees. Marketing, commercial, and promotion in 2018 increased by 89.0% to ₱86.5 million from ₱45.7 million due to higher advertising costs. Management fees in 2018 grew by 17.6% to ₱176.1 million from ₱149.7 million in 2017 following higher earnings before tax. Other expenses in 2018 totaled ₱213.4 million, went up by 32.7% from ₱160.8 million in 2017 due to higher general operations, community investments and provision for inventory obsolescence.

On the other hand, Depreciation and amortization in 2018 of ₱1,130.9 million decreased by 4.2% from ₱1,180.7 million in 2017 due to full amortization of QC6 and QC9 last June 2017. Provision for claims in 2018 of ₱25.7 million were lower by 83.3% compared to ₱154.1 million in 2017 due to lower provision for civil case.

Finance income amounted to ₱113.2 million in 2018, 32.2% up from P85.6 million in 2017 due to higher interest rates for money market placements. Finance costs in 2018 of ₱540.4 million were lower by 4.8% compared to ₱567.7 million in 2017 due to declining interest expense on port concession rights payable. Others-net in 2018 was negative ₱627.8 million, 86.9% higher than ₱335.9 million in 2017 mainly due to fair value losses on cash flow hedge and foreign exchange losses on port concession rights payable following the depreciation of the Philippine Peso against the US Dollar.

Income before income tax in 2018 of ₱4,010.7 million was higher by 16.8% compared to ₱3,434.5 million in 2017. Provision for income tax in 2018 increased by 19.3% to ₱1,127.3 million from ₱944.8 million in 2017.

Net income for the year ended December 31, 2018 improved by 15.8% to P2,883.4 million from ₱2,489.7 million last year. Earnings per share was up to P1.44 in 2018 from ₱1.24 in 2017. Without the foreign exchange impact – as per accounting rules brought in since 2013 – net income would have been ₱3,401.5 million, 21.7% higher than ₱2,795.3 million in 2017, on a like-for-like basis.

Plans for 2019

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 ₱9.0 billion for 2019 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 keeps its eyes peeled for more business growth drivers, including developing additional cargo storage spaces within and outside the port zones, offering ancillary services leveraged on its core ports business and exploring new port operations locally or overseas, given the right opportunity.

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 where it could add greater value to its shareholders.

Consolidated Financial Condition

Total assets as of December 31, 2018 increased by 13.0% to ₱29,123.2 million from ₱25,765.2 million as of December 31, 2017. Total current assets as of December 31, 2018 grew by 7.2% to ₱9,080.4 million from ₱8,469.2 million as of December 31, 2017. Cash and cash equivalents as of December 31, 2018 were lower by 1.1% to ₱6,868.5 million from ₱6,945.2 million as of December 31, 2017. Trade and other receivables-net as of December 31, 2018 rose by 51.3% to ₱742.0 million from ₱490.5 million as of December 31, 2017. Spare parts and supplies-net as of December 31, 2018 of ₱507.5 million were higher by 25.7% compared to ₱403.7 million as of December 31, 2017 in support of operational requirements and equipment maintenance program. Prepaid expenses of ₱962.4 million as of December 31, 2018 went up by 52.8% from ₱629.9 million as of December 31, 2017.

Total non-current assets of ₱20,042.7 million as of December 31, 2018 were higher by 15.9% compared to ₱17,296.0 million as of December 31, 2017. Property and equipment-net increased by 56.3% to ₱883.9 million as of December 31, 2018 from ₱565.6 million as of December 31, 2017. Additions to property and equipment which were not subject of the service concession arrangement totaled ₱436.2 million in 2018. Intangible assets-net as of December 31, 2018 of ₱17,962.6 million were higher by 14.0% compared to ₱15,753.2 million as of December 31, 2017. Acquisitions of intangible assets which consisted of civil works and cargo handling equipment that were subject of the service concession arrangement amounted to ₱3,222.4 million in 2018. Deferred tax assets-net as of December 31, 2018 of ₱951.3 million went up by 14.5% to ₱831.0 million as of December 31, 2017, pertaining to additional deferred tax on concession rights payable and unrealized foreign exchange losses. Other noncurrent assets as of December 31, 2018 increased by 172.5% to ₱161.3 million from ₱59.2 million as of December 31, 2017.

Total liabilities went up by 9.4% to ₱13,269.3 million as of December 31, 2018 from P12,129.7 million as of December 31, 2017. Trade and other payables as of December 31, 2018 of ₱3,797.4 million were higher by 41.2% than ₱2,690.2 million as of December 31, 2017. Trade and other payables are covered by agreed payment schedules. Provision for claims went up to ₱219.4 million as of December 31, 2018 from ₱204.5 million as of December 31, 2017. Income and other taxes payable increased by 4.9% to ₱330.9 million as of December 31, 2018 from P315.3 million as of December 31, 2017. Port concession rights payable (current and noncurrent) as of December 31, 2018 totaled ₱8,866.9 million, 0.7% above the ₱8,806.6 million as of December 31, 2017. Pension liability as of December 31, 2018 of ₱54.8 million were lower by 51.6% compared to ₱113.1 million as of December 31, 2017.

Consolidated Cash Flows

Net cash provided by operating activities decreased by 18.4% to ₱4,061.8 million in 2018 from ₱4,979.9 million in 2017 due to lower trade and other payables.

Net cash used in investing activities in 2018 of ₱2,494.2 million were 9.3% higher than ₱2,282.8 million in 2017 due to higher acquisitions of property and equipment and intangible assets.

Cash used in financing activities in 2018 of ₱1,682.4 million were higher by 2.8% than the ₱1,636.7 million in 2017 due to higher payments of port concession rights payable and cash dividends. Cash dividends paid amounted to ₱900.0 million and ₱860.0 million in 2018 and 2017, respectively.

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

The Group has adopted the following new standards, amendments to standards and interpretations starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements.

- 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 that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. 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.

Classification, Measurement and Impairment of Financial Assets
The following table shows the original measurement categories under PAS 39 and the new measurement categories under PFRS 9 for each class of the Group's financial assets as at January 1, 2018.

	Original Classification under PAS 39	New Classification under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
Financial Assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	₱6,945,189	**₱6,945,189**
Trade and other receivables	Loans and receivables	Amortized cost	509,068	**509,068**
Deposits	Loans and receivables	Amortized cost	33,845	**33,845**
Equity securities	Available for sale	FVOCI - equity	2,652	**2,652**
Total financial assets			₱7,490,754	**₱7,490,754**

For assets in the scope of the PFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of PFRS 9's impairment requirements at January 1, 2018 did not result in an additional allowance for impairment.

The Group has applied PFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Hedge Accounting
As permitted by the standard, the Group did not adopt the new hedge accounting requirements and continues to apply the hedge accounting requirements of PAS 39.

- 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 Group expects to be entitled.

  PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price.

  Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group'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 PFRS. 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.

  Due to the transition method (cumulative effect method) chosen in applying PFRS 15, comparative information has not been restated to reflect the new requirements. The Group has not identified significant impacts to amounts recognized in the financial statements in the application of PFRS 15. However, the Group has adopted the new disclosure requirements including the disaggregation of revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors and has aligned the description of its accounting policies with PFRS 15.

  In conjunction with the adoption of PFRS 15, the consequential amendments to Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, has no significant impact to the Group.

- 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.

Standards Issued But Not Yet Adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018. However, the Group has not early adopted 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, 2019

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

  Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

  The Group has decided it will apply the modified retrospective adoption method in PFRS 16, and, therefore, will only recognize leases on balance sheet as at January 1, 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date.

  As at December 31, 2018 operating lease commitments amounted to ₱723.1 million, which is not expected to be materially different from the anticipated position on December 31, 2019. Assuming the Group's lease commitments remain at this level, the effect of discounting those commitments is anticipated to result in right-of-use assets and lease liabilities of approximately ₱553.2 million being recognized on January 1, 2019. However, further work still needs to be carried out to determine whether and when extension and termination options are likely to be exercised, which will result in the actual liability recognized being higher or lower. Instead of recognizing an operating expense for its operating lease payments, the Group will instead recognize interest on its lease liabilities and amortization on its right-of-use assets.

- 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 consolidated 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 Group chosen tax treatment. If it is not probable that the tax authority will accept the Group 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. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

The Group is currently assessing the impact of the Philippine Interpretation IFRIC-23.

- 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 FVOCI 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 PAS 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.

  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.

- *Plan Amendment, Curtailment or Settlement* (Amendments to PAS 19, *Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit pension plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

  Annual Improvements to PFRSs 2015 - 2017 Cycle. This cycle of improvements contains amendments to four standards:

  - Previously held interest in a joint operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*). The amendments clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party maintains or obtains joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

The amendments apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

- Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, Other Comprehensive Income or equity.

  The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

- *Borrowing costs eligible for capitalization* (Amendments to PAS 23, *Borrowing Costs)*. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool.

  The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The amendments are applied to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies the amendments.

Effective January 1, 2020

▪ *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

  These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

▪ *Definition of a Business (Amendments to* PFRS 3*)*. The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:

  - confirmed that a business must include inputs and a process, and clarified that:
    - o the process must be substantive; and
    - o the inputs and process must together significantly contribute to creating outputs;
  - narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
  - added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

- *Definition of Material (Amendments to* PAS 1, *Presentation of Financial Statements* and PAS 8). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  (d) clarifying the explanatory paragraphs accompanying the definition; and
  (e) aligning the wording of the definition of material across PFRS Standards and other publications.

  The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements* 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 2019 is P9.0 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 2018:

- ATIB's total assets were only 9.2% of the consolidated total assets
- Income before other income and expense from ATIB was only 6.9% of consolidated income before other income and expense.[1]

Consolidated KPI	Manner of Calculation	2018	2017	Discussion
Return on Capital Employed	Percentage of income before interest and tax over capital employed	20.7%	19.2%	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%	19.6%	
Current ratio	Ratio of current assets over current liabilities	1.96 : 1.00	2.44 : 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	1.84 : 1.00	1.89 : 1.00	Decrease due to higher equity because of the increase in the net income.
Debt to equity ratio	Ratio of total liabilities over equity attributable to equity holders of the parent	0.84 : 1.00	0.89 : 1.00	Decrease due to higher equity because of the increase in the net income.
Days Sales in Receivables (DSR)	Gross trade receivables over revenues multiplied by number of days	16 days	11 days	Increase due to higher accrued revenues.
Net Income Margin	Net income over revenues less government share in revenues	28.8%	28.7%	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.	0.73	0.53	Due to higher number of injuries.

Summary of Selected Financial Data (in millions)

Description	Year ended December 31, 2018	Year ended December 31, 2017
Revenues	₱12,276.7	₱10,603.2
Net income	2,883.4	2,489.7
Total assets	29,123.2	25,765.2
Total liabilities	13,269.3	12,129.7

[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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the presentation 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 attached 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 Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ANDREW R. HOAD
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 its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRS).

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 Matter

Key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

Revenue Recognition (₱12,276,678 - amount in thousands)
Refer to Notes 2 and 26 to the consolidated financial statements.

The risk
The Group's revenues are mainly generated from arrastre, stevedoring, storage, and special and other services. 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.

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 and generated reports 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, to confirm that all services had been performed at the point at which revenue is recognized. Among others, 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.

REPORT OF INDEPENDENT AUDITORS

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, 2018, 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, 2018 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 PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matter. 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 Alicia S. Columbres.

R.G. MANABAT & CO.

ALICIA S. COLUMBRES
Partner
CPA License No. 069679
SEC Accreditation No. 1590-A, Group A, valid until September 29, 2019
Tax Identification No. 120-964-156
BIR Accreditation No. 08-001987-27-2017
Issued September 5, 2017; valid until September 4, 2020
PTR No. MKT 7333613
Issued January 3, 2019 at Makati City

February 28, 2019
Makati City, Metro Manila

ASIAN TERMINALS, INC. AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

		December 31	
	Note	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	*6, 24, 25*	**₱6,868,485**	₱6,945,189
Trade and other receivables - net	*7, 24, 25*	**742,027**	490,466
Spare parts and supplies	*18*	**507,538**	403,701
Prepaid expenses	*8*	**962,362**	629,872
Total Current Assets		**9,080,412**	8,469,228
Noncurrent Assets			
Investment in an associate	*9*	**83,636**	87,027
Property and equipment - net	*10*	**883,945**	565,618
Intangible assets - net	*11*	**17,962,561**	15,753,157
Deferred tax assets - net	*13*	**951,305**	831,026
Other noncurrent assets	*12*	**161,291**	59,181
Total Noncurrent Assets		**20,042,738**	17,296,009
		₱29,123,150	₱25,765,237
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	*14, 24, 25*	**₱3,797,432**	₱2,690,212
Provisions for claims	*15*	**219,359**	204,544
Port concession rights payable - current portion	*23, 24, 25*	**296,234**	258,060
Income and other taxes payable		**330,873**	315,287
Total Current Liabilities		**4,643,898**	3,468,103
Noncurrent Liabilities			
Port concession rights payable - net of current portion	*23, 24, 25*	**8,570,648**	8,548,520
Pension liability	*21*	**54,753**	113,073
Total Noncurrent Liabilities		**8,625,401**	8,661,593
		13,269,299	12,129,696
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		**13,585,013**	11,575,652
Hedging reserve		**-**	(207,620)
Fair value reserve		**(5,820)**	(5,820)
		15,843,493	13,626,512
Non-controlling Interest		**10,358**	9,029
Total Equity		**15,853,851**	13,635,541
		₱29,123,150	₱25,765,237

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	**2018**	2017	2016
REVENUES FROM OPERATIONS	*2, 26*	**₱12,276,678**	₱10,603,172	₱9,249,162
GOVERNMENT SHARE IN REVENUES	*17, 23*	**(2,270,116)**	(1,914,439)	(1,711,551)
		10,006,562	8,688,733	7,537,611
COSTS AND EXPENSES EXCLUDING GOVERNMENT SHARE IN REVENUES	*18, 20, 21*	**(4,940,862)**	(4,436,203)	(4,300,952)
OTHER INCOME AND EXPENSES				
Finance income	*19*	**113,188**	85,604	61,994
Finance cost	*19*	**(540,426)**	(567,733)	(581,216)
Others - net	*19*	**(627,781)**	(335,885)	(112,936)
		(1,055,019)	(818,014)	(632,158)
CONSTRUCTION REVENUES	*11*	**3,222,423**	2,102,478	832,918
CONSTRUCTION COSTS	*11*	**(3,222,423)**	(2,102,478)	(832,918)
		-	-	-
INCOME BEFORE INCOME TAX		**4,010,681**	3,434,516	2,604,501
INCOME TAX EXPENSE	*13*			
Current		**1,348,499**	1,148,001	835,875
Deferred		**(221,207)**	(203,167)	(136,367)
		1,127,292	944,834	699,508
NET INCOME		**₱2,883,389**	₱2,489,682	₱1,904,993
Income Attributable to				
Equity holders of the Parent Company		**₱2,881,448**	₱2,486,993	₱1,902,391
Non-controlling interest		**1,941**	2,689	2,602
		₱2,883,389	₱2,489,682	₱1,904,993
Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Company	*22*	**₱1.44**	₱1.24	₱0.95

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	**2018**	2017	2016
NET INCOME FOR THE YEAR		**₱2,883,389**	₱2,489,682	₱1,904,993
OTHER COMPREHENSIVE INCOME				
Item that will never be reclassified to profit or loss				
Actuarial gains on pension liability	*21*	**39,830**	55,135	81,525
Tax on item taken directly to equity	*13*	**(11,949)**	(16,541)	(24,458)
		27,881	38,594	57,067
Items that are or may be reclassified to profit or loss				
Cash flow hedge - effective portion		**(357,154)**	(31,479)	(384,327)
Cash flow hedge - reclassified to profit or loss		**653,753**	328,312	200,292
Tax on items taken directly to equity	*13*	**(88,979)**	(89,050)	55,210
	16	**207,620**	207,783	(128,825)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax		**235,501**	246,377	(71,758)
TOTAL COMPREHENSIVE INCOME		**₱3,118,890**	₱2,736,059	₱1,833,235
Total Comprehensive Income Attributable to				
Equity holders of the Parent Company		**₱3,116,981**	₱2,733,340	₱1,830,571
Non-controlling interest		**1,909**	2,719	2,664
		₱3,118,890	₱2,736,059	₱1,833,235

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, 2018		₱2,000,000	₱264,300	₱9,700,000	₱1,875,652	(₱207,620)	(₱5,820)	₱13,626,512	₱9,029	₱13,635,541
Cash dividends - ₱0.45 a share	*16*	-	-	-	(900,000)	-	-	(900,000)	(580)	(900,580)
Reversal of appropriation of retained earnings	*16*	-	-	(3,700,000)	3,700,000	-	-	-	-	-
Appropriations during the year	*16*	-	-	4,500,000	(4,500,000)	-	-	-	-	-
Net income for the year		-	-	-	2,881,448	-	-	2,881,448	1,941	2,883,389
Other comprehensive income:							-			
Actuarial gain - net of tax		-	-	-	27,913	-	-	27,913	(32)	27,881
Cash flow hedge - effective portion - net of tax	*16*	-	-	-	-	(250,008)	-	(250,008)	-	(250,008)
Cash flow hedge - reclassified to profit or loss - net of tax	*16*	-	-	-	-	457,628	-	457,628	-	457,628
Balance at December 31, 2018		**₱2,000,000**	**₱264,300**	**₱10,500,000**	**₱3,085,013**	**₱-**	**(₱5,820)**	**₱15,843,493**	**₱10,358**	**₱15,853,851**
Balance at January 1, 2017		₱2,000,000	₱264,300	₱7,900,000	P2,010,095	(₱415,403)	(₱5,820)	₱11,753,172	₱6,890	₱11,760,062
Cash dividends - ₱0.43 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 - ₱0.41 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)	₱11,753,172	₱6,890	₱11,760,062

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	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱4,010,681**	₱3,434,516	₱2,604,501
Adjustments for:				
Depreciation and amortization	*10, 11*	**1,130,882**	1,180,724	1,136,532
Net unrealized foreign exchange losses		**565,357**	325,848	210,264
Finance cost	*19*	**540,426**	567,733	581,216
Provisions for inventory obsolescence		**20,000**	-	-
Amortization of noncurrent prepaid rental		**984**	984	984
Finance income	*19*	**(113,188)**	(85,604)	(61,994)
Contributions to retirement funds	*21*	**(60,469)**	(21,941)	(18,388)
Equity in net earnings of an associate	*9*	**(59,299)**	(46,701)	(47,170)
Reversal of allowance for impairment losses on trade and other receivables	*7*	**(5,950)**	-	(13,301)
Gain on disposals of:				
Property and equipment		**(4,724)**	(255)	(220)
Intangible assets		**(532)**	-	(3,557)
Loss on retirement of:				
Property and equipment		**-**	197	69
Intangible assets		**-**	-	144
Provisions for allowance for impairment losses on trade and other receivables		**-**	-	8,301
Operating income before working capital changes		**6,024,168**	5,355,501	4,397,381
Decrease (increase) in:				
Trade and other receivables		**(231,848)**	(65,542)	(69,982)
Spare parts and supplies		**(123,837)**	(89,106)	(51,822)
Prepaid expenses		**(332,490)**	(161,933)	35,737
Increase (decrease) in:				
Trade and other payables		**(53,006)**	733,010	631,320
Provisions for claims		**14,815**	153,600	(2,595)
Income and other taxes payable		**(65,560)**	3,059	(4,506)
Cash generated from operations		**5,232,242**	5,928,589	4,935,533
Finance income received		**97,303**	85,330	61,341
Finance cost paid		**(366)**	(365)	(9,993)
Income tax paid		**(1,267,353)**	(1,033,660)	(828,511)
Net cash provided by operating activities		**4,061,826**	4,979,894	4,158,370
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Intangible assets	*11*	**(₱2,295,504)**	(₱2,102,478)	(₱832,918)
Property and equipment	*10*	**(165,649)**	(197,628)	(81,711)
Proceeds from disposals of:				
Property and equipment		**4,724**	335	1,175
Intangible assets		**534**	-	6,172
Dividends received	*9*	**62,690**	14,328	45,853
Increase in other noncurrent assets		**(95,899)**	(281)	(765)
Decrease (increase) in deposits		**(5,073)**	2,929	(516)
Net cash used in investing activities		**(2,494,177)**	(2,282,795)	(862,710)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of:				
Cash dividends	*16*	**(900,000)**	(860,000)	(820,000)
Cash dividends to non-controlling interest		**(580)**	(580)	(580)
Port concession rights payable	*23*	**(781,790)**	(776,075)	(714,008)
Purchase of shares of subsidiary		**-**	-	(219)
Net cash used in financing activities		**(1,682,370)**	(1,636,655)	(1,534,807)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(114,721)**	1,060,444	1,760,853
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**38,017**	3,538	1,593
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*6*	**6,945,189**	5,881,207	4,118,761
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**₱6,868,485**	₱6,945,189	₱5,881,207

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 Subsidiaries, ATI Batangas, Inc. (ATIB) and Tanza Container Terminal, Inc. (TCTI), (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). DP World Australia (POAL) Pty. Ltd. directly owns 17.32% of the total outstanding capital stock of ATI.

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.

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 (the "Third Supplement") with the Philippine Ports Authority (PPA) dated October 19, 2007 (see Note 23).

b. Port of Batangas

On October 2, 2015, ATI and ATIB signed a Contract with PPA 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 (see Note 23).

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 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.

This is the first set of the Group's consolidated financial statements in which PFRS 15, *Revenue from Contracts with Customers* and PFRS 9, *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 4.

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 26, 2019.

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
Equity investments at Fair Value through Other Comprehensive Income (FVOCI)	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 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, ATIB, TCTI and the Group's interest in an associate accounted for under the equity method of accounting. ATIB is a 99.17% owned subsidiary as at December 31, 2018 and 2017. TCTI is incorporated on January 18, 2018, and 100% owned subsidiary as at December 31, 2018.

The financial statements of ATIB and TCTI 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.

TCTI is fully consolidated from the date of incorporation. 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, except if mentioned otherwise.

The Group has adopted new and amendments to standards and interpretations, including any consequential amendments to other standards, with date of initial application of January 1, 2018.

Adoption of New Standards, Amendments to Standards and Interpretations

The Group has adopted the following new standards, amendments to standards and interpretations starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements.

- 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 that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. 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.

  Classification, Measurement and Impairment of Financial Assets

  The following table shows the original measurement categories under PAS 39 and the new measurement categories under PFRS 9 for each class of the Group's financial assets as at January 1, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Original Classification under PAS 39	New Classification under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
Financial Assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	₱6,945,189	**₱6,945,189**
Trade and other receivables	Loans and receivables	Amortized cost	509,068	**509,068**
Deposits	Loans and receivables	Amortized cost	33,845	**33,845**
Equity securities	Available for sale	FVOCI - equity	2,652	**2,652**
Total financial assets			₱7,490,754	**₱7,490,754**

For assets in the scope of the PFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of PFRS 9's impairment requirements at January 1, 2018 did not result in an additional allowance for impairment.

The Group has applied PFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Hedge Accounting
As permitted by the standard, the Group did not adopt the new hedge accounting requirements and continues to apply the hedge accounting requirements of PAS 39.

- 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 Group expects to be entitled.

  PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price.

  Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group'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 PFRS. 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.

  Due to the transition method (cumulative effect method) chosen in applying PFRS 15, comparative information has not been restated to reflect the new requirements. The Group has not identified significant impacts to amounts recognized in the financial statements in the application of PFRS 15. However, the Group has adopted the new disclosure requirements including the disaggregation of revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors and has aligned the description of its accounting policies with PFRS 15.

  In conjunction with the adoption of PFRS 15, the consequential amendments to Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, has no significant impact to the Group.

- 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.

<u>Standards Issued But Not Yet Adopted</u>
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018. However, the Group has not early adopted 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, 2019

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

  Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

  The Group has decided it will apply the modified retrospective adoption method in PFRS 16, and, therefore, will only recognize leases on balance sheet as at January 1, 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date.

  As at December 31, 2018 operating lease commitments amounted to ₱723.1 million, which is not expected to be materially different from the anticipated position on December 31, 2019. Assuming the Group's lease commitments remain at this level, the effect of discounting those commitments is anticipated to result in right-of-use assets and lease liabilities of approximately ₱553.2 million being recognized on January 1, 2019. However, further work still needs to be carried out to determine whether and when extension and termination options are likely to be exercised, which will result in the actual liability recognized being higher or lower. Instead of recognizing an operating expense for its operating lease payments, the Group will instead recognize interest on its lease liabilities and amortization on its right-of-use assets.

- 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 consolidated 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 Group chosen tax treatment. If it is not probable that the tax authority will accept the Group 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. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

The Group is currently assessing the impact of the Philippine Interpretation IFRIC-23.

- *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 FVOCI 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 PAS 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.

  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.

- *Plan Amendment, Curtailment or Settlement* (Amendments to PAS 19, *Employee Benefits).* The amendments clarify that on amendment, curtailment or settlement of a defined benefit pension plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

- *Annual Improvements to PFRSs 2015 - 2017 Cycle*. This cycle of improvements contains amendments to four standards:

  - Previously held interest in a joint operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*). The amendments clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party maintains or obtains joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

    The amendments apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

  - Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, Other Comprehensive Income or equity.

  The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

  - *Borrowing Costs Eligible for Capitalization* (Amendments to PAS 23, *Borrowing Costs)*. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool.

    The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The amendments are applied to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies the amendments.

Effective January 1, 2020

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

  These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- *Definition of a Business (Amendments to* PFRS 3*)*. The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:

  - confirmed that a business must include inputs and a process, and clarified that:

    - o the process must be substantive; and
    - o the inputs and process must together significantly contribute to creating outputs;

  - narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and

  - added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

- *Definition of Material (Amendments to* PAS 1, *Presentation of Financial Statements* and PAS 8). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  (d) clarifying the explanatory paragraphs accompanying the definition; and
  (e) aligning the wording of the definition of material across PFRS Standards and other publications.

  The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements* 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.

Financial Instruments

Non-derivative Financial Instruments. Non-derivative financial instruments consist of cash and cash equivalents, trade and other receivables, deposits, equity securities, trade and other payables (except for statutory payables), and port concession rights payable.

Recognition and Initial Measurement. Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

Financial assets - Policy applicable from January 1, 2018

Classification and Subsequent Measurement. On initial recognition, the Group classifies its financial assets in the following measurement categories: amortized cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The Group has no financial assets classified as measured at: FVOCI - debt investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost using the effective interest method if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Group's cash and cash equivalents, trade and other receivables, and deposits.

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 with original maturities of three months or less from dates of acquisition and are subject to an insignificant risk of changes in value.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. The accumulated fair value reserves are never reclassified to profit or loss. Dividends are recognized as income in profit or loss unless it clearly represents a recovery of the cost of investment.

Included in this category is the Group's equity instruments (included under other noncurrent assets).

Business Model Assessment. The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

a. the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
b. how the performance of the portfolio is evaluated and reported to the Group's management;
c. the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
d. how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
e. the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Solely Payments of Principal and Interest Assessment. Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;

- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets - Policy applicable before January 1, 2018

The Group classifies financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL

The Group does not have held-to-maturity investments and financial assets at FVTPL.

Financial assets - Subsequent measurement and gains and losses: Policy applicable before January 1, 2018

- Loans and receivables - Measured at amortized cost using the effective interest method.
- Available-for-sale - Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognized in OCI and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial Liabilities
Classification, Subsequent Measurement and Gains and Losses. Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

PFRS 9 largely retains the existing requirements in PAS 39 for the classification and measurement of financial liabilities. The adoption of PFRS 9 does not have an effect on the Group's accounting policies related to financial liabilities.

Included under other financial liabilities are the Group's trade and other payables (except for due to government agencies) and port concession rights payable.

<u>Impairment of Financial Assets</u>

Impairment of Financial Assets - Policy applicable from January 1, 2018

PFRS 9 replaces the 'incurred loss' model in PAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under PFRS 9, credit losses are recognized earlier than under PAS 39.

ECL is the probability-weighted estimate of credit losses over the expected life of the financial instrument, representing the present value of expected cash shortfalls. The Group applies either a 12-month ECL or a lifetime ECL. Lifetime ECL applies to the financial assets that have experienced a significant increase in credit risk or are already credit-impaired. The Group's approach to ECL measurement are described in Note 24.
The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal credit rating
- External credit rating (as far as available)
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- Actual or expected significant changes in the operating results of the debtor
- Significant increases in credit risk on other financial instruments of the same debtor
- Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor and changes in the operating results of the debtor

Regardless of the analysis above, a significant risk in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 75 days of when they fall due. A financial asset is credit-impaired when an event that has a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as default or being more than 75 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or either financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Financial assets are written off when there is no reasonable expectation of recovery. The Group categorizes a loan or receivable for write off when a debtor fails to make payments or when it is no longer probable that the receivable will be collected. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

Impairment of Financial Assets - Policy applicable before January 1, 2018

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. 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.

<u>Offsetting of Financial Assets and Liabilities</u>
Financial assets and financial liabilities are offset and the net amount is reported in the 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.

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, 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 pay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

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When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Determination of Fair Values
A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and nonfinancial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, when necessary, based on the market values, being the estimated amount for which assets could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The different levels of fair value of financial instruments carried at fair value, by valuation method have been defined as follows:

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

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 the 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.

Spare Parts and Supplies
Spare parts and supplies are stated at the lower of cost and current replacement cost. 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 Subsidiaries
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 subsidiaries 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 arrangements 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 arrangements.

Port concession rights consist of:

a. Upfront fees payments on the concession contracts;

b. The cost of port infrastructures 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

c. Future fixed government share considerations in exchange for license or right. Fixed government share is 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 contract asset or useful life ranging from 2 to 25 years whichever is shorter.

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." Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefit.

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 from Contracts with Customers

The Group recognizes revenue when it transfers control over a service to a customer. Revenue is measured based on the consideration specified in a contract and PPA Tariff regulations, which are all fixed amounts, for each type of services rendered. The PPA established all relevant port regulations, basic port services and service level requirements, liability on cargo, security, and safety. The Group's revenue is well defined in PPA Operations Memorandum Circular No. 02-2018 and revised schedule of Cargo Handling Tariff implemented on June 5, 2018.

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In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue recognized when the related services have been rendered. It 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.

The following is a description of principal activities from which the Group generates its revenue. Revenue is disaggregated by the following service lines:

- *Stevedoring*
  The Group generates stevedoring revenue from all works performed on board vessel. The activity includes movement of cargoes from ship-to-shore, shore-to-ship lifting for inbound and outbound and transshipment including the related stevedoring transportation and liftings from shore to yard and yard to shore. The activity generally finishes in a short period of time (i.e. 24 to 48 hours from the time ship arrives at the port). The Group recognizes revenue at a point in time upon completion of service and the average credit term is 15 to 30 days.

- *Arrastre*
  The Group generates arrastre revenue from portside cargo handling operations. The activity includes receiving, handling, custody, security and delivery of cargo passing over piers, quays, warehouses and open storages within the jurisdictional area of responsibility of the Group. The Group recognizes revenue upon completion of service (i.e at a point in time). The customer pays arrastre charges before the release of cargoes.

- *Logistics*
  Logistics operation includes trucking and handlings services. The Group recognizes revenue upon completion of service (i.e at a point in time) and the average credit term is 15 to 30 days.

- *Special and Others Services*
  Special and other services include storage, reefer monitoring, container freight servicing, and equipment or manpower rental. Majority of these service lines pertains to storage revenues. Storage revenues are charges from the use of warehouses and/or open storages within the jurisdictional area of responsibility of the Group beyond the free storage period. Customers are billed upon withdrawal of cargoes from the terminal (for Import) or upon loading of cargoes to vessel (for export). The Group recognizes revenues over a period of time (number of days the container stayed in the jurisdictional area) and the average credit term is15 to 30 days.

Other Income
Other income is recognized at the point in time when the service has been rendered.

Finance Income
Finance income is recognized on a time proportion basis that reflects the effective yield on the investment.

Construction Revenues and Costs
The Group recognizes revenue related to construction and upgrade of services under service concession arrangement in accordance with PFRS 15. When the construction or upgrade services are provided or delivered under concession arrangement accounted within the scope of Philippine Interpretation IFRIC 12, the consideration is measured at the estimated selling price of the construction services provided. No margin has been recognized since the estimated selling price of the consideration services provided approximates the construction costs. The nature of the consideration determines the subsequent accounting. The consideration is classified as a contract asset under Intangible assets during the construction or upgrade period in accordance with PFRS 15.

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

<u>Borrowing Costs</u>
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.

<u>Leases</u>
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.

<u>Employee Benefits</u>

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 pension plans is determined separately for each plan using the projected unit credit method.

The defined benefit pension 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 pension 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 pension 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 pension liability (asset), taking into account any changes in the net defined pension liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit pension 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 pension plan when the settlement occurs.

<u>Foreign Currency Transactions</u>
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.
WW
Deferred tax liabilities are not provided on non-taxable temporary difference associated with investment in 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.

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 and the non-port operation is insignificant to the Group's total business.

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 subsidiaries has been determined to be the Philippine peso. It is the currency that mainly influences the price and cost of providing services.

Service Concession Arrangements. The Group has determined that the operating contracts are within the scope of IFRIC 12, accounted for under the intangible asset model.

The intangible assets pertaining to concession rights as at December 31, 2018 and 2017 are presented in Note 11 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Port Concession Rights and Port Concession Rights Payable. Estimates and assumptions are required on the determination of the cost of port concession rights on service concession arrangements to determine the extent to which the Group receives a right or license to charge users of public service. Port concession rights includes future fixed government share considerations in exchange for license or right. Fixed government share is recognized at present value using the discount rate at the inception date with a corresponding liability (port concession rights payable) recognized. In making those estimates, the management is required to determine a suitable discount rate to calculate the present value of port concessions rights and port concession rights payable. The Group believes that, while the assumptions used are reasonable and appropriate, these estimates and assumptions can materially affect the consolidated financial statements.

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 in the consolidated statements of income amounted to ₱148.1 million, ₱139.9 million and ₱152.5 million in 2018, 2017 and 2016, 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 (USD). 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.

The Group voluntarily revoked the designation of hedging instrument and hedged item on November 30, 2018 (see Note 16).

Provisions for Claims. The Group records provisions for claims for property, equipment and cargo damage and for pending civil and labor cases when it is determined that an unfavorable outcome is probable and the amount of the claim can be reasonably estimated. The determination of the amount of reserves required, if any, is based on management's analysis of each individual issue, often with assistance of outside legal counsel.

Provisions for claims amounted to ₱219.4 million and ₱204.5 million as at December 31, 2018 and 2017, respectively (see Note 15).

6. CASH AND CASH EQUIVALENTS

	Note	**2018**	2017
Cash on hand and in banks		**₱436,917**	₱355,108
Short-term investments		**6,431,568**	6,590,081
	24, 25	**₱6,868,485**	₱6,945,189

Cash in banks earns interest at floating rates based on daily bank deposit rates. Majority of short-term investments are on 90-day term subject to roll-over requirements of the Group and earn interest at the prevailing short-term deposit rates amounting to ₱111.1 million and ₱83.8 million in 2018 and 2017, respectively (see Note 19).

7. TRADE AND OTHER RECEIVABLES

	Note	**2018**	2017
Trade receivables		**₱658,794**	₱427,867
Advances to officers and employees		**19,546**	23,294
Receivable from insurance		**19,357**	-
Interest receivable		**16,661**	2,898
Receivable from escrow fund		**13,635**	13,635
Due from related parties	*20*	**11,246**	19,015
Other receivables		**15,440**	22,359
		754,679	509,068
Allowance for impairment losses		**(12,652)**	(18,602)
	24, 25	**₱742,027**	₱490,466

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, 2017	₱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
Reversals during the year	-	(5,950)	(5,950)
Balance at December 31, 2018	**₱3,296**	**₱9,356**	**₱12,652**

8. PREPAID EXPENSES

	Note	**2018**	2017
Taxes		**₱871,283**	₱545,647
Rental	*12, 23*	**49,118**	5,926
Advances to contractors		**10,790**	9,352
Insurance		**2,598**	45,937
Advances to government agencies		**101**	101
Others		**28,472**	22,909
		₱962,362	₱629,872

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 amount of investment in an associate as at December 31 follows:

	Note	**2018**	2017
Acquisition cost		**₱11,222**	₱11,222
Accumulated equity in net earnings:			
Balance at beginning of year		**75,805**	43,432
Equity in net earnings for the year	*19*	**59,299**	46,701
Dividends received during the year		**(62,690)**	(14,328)
		72,414	75,805
		₱83,636	₱87,027

The following table shows the summarized financial information of SCIPSI:

	2018	2017
Current assets	**₱202,871**	₱187,757
Noncurrent assets	**64,180**	79,988
Total assets	**₱267,051**	₱267,745
Current liabilities	**₱45,064**	₱153,719
Noncurrent liabilities	**2,611**	2,318
Total liabilities	**₱47,675**	₱156,037
Revenues	**₱385,924**	₱330,018
Expenses	**(219,867)**	(199,455)
Net income	**₱166,057**	₱130,563

Based on unaudited financial statements

Dividend income of ₱62.7 million and ₱14.3 million was received in 2018 and 2017, respectively.

10. PROPERTY AND EQUIPMENT - NET

The movements in this account are as follows:

2018

	Port Facilities and Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	Transportation and Other Equipment	Construction in-progress	Total
Cost						
Balance at beginning of year	₱152,084	₱560,495	₱513,661	₱190,963	₱84,497	₱1,501,700
Additions	14,840	32,500	150,939	40,144	197,769	436,192
Disposals	-	-	(18,243)	(26,528)	-	(44,771)
Reclassifications	(2,481)	6,972	22,308	962	(27,761)	-
Balance at end of year	164,443	599,967	668,665	205,541	254,505	1,893,121
Accumulated Depreciation						
Balance at beginning of year	124,575	372,489	316,694	122,324	-	936,082
Depreciation	8,093	19,853	64,993	24,926	-	117,865
Disposals	-	-	(18,243)	(26,528)	-	(44,771)
Balance at end of year	132,668	392,342	363,444	120,722	-	1,009,176
Carrying Amount	₱31,775	₱207,625	₱305,221	₱84,819	₱254,505	₱883,945

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

The Group has non-cash additions as at December 31, 2018 which amounted to ₱270.5 million.

11. INTANGIBLE ASSETS - NET

The movements in this account are as follows:

2018

	Port Concession Rights					
	Upfront Fees	Fixed Government Share	Port Infrastructure	Subtotal	Goodwill	Total
Cost						
Balance at beginning of year	₱282,000	₱9,279,694	₱15,084,610	₱24,646,304	₱42,060	₱24,688,364
Additions	-	-	3,222,423	3,222,423	-	3,222,423
Disposals	-	-	(55,960)	(55,960)	-	(55,960)
Balance at end of year	282,000	9,279,694	18,251,073	27,812,767	42,060	27,854,827
Accumulated Amortization						
Balance at beginning of year	52,094	2,786,178	6,096,935	8,935,207	-	8,935,207
Amortization	11,280	386,596	615,141	1,013,017	-	1,013,017
Disposals	-	-	(55,958)	(55,958)	-	(55,958)
Balance at end of year	63,374	3,172,774	6,656,118	9,892,266	-	9,892,266
Carrying Amount	₱218,626	₱6,106,920	₱11,594,955	₱17,920,501	₱42,060	₱17,962,561

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The unamortized capitalized borrowing costs as at December 31, 2018 and 2017 amounted to ₱73.5 million and ₱78.3 million, respectively. No borrowing costs were capitalized in 2018 and 2017.

The Group has non-cash additions as at December 31, 2018 which amounted to ₱926.9 million.

As at December 31, 2018 and 2017, the contract asset under Port Infrastructure amounted to ₱2.8 billion and ₱2.3 billion, respectively. Movement in the contract assets represents only the construction of port facilities and eventual putting into service in accordance with the Investment Plan (see Note 23).

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 8.0%. The discount rate applied to cash flow projections is 7.9% in 2018 and 5.8% in 2017 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 ₱1.7 billion and ₱2.2 billion in 2018 and 2017, 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	**2018**	2017
Taxes		**₱116,286**	₱20,387
Deposits	*24, 25*	**41,040**	33,845
Rental		**1,313**	2,297
Equity securities	*24, 25*	**2,652**	2,652
		₱161,291	₱59,181

Taxes pertain to noncurrent portion of the value-added input tax on capital goods exceeding ₱1.0 million.

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 ₱14.8 million and ₱12.6 million as at December 31, 2018 and 2017, 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 ₱2.3 million and ₱3.3 million as at December 31, 2018 and 2017, respectively.

The current portion of such prepaid rental, presented under "Prepaid expenses - rental" account amounted to ₱49.1 million and ₱5.9 million as at December 31, 2018 and 2017, respectively (see Note 8).

Equity securities 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:

	2018	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%
Changes in income tax rate resulting from:			
Income subjected to final tax	**(0.94)**	(0.84)	(0.89)
Others	**(0.95)**	(1.65)	(2.25)
Effective income tax rate	**28.11%**	27.51%	26.86%

The movements in deferred tax balances are as follows:

2018	**Note**	**Net Balance at January 1**	**Recognized in Profit or Loss**	**Recognized in OCI**	**December 31 Deferred Tax Assets**	**December 31 Deferred Tax Liabilities**	**Net**
Port concession rights payable related to fixed government share		**₱391,832**	**₱41,541**	**₱ -**	**₱433,373**	**₱ -**	**₱433,373**
Cash flow hedge		**88,979**	**-**	**(88,979)**	**-**	**-**	**-**
Unrealized foreign exchange loss - net		**257,757**	**170,669**	**-**	**428,426**	**-**	**428,426**
Pension liability	*21*	**33,392**	**(794)**	**(11,949)**	**20,649**	**-**	**20,649**
Provisions for claims		**61,364**	**4,445**	**-**	**65,809**	**-**	**65,809**
Excess of cost over net realizable value of spare parts and supplies		**11,469**	**6,000**	**-**	**17,469**	**-**	**17,469**
Impairment losses on receivables	*7*	**5,298**	**(1,785)**	**-**	**3,513**	**-**	**3,513**
Accrued operating lease		**4,343**	**(201)**	**-**	**4,142**	**-**	**4,142**
Rental deposit		**1,587**	**(342)**	**-**	**1,245**	**-**	**1,245**
Unamortized capitalized borrowing costs and custom duties		**(24,995)**	**1,674**	**-**	**-**	**(23,321)**	**(23,321)**
Net tax assets (liabilities)		**₱831,026**	**₱221,207**	**(₱100,928)**	**₱974,626**	**(₱23,321)**	**₱951,305**

2017	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		₱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

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	**2018**	2017
Trade		**₱370,635**	₱379,642
Accrued expenses:			
Marketing, commercial and promotion		**518,798**	446,945
Personnel costs		**222,876**	165,279
Finance costs		**151,091**	152,744
Professional fees		**147,924**	153,683
Repairs and maintenance		**86,111**	122,147
Rental	*23*	**65,089**	70,693
Security expenses		**45,344**	44,037
Trucking expense		**30,790**	28,774
Utilities		**14,210**	12,104
Corporate social responsibility		**11,842**	14,712
Safety and environment		**4,723**	4,314
Miscellaneous		**61,638**	40,159
Equipment acquisitions		**1,133,236**	214,012
Due to government agencies	*23*	**696,023**	610,006
Shippers' and brokers' deposits		**110,403**	84,433
Management fee payable	*20*	**10,489**	7,881
Other payables		**116,210**	138,647
	24, 25	**₱3,797,432**	₱2,690,212

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

	2018	2017
Balance at beginning of year	**₱204,544**	₱50,944
Provisions during the year	**25,738**	154,090
Payments during the year	**(10,923)**	(490)
Balance at end of year	**₱219,359**	₱204,544

Provisions relate to property and 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, 2018, the Parent Company has a total of 2 billion issued and outstanding common shares and 827 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, 2018 and 2017.

Retained Earnings
The Group's unappropriated retained earnings includes the subsidiaries' unappropriated net earnings of ₱4.8 million and ₱15.3 million and the Group's accumulated equity in the net earnings of an associate amounting to ₱72.4 million and ₱75.8 million as at December 31, 2018 and 2017, respectively, which are available for distribution only upon declaration of dividends by such subsidiaries to the Parent Company and the associate to the Group. Cash dividends are distributed yearly since 2000.

On April 26, 2018, the BOD approved the declaration of cash dividends amounting to ₱900.0 million or ₱0.45 per share payable on June 18, 2018 to common shareholders of record as at May 22, 2018.

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 20, 2018, the Group's BOD approved the reversal to the unappropriated retained earnings of the amount of ₱3.7 billion out of the already approved appropriation of ₱9.7 billion, for capital expenditures for 2016 and 2017. Furthermore, the Group's BOD approved an appropriation of the retained earnings amounting to ₱4.5 billion for capital expenditures for the next 2 years. The Group's BOD also approved on the same date a budget amounting to ₱9.0 billion for capital expenditures which include yard and berth development as well as construction of new facilities and equipment acquisition for 2019. 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.

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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 P6.1 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 and will be sourced from internal funds.

Fair Value Reserve
Fair value reserve amounting to ₱5.8 million as at December 31, 2018 and 2017 represents unrealized loss on equity securities.

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, 2018, 2017 and 2016, the effective fair value changes of the Group's cash flow hedge that was recognized in other comprehensive income amounted to ₱250.0 million, ₱22.0 million and ₱269.0 million, respectively, net of tax.

For the years ended December 31, 2018, 2017 and 2016, the Group's cash flow hedge that was reclassified to profit or loss from other comprehensive income amounted to ₱457.6 million, ₱229.8 million and ₱140.2 million, respectively, net of tax.

On November 30, 2018, the management voluntarily revoked the designation of hedge instrument and hedge items. The management has determined that the hedge is retrospectively effective until the date of voluntary termination, including the recognized ineffectiveness in profit or loss.

Based on the management's assessment, continuation of hedging will only lead to recognition of higher unrealized foreign exchange losses that would affect their forecasted profits in the long-run. As a result, the Group reclassified the entirety of unrealized foreign exchange losses pertaining to hedging from other comprehensive income to its profit or loss. For the year ended December 31, 2018, the amount recognized from Hedging reserve to profit or loss amounted to ₱254.4 million, net of tax.

17. GOVERNMENT SHARE IN REVENUES

This account consists of the PPA's share in revenues of the Group as stipulated in the agreements discussed in Notes 2 and 23. The PPA's share in gross revenues includes variable government share amounting to ₱2.3 billion, ₱1.9 billion and ₱1.7 billion in 2018, 2017 and 2016, respectively (see Note 23).

18. COSTS AND EXPENSES EXCLUDING GOVERNMENT SHARE IN REVENUES

	Note	**2018**	2017	2016
Labor costs		**₱1,462,559**	₱1,282,910	₱1,192,514
Depreciation and amortization	*10, 11*	**1,130,882**	1,180,724	1,136,532
Equipment running		**797,971**	595,449	485,263
Taxes and licenses		**272,084**	256,132	254,873
Security, health, environment and safety		**205,407**	181,801	161,277
Facilities-related expenses		**200,520**	151,910	183,602
Management fees	*20*	**176,083**	149,706	112,965
Rental	*23*	**148,134**	139,905	152,469
Insurance		**87,280**	66,295	66,942
Marketing, commercial and promotion		**86,450**	45,740	136,226
Professional fees		**80,469**	24,460	174,313
General transport		**46,128**	41,133	14,894
Provision for claims	*15*	**25,738**	154,090	5,814
Entertainment, amusement and recreation		**7,787**	5,170	5,921
Others		**213,370**	160,778	217,347
		₱4,940,862	₱4,436,203	₱4,300,952

Labor costs include salaries, benefits and pension expense.

Spare parts and supplies used and included under equipment running amounted to ₱296.3 million, ₱227.3 million and ₱165.7 million in 2018, 2017 and 2016, respectively.

Provision for inventory obsolescence included in profit or loss amounted to ₱20.0 million in 2018 and nil in 2017 and 2016.

19. OTHER INCOME AND EXPENSES

Finance income is broken down as follows:

	Note	**2018**	2017	2016
Interest on cash in banks and short-term investments	*6*	**₱111,066**	₱83,787	₱60,438
Accretion of rental deposits	*12, 23*	**2,122**	1,817	1,556
		₱113,188	₱85,604	₱61,994

Finance cost is broken down as follows:

	Note	**2018**	2017	2016
Interest on port concession rights payable		**₱533,664**	₱559,779	₱573,110
Interest component of pension expense	*21*	**6,396**	7,589	7,953
Interest on bank loans/credit facilities		**366**	365	153
		₱540,426	₱567,733	₱581,216

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).

Others consist of the following:

	Note	**2018**	2017	2016
Equity in net earnings of an associate	*9*	**₱59,299**	₱46,701	₱47,170
Foreign exchange gains - others		**35,461**	10,243	91
Management income	*20*	**10,285**	8,806	9,184
Income from insurance claims		**-**	264	74,167
Foreign exchange losses - port concession rights payable		**(136,851)**	(107,169)	(60,277)
Foreign exchange losses - cash flow hedge		**(603,374)**	(329,386)	(211,856)
Other income - net		**7,399**	34,656	28,585
		(₱627,781)	(₱335,885)	(₱112,936)

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

Foreign exchange losses - cash flow hedge in 2018 includes the amount reclassified from other comprehensive income resulting from the voluntary revocation by management of the designation of the hedge instrument and hedge items (see Note 16).

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:

Category/ Transaction	Ref	Year	Amount of the Transaction	Outstanding Balance Due from Related Parties	Outstanding Balance Due to Related Parties	Terms	Conditions
Associate							
▪ Management income	*A*	**2018**	**₱10,285**	**₱957**	**₱ -**	**Payable on demand**	**Unsecured; no impairment**
		2017	8,806	1,032	-	Payable on demand	Unsecured; no impairment
Post-Employment Benefit Plan							
▪ Retirement fund	*B*	**2018**	**39,221**	**10,016**	**-**	**Payable on demand**	**Unsecured; no impairment**
		2017	39,354	17,721	-	Payable on demand	Unsecured; no impairment
Others							
▪ Management fees	*C*	**2018**	**176,083**	**-**	**10,489**	**Payable within ten (10 days) of the following month**	**Unsecured**
		2017	149,706	-	7,881	Payable within ten (10) days of the following month	Unsecured
▪ Advances	*D*	**2018**	**2,456**	**273**	**-**	**Payable on demand**	**Unsecured; no impairment**
		2017	2,622	262	-	Payable on demand	Unsecured; no impairment
TOTAL		**2018**		**₱11,246**	**₱10,489**		
TOTAL		2017		₱19,015	₱7,881		

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

B. The Parent Company and ATIB have separate, noncontributory, defined benefit retirement plans covering all its regular employees, in the form of a trust being maintained by a trustee bank. Certain payments to retired employees were paid directly by the Group to be subsequently paid by the retirement fund.

C. P & O Management Services Phils., Inc. (POMS), a related party which is 40.00% owned by POAL, manages the Parent Company by virtue of a management agreement. The Parent Company's management agreement with POMS was further renewed on August 20, 2015 for another five years until August 31, 2020. 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.

D. Amount owed by DP World Asia Holdings Limited-Regional Operating, a related party under common control, Headquarters pertains to reimbursements for expenses paid by the Group.

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

	2018	2017
Short-term employee benefits	**₱179,929**	₱164,256
Post-employment benefits	**9,276**	10,884
	₱189,205	₱175,140

21. PENSIONS

The Group's latest actuarial valuation reports are dated December 31, 2018. 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			TOTAL		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Current service cost	**₱33,874**	₱36,651	₱41,983	**₱1,708**	₱2,052	₱3,241	**₱35,582**	₱38,703	₱45,224
Interest cost on defined benefit obligation	**28,809**	28,144	28,808	**1,652**	1,685	2,012	**30,461**	29,829	30,820
Interest income on plan assets	**(22,252)**	(20,587)	(21,288)	**(1,813)**	(1,653)	(1,579)	**(24,065)**	(22,240)	(22,867)
Net pension expense	**₱40,431**	₱44,208	₱49,503	**₱1,547**	₱2,084	₱3,674	**₱41,978**	₱46,292	₱53,177

Current service cost is charged under "Labor cost" account included in "Costs and expenses excluding government share in revenues" 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		TOTAL	
	2018	2017	**2018**	2017	**2018**	2017
Present value of pension obligations	**(₱474,061)**	(₱527,936)	**(₱33,941)**	(₱29,298)	**(₱508,002)**	(₱557,234)
Fair value of plan assets	**422,308**	413,305	**30,941**	30,856	**453,249**	444,161
Pension asset (liability)	**(₱51,753)**	(₱114,631)	**(₱3,000)**	₱1,558	**(₱54,753)**	(₱113,073)

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Changes in the Present Value of Pension Obligations

	ATI		ATIB		TOTAL	
	2018	2017	**2018**	2017	**2018**	2017
Present value of pension obligations at beginning of year	**₱527,936**	₱553,235	**₱29,298**	₱31,330	**₱557,234**	₱584,565
Current service cost	**33,874**	36,651	**1,708**	2,052	**35,582**	38,703
Interest cost	**28,809**	28,144	**1,653**	1,685	**30,462**	29,829
Benefits paid	**(41,747)**	(30,093)	**(2,249)**	(498)	**(43,996)**	(30,591)
Actuarial loss (gain)	**(74,811)**	(60,001)	**3,531**	(5,271)	**(71,280)**	(65,272)
Present value of pension obligations at end of year	**₱474,061**	₱527,936	**₱33,941**	₱29,298	**₱508,002**	₱557,234

Changes in the Fair Value of Plan Assets

	ATI		ATIB		TOTAL	
	2018	2017	**2018**	2017	**2018**	2017
Fair value of plan assets at beginning of year	**₱413,305**	₱411,724	**₱30,856**	₱28,984	**₱444,161**	₱440,708
Actual return on plan assets:						
Interest income	**22,252**	20,587	**1,813**	1,653	**24,065**	22,240
Actual contributions	**58,024**	21,050	**2,445**	891	**60,469**	21,941
Remeasurement loss on plan assets	**(29,526)**	(9,963)	**(1,924)**	(174)	**(31,450)**	(10,137)
Benefits paid	**(41,747)**	(30,093)	**(2,249)**	(498)	**(43,996)**	(30,591)
Fair value of plan assets at end of year	**₱422,308**	₱413,305	**₱30,941**	₱30,856	**₱453,249**	₱444,161

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

	ATI			ATIB			TOTAL		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Actuarial gain (loss) due to:									
Changes in financial assumptions	**₱47,701**	₱16,666	₱63,446	**₱5,894**	₱938	₱5,360	**₱53,595**	₱17,604	₱68,806
Changes in demographic assumptions	**29,153**	(1,068)	24,308	**(3,669)**	3,919	4,513	**25,484**	2,851	28,821
Experience adjustment	**(2,043)**	44,403	(6,093)	**(5,756)**	414	3,801	**(7,799)**	44,817	(2,292)
Remeasurement loss on plan assets	**(29,526)**	(9,963)	(11,185)	**(1,924)**	(174)	(2,625)	**(31,450)**	(10,137)	(13,810)
	₱45,285	₱50,038	₱70,476	**(₱5,455)**	₱5,097	₱11,049	**₱39,830**	₱55,135	₱81,525

The cumulative amount of actuarial gains recognized in the consolidated statements of changes in equity is ₱110.1 million and ₱70.2 million as at December 31, 2018 and 2017, respectively.

Plan Assets
The plans entitle 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 hired to date of retirement, death, permanent disability, or severance.

The defined benefit pension plans expose 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		TOTAL	
	2018	2017	**2018**	2017	**2018**	2017
Cash and cash equivalents	**₱38,840**	₱28,745	**₱3,419**	₱1,514	**₱42,259**	₱30,259
Investment in UITF	**5,343**	56,590	**381**	2,400	**5,724**	58,990
Equity instruments	**66,383**	65,691	**4,643**	4,924	**71,026**	70,615
Investment in government securities	**286,797**	238,536	**20,567**	20,148	**307,364**	258,684
Debt instruments	**7,801**	7,634	**702**	701	**8,503**	8,335
Other receivables	**17,144**	16,109	**1,229**	1,169	**18,373**	17,278
	₱422,308	₱413,305	**₱30,941**	₱30,856	**₱453,249**	₱444,161

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	
	2018	2017	**2018**	2017
Discount rate at end of year	**7.3%**	5.7%	**7.4%**	5.8%
Salary increase rate	**4.0%-5.0%**	3.0%-5.0%	**4.0%-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	
	2018	2017	**2018**	2017
Average expected future service years	**11**	14	**13**	11

Maturity analysis of the benefit payments:

	2018	
	Expected Benefit Payments	
	ATI	**ATIB**
Within 1 Year	**₱85,502**	**₱2,104**
Within 1 - 5 Years	**181,043**	**12,584**
More than 5 Years	**1,737,962**	**253,070**

	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

<u>Sensitivity Analysis</u>
As at December 31, 2018, 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	**(₱444,594)**	**₱507,485**	**(₱31,107)**	**₱37,221**
Salary increase rate	**510,301**	**(441,626)**	**37,440**	**(30,877)**

The Group expects to pay ₱48.8 million in contributions to defined benefit pension plans in 2019.

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

Basic EPS is computed as follows:

	2018	2017	2016
(a) Net income attributable to Equity Holders of the Parent Company (in thousands)	**₱2,881,448**	₱2,486,993	₱1,902,391
(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)	**₱1.44**	₱1.24	₱0.95

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

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

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 (see Note 2).

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 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.

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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.

Upon recognition of the fair value of the fixed fees representing the government share under the concession agreements as discussed above, the Group also recognized the corresponding port concession rights payable (see Note 2). The movements in the port concession rights payable are as follows:

	2018	2017
Balance as at January 1	**₱8,806,580**	₱8,985,870
Accretion of port concession rights payable	**238,718**	267,399
Payments during the year	**(781,790)**	(776,075)
Effects of exchange rate changes	**603,374**	329,386
Balance as at December 31	**₱8,866,882**	₱8,806,580

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

a. The Parent Company has a 5-year lease agreement with PPA effective April 3, 2012 covering a land adjacent to the Container Freight Station (CFS) area of the Container Terminal "A-1" with a monthly lease rental of ₱0.4 million, subject to a yearly escalation of 5%. As of December 31, 2018, the lease agreement indicating a monthly rental of ₱1.7 million until 2023 is pending finalization.

   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:

	2018	2017
Within one year	**₱20,403**	₱6,357
After one year but not more than five years	**66,310**	22,904
	₱86,713	₱29,261

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 monthly rates amounted to ₱1.2 million, ₱1.1 million and ₱1.1 million in 2018, 2017 and 2016, respectively.

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

	2018	2017
Within one year	**₱14,396**	₱14,396
After one year but not more than five years	**31,096**	45,492
	₱45,492	₱59,888

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:

	2018	2017
Within one year	**₱7,164**	₱6,732
After one year but not more than five years	**15,511**	23,073
	₱22,675	₱29,805

d. The Parent Company has entered a 25-year lease contract commencing on February 15, 2018 for a parcel of land located at barangay Calibuyo, Tanza, Cavite, with a monthly lease rental of ₱35 per square meter, subject to an escalation of 5% beginning February 15, 2020 and every 2 years thereafter. The lease premises shall be used exclusively as a port terminal, inland clearance depot, warehouse, and for other activities related or ancillary thereto.

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

	2018	2017
Within one year	**₱16,517**	₱ -
After one year but not more than five years	**90,011**	-
After more than five years	**433,811**	-
	₱540,339	₱ -

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, equity securities, 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.

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.

Interest Rate Risk
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, 2018 and 2017, the interest rate profile of the Group's interest bearing financial instrument is as follows:

	2018	2017
Fixed Rate Instruments		
Cash and cash equivalents*	**₱6,867,826**	₱6,944,580

**Excluding cash on hand amounting to ₱0.7 million and ₱0.6 million as at December 31, 2018 and 2017, respectively.*

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.

Liquidity Risk
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:

As at December 31, 2018	**Carrying Amount**	**Contractual Cash Flows On Demand**	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**> 5 Years**	**Total**
Trade and other payables*	**₱3,101,409**	**₱345,689**	**₱492,020**	**₱2,263,700**	**₱ -**	**₱ -**	**₱3,101,409**
Port concession rights payable	**8,866,882**	**-**	**197,152**	**591,457**	**4,003,742**	**8,373,061**	**13,165,412**
Total	**₱11,968,291**	**₱345,689**	**₱689,172**	**₱2,855,157**	**₱4,003,742**	**₱8,373,061**	**₱16,266,821**

**excluding due to government agencies amounting to ₱696.0 million*

As at December 31, 2017	Carrying Amount	Contractual Cash Flows 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*

Credit Risk

Credit risk on trade and other receivables represents the risk of loss the Group would incur if credit customers and counterparties fail to perform their contractual obligations.

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 implemented to assess the credit standing of customers.

The Group does not require collateral in respect of trade and other receivables. The Group does not have trade and other receivables for which no loss allowance is recognized because of collateral. The carrying amounts of trade and other receivables represent the maximum credit exposure.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash in bank and cash equivalents, deposits and FVOCI - equity, 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. The Group trades only with reputable banks and recognized third parties.

Exposure to credit risk is monitored on an ongoing basis. Credit checks are being performed on all clients requesting credit over certain amounts. Credit is not extended beyond authorized limits, established where appropriate through consultation with a professional credit vetting organization. Credit granted is subject to regular review, to ensure it remains consistent with the clients' current credit worthiness and appropriate to the anticipated volume of business.

Financial information on the Group's maximum exposure to credit risk as at December 31, 2018 and 2017, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	Note	**2018**	2017
Cash and cash equivalents*	*6*	**₱6,867,826**	₱6,944,580
Trade and other receivables - net	*7*	**742,027**	490,466
Deposits	*12*	**41,040**	33,845
Equity securities	*12*	**2,652**	2,652
		₱7,653,545	₱7,471,543

**excluding cash on hand amounting to ₱0.7 million and ₱0.6 million as at December 31, 2018 and 2017, respectively.*

The table below shows the credit quality of the Group's financial assets based on their historical experience with the corresponding debtor.

	As at December 31, 2018 Grade A	**Grade B**	**Grade C**	**Total**
Cash in banks and cash equivalents	**₱6,867,826**	**₱ -**	**₱ -**	**₱6,867,826**
Trade and other receivables - net	**407,285**	**334,742**	**-**	**742,027**
Deposits	**41,040**	**-**	**-**	**41,040**
Equity securities	**2,652**	**-**	**-**	**2,652**
	₱7,318,803	**₱334,742**	**₱ -**	**₱7,653,545**

	As at December 31, 2017 Grade A	Grade B	Grade C	Total
Cash in banks and cash equivalents	₱6,944,580	₱ -	₱ -	₱6,944,580
Trade and other receivables - net	322,594	167,872	-	490,466
Deposits	33,845	-	-	33,845
Equity securities	2,652	-	-	2,652
	₱7,303,671	₱167,872	₱ -	₱7,471,543

Grade A receivables pertain to those receivables from customers that always pay on time or even before the maturity date. Grade B includes receivables that are collected on their due dates provided that they were reminded or followed up by the Group. Those receivables which are collected consistently beyond their due dates and require persistent effort from the Group are included under Grade C.

Cash in banks is considered good quality (Grade A) as this pertains to deposits in reputable banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Trade and Other Receivables
The exposure to credit risk for trade and other receivables by industry is as follows:

	Note	**2018**	2017
Shipping lines		**₱459,388**	₱343,124
Others		**282,639**	147,342
	7	**₱742,027**	₱490,466

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.

An analysis of the credit quality of trade receivables and other receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired as at December 31, 2017 is as follows:

2017

		Neither Past	Past Due but not Impaired				Past
	Total	Due nor Impaired	< 30 Days	30 - 60 Days	61 - 90 Days	Over 90 Days	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

Impaired trade and other receivables as at December 31, 2017 had a gross carrying amount of ₱18.6 million. As at December 31, 2017, the impairment loss relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances.

Expected Credit Loss Assessment as at December 31, 2018
The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are segmented by industry classification and an ECL rate is calculated for each segment based on delinquency and actual credit loss experience.

The following table provides information about the exposure to credit risk for trade and other receivables as at December 31, 2018:

	Gross Carrying Amount	**Impairment Loss Allowance**	**Credit-impaired**
Current (not past due)	₱734,209	₱ -	No
1 - 30 days past due	2,887	-	No
31 - 60 days past due	3,570	-	No
61- 90 days past due	858	-	No
More than 90 days past due	13,155	12,652	Yes
Balance at December 31, 2018	**₱754,679**	**₱12,652**	

Loss rates are based on actual credit loss experience over three years considering circumstances at the reporting date. Any adjustment to the loss rates for forecasts of future economic conditions are not expected to be material. The Group applies the simplified approach in providing for expected credit losses prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix. The application of the expected loss rates to the receivables of the Group does not have a material impact on the financial statements.

The maturity of the Group's trade and other receivables is less than one year so the lifetime expected credit losses and the 12-month expected credit losses are similar.

Movement in the Allowance for Impairment in Respect of Trade and Other Receivables

	2018	Individually Impaired	Collectively Impaired
Balance at January 1 under PAS 39	**₱18,602**	₱4,160	₱14,442
Adjustment on initial application of PFRS 9	**-**	-	-
Balance at January 1 under PFRS 9	**18,602**	4,160	14,442
Reversals during the year	**(5,950)**	-	(5,950)
Balance at December 31	**₱12,652**	₱4,160	₱8,492

The significant change in the gross carrying amount of trade receivables that contributed also to the change in the impairment loss allowance during 2018 refers to the reversals in allowance for impairment during the year. The reversals resulted from review of credit risks profiling of customers and upon identification of receivables with specific doubtful accounts.

Cash in Banks and Cash Equivalents
The Group held cash in banks and cash equivalents of ₱6.9 billion as at December 31, 2018 and 2017, respectively. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated Grade A.

Impairment on cash in banks and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash in bank and cash equivalents have low credit risk based on the external credit ratings of the counterparties and any ECL is expected to be immaterial.

Foreign Currency Risk
The Group has foreign currency financial assets and liabilities arising from US dollar denominated revenues, 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 as well as buying 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 hedged 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 was designated as cash flow hedge.

The Group had assessed that 80% of the US dollar denominated stevedoring revenue for the designated period is highly probable. However, the Group had 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 decided to terminate the Hedging instrument on November 30, 2018. A sensitivity analysis has been prepared comparing the impact on unrealized foreign exchange losses on the CRP under the Fair Value method and continuing the cash flow hedge. The fair value method is more beneficial to the Group.

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

	2018	2017
Assets		
Cash and cash equivalents	**US$45,648**	US$386
Trade and other receivables	**-**	190
	45,648	576
Liabilities		
Trade and other payables	**2,998**	2,860
Port concession rights payable	**142,611**	146,156
	145,609	149,016
Net foreign currency-denominated liabilities	**(US$99,961)**	(US$148,440)
Peso equivalent	**(₱5,255,949)**	(₱7,411,609)

The exchange rates applicable for US dollar as at December 31, 2018 and 2017 are ₱52.58 and ₱49.93, 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**
2018			
	+5%	**(₱262,797)**	**(₱183,958)**
	-5%	**262,797**	**183,958**
2017			
	+5%	(370,580)	(259,406)
	-5%	370,580	259,406

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	**2018**	2017
Capital stock		**₱2,000,000**	₱2,000,000
Additional paid-in capital		**264,300**	264,300
Retained earnings		**13,585,013**	11,575,652
Hedging reserve		**-**	(207,620)
Fair value reserve		**(5,820)**	(5,820)
Total	*16*	**₱15,843,493**	₱13,626,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2018 and 2017.

		2018		2017	
	Note	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Cash and cash equivalents	*6*	**₱6,868,485**	**₱6,868,485**	₱6,945,189	₱6,945,189
Trade and other receivables - net	*7*	**742,027**	**742,027**	490,466	490,466
Deposits	*12*	**41,040**	**44,298**	33,845	39,589
		7,651,552	**7,654,810**	7,469,500	7,475,244
Equity securities	*12*	**2,652**	**2,652**	2,652	2,652
		₱7,654,204	**₱7,657,462**	₱7,472,152	₱7,477,896
Financial Liabilities					
Other financial liabilities:					
Trade and other payables*	*14*	**₱3,101,409**	**₱3,101,409**	₱2,080,206	₱2,080,206
Port concession rights payable		**8,866,882**	**9,060,531**	8,806,580	9,895,597
		₱11,968,291	**₱12,161,940**	₱10,886,786	₱11,975,803

** excluding due to government agencies amounting to ₱696.0 million and ₱610.0 million in 2018 and 2017, 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 equity securities. The fair values of unquoted equity securities 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 7.0% in 2018 and 4.3% in 2017.

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 7.06% to 7.61% in 2018 and 5.42% to 5.78% in 2017.

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

As at December 31, 2018	*Note*	**Level 1**	**Level 2**	**Level 3**
Equity securities	*12*	**₱933**	**₱ -**	**₱1,719**
Port concession rights payable		**-**	**9,060,531**	**-**
		₱933	**₱9,060,531**	**₱1,719**

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

There have been no transfers from one level to another in 2018 and 2017.

26. REVENUES FROM OPERATIONS

The Group derives revenue from the transfer of services in the following major service lines:

	2018	2017	2016
Revenues from Operations			
Stevedoring	**₱5,368,521**	₱4,833,068	₱4,041,808
Arrastre	**4,572,477**	3,715,092	3,644,314
Logistics	**72,726**	104,286	108,417
Special and other services	**2,262,954**	1,950,726	1,454,623
	₱12,276,678	₱10,603,172	₱9,249,162

LIST OF OFFICERS

EXECUTIVE OFFICE

EUSEBIO H. TANCO
President

WILLIAM KHOURY
Executive Vice President

MARIE CELINE C. DIMACULANGAN
Assistant Vice President for Compliance & Leadership

DB ROSE C. MEJIA
Executive Assistant to the President & EVP

ASSET MANAGEMENT

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Assistant Vice President for Asset Management

JONAS C. GARCIA
Assistant Manager for Project Management

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Assistant Manager for Internal Audit

FRAULINE T. NAVA
Assistant Manager for Internal Audit

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Assistant Vice President for Information Technology

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Infrastructure & Services Delivery Manager

AMOR A. PADAGAS
IT Planning, Architecture & Security Manager

DANIEL ROMAN P. PIDO II
Applications Development & Support Manager

RENSON JAN S. CREENCIA
Applications & Development Team Leader

EDWIN N. CAJIPE
Network Infrastructure Officer

EDWIN A. DUQUE
Systems Infrastructure Officer

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Vice President for Business Support Services

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Assistant Vice President for Human Resources

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Assistant Vice President for HSES

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YSMAEL M. ESTACIO
Security Manager

JANICE S. PICARDAL
HSES Manager

CRESILDA C. REBUSTILLO
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Assistant Corporate Secretary

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Senior Vice President for Commercial & Outports

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DOMINADOR ANTONIO T. BUSTAMANTE
Corporate Communications Manager

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MA. JELICIA M. YULO
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CHARMAINE P. DATOC
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RYAN L. LAMBINO
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MARCELINO C. SAN JUAN
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Assistant Manager for Billing

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Terminal Manager – Batangas Container Terminal

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Rizal Commercial Banking Corporation

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

CONCEPT AND DESIGN:
Perez Numedia, Inc.

PHOTOGRAPHY:
Dojo Palines


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