# COVER SHEET

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SEC Registration Number

INTERNATIONAL CONTAINER TERMINAL
SERVICES, INC. AND SUBSIDIARIES

(Company's Full Name)

ICTSI ADMINISTRATION BUILDING
MICT SOUTH ACCESS ROAD, MANILA

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

**Jose Joel M. Sebastian**
(Contact Person)

**(+632) 245 4101**
(Company Telephone Number)

**1 2** *Month* **3 1** *Day*
(Fiscal Year)

**SEC 20 IS**
(Form Type)

**0 4** *Month* **Every 3rd Thursday** *Day*
(Annual Meeting)

**N/A**
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

**N/A**
Amended Articles Number/Section

Total Amount of Borrowings
*(as of December 31, 2018)*

**1,383**
*as of December 31, 2018*
Total No. of Stockholders

| **US$46.7M** | **US$1,260.3M** |
|---|---|
| Domestic | Foreign |

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 20-IS**

**INFORMATION STATEMENT PURSUANT TO**
**SECTION 20 OF THE SECURITIES REGULATION CODE**



1. Check the appropriate box:
   [ ] Preliminary Information Statement
   [ **X**] Definitive Information Statement

2. Name of Registrant as specified in its charter
   **International Container Terminal Services, Inc.**

3. Province, country or other jurisdiction of incorporation or organization
   **Manila, Philippines**

4. SEC Identification Number **147212**

5. BIR Tax Identification Code **000-323-228**

6. Address of Principal Office **3F ICTSI Administration Building**
   **Manila International Container Terminal**
   **South Access Road, Manila, Philippines**
   Postal Code **1012**

7. Registrant's telephone number, including area code **(632) 245-4101**

8. Date, time and place of the meeting of security holders
   **April 11, 2019, 10:00 a.m., at Solaire Ballrooms 2 to 5 of the Solaire Resort & Casino, 1 Aseana Avenue, Entertainment City, Parañaque City , Metro Manila, Philippines**

9. Approximate date on which the Information Statement is first to be sent or given to security holders
   **March 20, 2019**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding as of December 31, 2018 |
|---|---|
| **Common Stock, P1.00 par value** | **2,011,001,931** |

Amount of consolidated debt outstanding as of **31 December 2018: US$1,307.1 million**

11. Are any or all of registrant's securities listed in a Stock Exchange?

    Yes ✓ No ______

    Name of Stock Exchange: **Philippine Stock Exchange**
    Class of Securities Listed: **Common Stock**

**ICTSI MANAGEMENT IS NOT SOLICITING PROXIES FOR THIS ANNUAL STOCKHOLDERS' MEETING. PLEASE DO NOT SEND ICTSI MANAGEMENT YOUR PROXY.**

**International Container Terminal Services, Inc.**

*EXCELLENCE UNCONTAINED*



## ICTSI 2019 ANNUAL STOCKHOLDERS' MEETING

**Notice** is hereby given that the Annual Stockholders' Meeting of International Container Terminal Services, Inc. (ICTSI) will be held at Solaire Ballrooms 2 to 5 of the Solaire Resort & Casino, 1 Aseana Avenue, Entertainment City, Parañaque City, Metro Manila at 10:00 a.m. on Thursday, 11 April 2019, with the following agenda:

1. Call to order. The call is done to officially open the meeting.

2. Determination of existence of quorum. The presence of shareholders holding at least majority of the outstanding shares is required for the existence of a quorum.

3. Approval of the Minutes of the Annual Stockholders' Meeting held on 19 April 2018. Said minutes record the proceedings at the last stockholders' meeting prior to this meeting.

4. Chairman's Report. The Chairman's Report will present a summary of business operation of the corporation and its subsidiaries during preceding fiscal year.

5. Approval of the Chairman's Report and the 2018 Audited Financial Statements. Having heard the report, the shareholders are asked to approve the Chairman's Report and the Audited Financial Statements.

6. Approval/ratification of acts, contracts, investments and resolutions of the Board of Directors and Management since the last Annual Stockholders' Meeting. Said acts, contracts, investments and resolutions are summarized in Item 15 of the Information Statement (SEC Form 20-IS) to be furnished to the shareholders and approval thereof by the stockholders is sought.

7. Election of Directors. The incumbent directors are named in Item 5 of the Information Statement, together with their respective profiles and qualifications. The directors of the corporation are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting, and until their respective successors have been elected and qualified.

8. Appointment of External Auditors. The appointment of the external auditor named in Item 7 of the Information Statement is being sought.

9. Other matters. Any other matter, which may be brought to the attention of the stockholders, may be taken up.

10. Adjournment. This is done to officially end the meeting.

The dividend policy of the Corporation is described in the section entitled "Dividends and Dividend Policy" in Item 15 of the Information Statement.

The Board of Directors fixed **11 March 2019** as the record date for the purpose of determining the Stockholders entitled to notice and to vote.

Registration starts at **9:00 a.m.** Please bring your identification documents (e.g. SSS, driver's license, passport) to facilitate registration.

Should you be unable to attend the meeting, but wish to be represented, you may send us a Proxy (in the form attached as "Schedule 1" to the Information Statement). For Stockholders whose shareholdings are lodged with the Philippine Central Depository, please secure a certification from your respective brokers and send it to us on or before **18 March 2019**.

Proxy validation will be held at the Executive Lounge, 4/F ICTSI Administration Building, South Access Road, MICT, Port of Manila on **29 March 2019 at 10:00 a.m.**

Manila, 7 March 2019.

FOR THE BOARD OF DIRECTORS

**BENJAMIN M. GOROSPE III**
*Assistant Corporate Secretary*

ICTSI Administration Building
Manila International Container Terminal
MICT South Access Road
Port of Manila, Manila 1012
Philippines
P.O. Box 279 Manila Central
Telephone: 632 / 245 4101
Facsimile: 632 / 245 2245
URL: www.ictsi.com
www.mictweb.com

## PART I.A. GENERAL INFORMATION

### Item 1. Date, Time and Place of Meeting of Security Holders
The Annual Stockholders' Meeting of International Container Terminal Services, Inc. (ICTSI) will be held on April 11, 2019 at Solaire Ballrooms 2 to 5 of the Solaire Resort & Casino, 1 Aseana Avenue, Entertainment City, Parañaque City, Metro Manila at 10:00 a.m.

The address of the principal office of International Container Terminal Services, Inc. is ICTSI Administration Building, Manila International Container Terminal, South Access Road, Manila 1012, Philippines. This Information Statement (electronic copy in CD format) will be mailed to Stockholders entitled to notice of and to vote at the Annual Stockholders' Meeting on or about March 20, 2019.

### Item 2. Dissenters' Right of Appraisal
Under Section 80 of the Revised Corporation Code, any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

(1) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to thos of outstanding shares of any class, or of extending or shortening the term of corporate existence;

(2) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Code; and

(3) in case of merger or consolidation.

To exercise the appraisal right the stockholder shall send a written demand on the Corporation within 30 days from the approval of the proposed amendments by the stockholders. The Corporation shall pay the fair value of the shares that the stockholder will surrender in accordance with the process, procedure and timetable provided under Section 80 to 85 of the Revised Corporation Code.

If the dissenting stockholder and the Company cannot agree on the fair value of the shares within sixty (60) days from the date of stockholders' approval of the corporate action, then the determination of the fair value of the shares shall be determined by three (3) disinterested persons, one (1) of whom shall be named by the dissenting stockholder, one (1) by the Company and a third to be named by the two (2) already chosen. The findings of the majority of the appraisers shall be final and their award shall be paid by the Company within thirty (30) days after such award is made. The procedure to be followed in exercising the appraisal right shall be in accordance with Sections 80 to 85 of the Revised Corporation Code.

However, the matters to be acted upon at the Annual Stockholders' Meeting are not matters with respect to which a dissenting Stockholder may exercise his appraisal right.

### Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon
Other than election of Directors and ratification of acts of the Board of Directors and Management, there are no substantial interest, by security holdings or otherwise, of ICTSI, any Director or Officer thereof, any nominee for Director, or associate of any of the foregoing persons in any matter to be acted upon at the Annual Stockholders' Meeting.

None of the Directors of ICTSI has informed ICTSI in writing that he intends to oppose any action to be taken by ICTSI at this Annual Stockholders' Meeting.

## PART I.B. CONTROL AND COMPENSATION INFORMATION

### Item 4. Voting Securities and Principal Holders Thereof
As of February 28, 2019, common shares issued and outstanding were 2,045,177,671 shares (including 33,604,228 treasury shares). While Preferred A and B shares outstanding as of the same date were 3,800,000 shares and 700,000,000 shares, respectively.

| Voting/Non Voting Shares | Type of Securities | No. of Foreign Owned shares | No. of Local Owned shares | No. of Outstanding shares |
|---|---|---|---|---|
| Voting shares | Common shares | 795,913,280 | 1,215,660,163 | 2,011,573,443 |
| Voting shares | Preferred B shares | - | 700,000,000 | 700,000,000 |
| Total Outstanding Voting shares | | 795,913,280 | 1,915,660,163 | 2,711,573,443 |
| **Foreign Ownership Level of Total Outstanding Voting shares** | | **29.35%** | | |
| Non Voting shares | Preferred A shares | 3,800,000 | | |
| **Foreign Ownership Level of Total Outstanding Voting** | | **29.45%** | | |

Only Stockholders of record at the close of business on March 11, 2019 are entitled to notice and to vote at the Annual Stockholders' Meeting. The common stock and preferred B stock will vote on matters scheduled to be taken up at the Annual Meeting with each share being entitled to cast one (1) vote.

For the election of Directors, Stockholders entitled to vote may vote such number of shares for as many persons as there are Directors to be elected, or may cumulate said shares and give one candidate as many votes as the number of Directors to be elected multiplied by the number of their shares shall equal or may distribute them on the same principle among as many candidates as they shall see fit.

### Security Ownership of Certain Beneficial Owners and Management

Beneficial Owners

The following are known to the registrant to be, directly or indirectly the record or beneficial owner of more than five (5) percent of registrant's voting securities as of February 28, 2019:

| Title of Class | Name, Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percentage* |
|---|---|---|---|---|---|
| Common | PCD Nominee Corporation (Non-Filipino)<br>Makati Stock Exchange Bldg.,Ayala Avenue, Makati City 1200 | The Hongkong & Shanghai Banking Corp. Ltd. – Clients' Acct. - 4/F HSBC Centre 3058 Fifth Avenue West Bonifacio Global City Taguig, 1634<br><br>Represented by Maris Flores, Senior Vice President and Head, HSBC Securities Services and Kathy Dela Torre, Senior Vice President Client Services, only holds a legal title as custodian, and is not the beneficial owner of the lodged shares. | Foreign | 303,455,296<br>(Lodged with PCD)<br>Indirect | 11.18% |
| Common | PCD Nominee Corporation (Non-Filipino)<br>Makati Stock Exchange Bldg.,Ayala Avenue, Makati City 1200 | Deutsche Bank Manila - Clients' Acct. - 23/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, 1226 Makati City<br><br>Represented by Carlos Dela Torre, Head of Securities and Custody Operations, only holds legal title as custodian in favor of various clients, and is not the beneficial owner of the lodged shares. | Foreign | 261,007,859<br>(Lodged with PCD)<br>Indirect | 9.61% |
| Common | PCD Nominee Corporation (Filipino)<br>Makati Stock Exchange Bldg.,Ayala Avenue, Makati City 1200 | AB Capital Securities, Inc., Units 1401-1403, 14th Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1200<br><br>Represented by Victor L. Vital, President; Ericsson C. Wee, | Filipino | 513,349,844<br>(Lodged with PCD)<br>Indirect | 18.91% |

| | | | | | |
|---|---|---|---|---|---|
| | | First Vice President; and Lamberto M. Santos, Jr., Senior Advisor, only holds a legal title as custodian and is not the beneficial owner of the lodged shares | | | |
| Common | Bravo International Port Holdings, Inc. 104 H.V. dela Costa St., 17-19 Floors Liberty Center Salcedo Village, Makati City 1200<br><br>Bravo International Port Holdings, Inc. is a stockholder of ICTSI. | Bravo International Port Holdings, Inc. represented by Enrique K. Razon, Jr., its President | Filipino | 279,675,000 | 10.30% |
| Preferred B | Achillion Holdings, Inc. 104 H.V. dela Costa St., 17-19 Floors Liberty Center Salcedo Village, Makati City 1200<br><br>Achillion Holdings, Inc. is a stockholder of ICTSI. | Achillion Holdings, Inc. represented by Enrique K. Razon, Jr., its President | Filipino | 700,000,000 | 25.78% |

** Percentage ownerships were computed using total number of issued and outstanding common shares, preferred B voting shares and preferred A non-voting shares of 2,715,373,443 (which excludes treasury shares) as of February 28, 2019.*

**Dealings with Company's Shares**

Directors are required to report their dealings in Company shares within three (3) business days from all ICTSI share-related transactions.

ICTSI discloses to the Philippine Stock Exchange (PSE) the ownership (direct and indirect) and any acquisition or disposal of ICTSI securities by ICTSI directors and officers pursuant to the PSE Revised Disclosures and Securities Regulations Code. Directors and officers are likewise prohibited from buying or selling ICTSI securities (e.g. shares of stock) during the period within which material non-public information is obtained and up to two (2) full trading days after the price sensitive information is disclosed.

The ICTSI shares held by its Directors in FY 2018 are as follows:

| Directors | January 1, 2018 | December 31, 2018 |
|---|---|---|
| Enrique K. Razon, Jr.* | 1,678,105,057 | 1,681,105,057 |
| Andres Soriano III | 8,150,481 | 3,150,481 |
| Stephen A. Paradies | 4,087,573 | 4,087,573 |
| Jose C. Ibazeta | 2,798,310 | 2,775,710 |
| Octavio Victor R. Espiritu | 300,000 | 300,000 |
| Joseph R. Higdon | 156,000 | 156,000 |

**Shares in the name of Enrique K. Razon, Jr. and Razon Group; consists of 978,105,057 common shares as of January 1, 2018 and 981,105,057 common shares as of December 31, 2018; and 700,000,000 Preferred B shares*

Voting Trust Holders of 5% or More

There are no voting trust holders of 5% of more to disclose.

Changes in Control

There are no changes in control to dislcose.

**Item 5. Directors and Executive Officers**

The following are information on the business experience of the members of the Board of Directors (the Board) and Executive Officers of ICTSI for the last five (5) years.

The members of the Board of Directors and Executive Officers of ICTSI are the following:

| Office | Name | Citizenship | Age |
|---|---|---|---|
| Chairman of the Board and President | Enrique K. Razon, Jr. | Filipino | 59 |
| Director | Cesar A. Buenaventura[1] | Filipino | 89 |
| Director | Octavio Victor R. Espiritu[2] | Filipino | 75 |
| Director | Joseph R. Higdon[3] | American | 77 |
| Director | Jose C. Ibazeta | Filipino | 76 |
| Director | Stephen A. Paradies | Filipino | 65 |
| Director | Andres Soriano III | American | 67 |
| Executive Vice President | Martin O'Neil[4] | American/Irish | 58 |
| Senior Vice President, Chief Financial Officer & Compliance Officer | Rafael D. Consing, Jr. | Filipino | 50 |
| Senior Vice President, Finance | Jose Joel M. Sebastian | Filipino | 55 |
| Vice President and Treasurer | Gigi Iluminada T. Miguel[5] | Filipino | 49 |
| Corporate Secretary | Rafael T. Durian | Filipino | 85 |
| Asst. Corporate Secretary | Silverio Benny J. Tan | Filipino | 62 |
| Asst. Corporate Secretary | Benjamin M. Gorospe III | Filipino | 51 |

[1]*Elected as Independent Director last February 12, 2019 by the remaining members of the Board to serve the unexpired term of Jon Ramon Aboitiz pursuant to Article III, Section 2 of the Amended By - Laws*
[2]*Independent Director*
[3]*Independent Director*
[4]*Retired on June 1, 2018*
[5]*Appointed on May 2, 2018*

The following are the Regional Heads and Global Corporate Officers for the ICTSI group of companies:

| Office | Name | Citizenship | Age |
|---|---|---|---|
| Senior Vice President, Regional Head – Asia Pacific | Andrew Dawes[1] | British | 46 |
| Senior Vice President, Global Corporate Head | Christian Martin R. Gonzalez[2] | Filipino | 43 |
| Senior Vice President, Regional Head – Latin America | Anders Kjeldsen | Danish | 49 |
| Senior Vice President, Regional Head-Europe & Middle East and Africa | Hans-Ole Madsen | Danish | 53 |
| Vice President, Chief Risk Officer | Sandy A. Alipio[3] | Filipino | 48 |
| Vice President, Head of Financial Planning & Budgeting | Caroline C. Causon[4] | Filipino | 41 |
| Vice President, Head of Global Corporate Human Resources | Michael Robin Cruickshanks | British | 61 |
| Vice President, Chief Information Officer | Brian Hibbert[5] | British | 51 |
| Vice President, Senior Admin Officer | Vivien F. Minana[6] | Filipino | 54 |
| Vice President, Head of Global Commercial | Tico Wieske | Dutch | 55 |
| Vice President, Head of Global Engineering – Equipment Maintenance | Johan Swart[7] | South African | 60 |
| Vice President, Head of Global Corporate Audit & Compliance | Tricianne M. Zingapan[8] | Filipino | 47 |

[1] *Appointment effective on November 1, 2018*
[2] *Appointment effective on June 1, 2018*
[3] *Appointment effective on March 6, 2019*

[4]*Appointment effective on April 1, 2018*
[5]*Appointment effective on October 1, 2018*
[6]*Transfer from ICTSI to ICTSI Ltd. ROHQ effective on December 31, 2018*
[7]*Appointment effective on March 6, 2019*
[8]*Appointmnt effective on March 6, 2019*

The following are the business experiences of ICTSI's directors and officers for the **past five years**:

*Directors*

***Enrique K. Razon, Jr***., *age 59, Filipino*

Mr. Razon has been a Director of International Container Terminal Services, Inc. (ICTSI)* since December 1987 and has been its Chairman since 1995.

Concurrently, Mr. Razon is the Chairman and the President of ICTSI*, ICTSI Warehousing, Inc., ICTSI Foundation, Inc., Razon Industries, Inc., Bloomberry Resorts Corporation*, Prime Metroline Holdings, Inc., Quasar Holdings, Inc., Falcon Investco Holdings, Inc., Achillion Holdings, Inc., Collingwood Investment Company Ltd., Bravo International Port Holdings, Inc., and Provident Management Group, Inc.; the Chief Executive Officer (CEO) and the Chairman of Bloomberry Resorts and Hotels, Inc.; the Chairman of Sureste Realty Corp., Monte Oro Resources and Energy, Inc.and Pilipinas Golf Tournament Inc.; and a Director of Sureste Properties, Inc., ICTSI (Hongkong) Ltd., Australian Container Terminals, Ltd., Pentland International Holdings Ltd., CLSA Exchange Capital, and Xcell Property Ventures, Inc.

In addition, he is a member of the US-Philippines Society, the ASEAN Business Club, and Philippines, Inc.

The De La Salle University in the Philippines has conferred on Mr. Razon the degree of Doctor of Science in Logistics honoris causa.

**Publicly-listed Corporation*

***Jon Ramon M. Aboitiz***, *age 70, Filipino (Deceased on November 30, 2018)*

Mr. Aboitiz was a Director of ICTSI* from April 2008 and was appointed as a member of the ICTSI Audit Committee in April 2010 and the Chairman of the Related Party Transactions Committee in April 2017.

Mr. Aboitiz was also the Chairman of Aboitiz & Co., Inc., and Aboitiz Equity Ventures, Inc.*, a Cebu-based investment and management enterprise engaged in numerous and diverse business concerns ranging from power generation and distribution, banking and financial services, real estate development, construction, food, ship building and cement.

Mr. Aboitiz began his career with the Aboitiz Group in 1970 after graduating from the Sta. Clara University, California, with a B.S. Commerce Degree majoring in Management. He became the President of Aboitiz & Company in 1991 until 2008. He was the President and Chief Executive Officer (CEO) of Aboitiz Equity Ventures, Inc.* from 1993 - 2008.

He held various positions in the Aboitiz Group including Vice Chairman of Aboitiz Power Corporation*, Vice Chairman of Union Bank of the Philippines and Chairman of the Bank's Committees namely: Executive Committee, Risk Management Committee and Nominations Committee; Vice Chairman of Compensation and Remuneration Committee, and Corporate Governance Committee. He was also a Director of Bloomberry Resorts Corporation* and was a member of its Audit Committee. He was Chairman and CEO of the Ramon Aboitiz Foundation, a member of the Board of Advisors of the Coca-Cola Export Corporation (Philippines) and Pilipinas KAO Corporation. He was also a Board of Trustee of The Santa Clara University, California USA.

**Publicly-listed Corporation*

***Cesar A. Buenaventura, O.B.E***., *age 89, Filipino (replaced Mr. Aboitiz to serve his unexpired term)*

Mr. Buenaventura was elected an an Independent Director of ICTSI* last February 12, 2019. On March 1, 2019, he was appointed as the Chairman of the Corporate Governance Committee as well as Chairman of the Related Party Transactions Committee, and a member of the Audit Committee of ICTSI. He is the Director and Chairman of Mitsubishi Hitachi Power Systems Phils Inc. and Buenaventura Echauz and Partners, Inc., Director and Vice Chairman of DMCI Holdings, Inc.*, Director of Semirara Mining and Power Corp.*, iPeople, Inc.*, Petroenergy Resources Corp.*, Concepcion Industrial Corp.* Pilipinas Shell Petroleum Corp.*, DM Consinji Inc., and The Country Club. He is likewise a Trustee and Chairman of Pilipinas Shell Foundation Inc., and Trustee of Bloomberry Cultural Foundation and ICTSI Foundation. He was formerly a Director of Philippine American Life Insurance Co., AG&P Co. of Manila, Ayala Corporation*, First Philippine Holdings Corp.*, Philippine Airlines*, Philippine National Bank*, Benguet Corporation*, Asian Bank, Ma. Cristina Chemical Industries, Paysetter International Inc., Maibarara Geothermal Inc., and Manila International Airport Authority.

His career started with Engineer David Consunji in 1951. Mr. Buenaventura then moved to the Shell Group of Companies in 1956 where he served as the first Filipino CEO and Chairman from 1975 until his retirement in 1990. He served 2 more years in the capacity of non-executive chairman until 1992. He was appointed member of the Monetary Board of Central Bank of the Philippines representing the private sector from 1981 until 1987.

Mr. Buenaventura is the founding chairman of the Pilipinas Shell Foundation Inc., and founding member of the Board of Trustees of the Makati Business Club. He was a member of the Board of Regents of the University of the Philippines from 1987 to 1994, the Board of Trustees of the Asian Institute of Management from 1994 to 2007, and President of Benigno Aquino S. Foundation from 1985-2010.

He is a recipient of many awards, among which are – Most Distinguished Alumnus, College of Engineering, University of the Philippines in 1977, the Management Man of the year by the Management Association of the Philippines in 1985, Outstanding Professional in Engineering by the Professional Regulatory Commission in 1997, Outstanding Fulbrighter in the field of business by the Philippine Fulbright Association in 2008, recipient of Centennial Award as one of the UP's Top 100 Alumni Engineering Graduates.

In 1991, Mr. Buenaventura was made Honorary Officer of the Order of the British Empire (OBE) by Her Majesty Queen Elizabeth II.

Mr. Buenaventura received his Bachelor of Science degree in Civil Engineering from the University of the Philippines and his Master's degree in Civil Engineering majoring in Structures from Lehigh University Bethlehem, Pennsylvania in 1954, as a Fulbright scholar.

*Publicly-listed Corporation*

***Octavio Victor R. Espiritu****, age 75, Filipino*

Mr. Espiritu has been an Independent Director of ICTSI* since April 2002. On March 1, 2019, he was appointed as the Chairman of the Audit Committee and a member of the Corporate Governance Committee, Nomination Sub-Committee, Remuneration Sub-Committee, Board Risk Oversight Committee and Related Party Transactions Committee of ICTSI.* He is also a Director of Bank of the Philippine Islands, Philippine Dealing System Holdings Corp. and Subsidiaries, and Phil Stratbase Consultancy Inc.

Formerly, Mr. Espiritu was a three-term former President of the Bankers Association of the Philippines, a former President and Chief Executive Officer (CEO) of Far East Bank and Trust Company, and Chairman of the Board of Trustees of the Ateneo de Manila University for fourteen (14) years.

Mr. Espiritu received his primary, secondary, and college education from the Ateneo de Manila University, where he obtained his AB Economics degree in 1963. In 1966, he received his Master's Degree in Economics from Georgetown University in Washington DC, USA.

*Publicly-listed Corporation*

***Joseph R. Higdon****, age 77, American*

Mr. Higdon has been an Independent Director of ICTSI* since April 2007. On March 1, 2019, he was appointed as member of the Corporate Governance Committee and Board Risk Oversight Committee of ICTSI. He is also an independent director of SM Investments Corporation*, Security Bank Corporation* and The Island Institute, a non-profit organization seeking to preserve island communities along the coast of Maine and Trekkers, a community-based mentoring organization.

Formerly, Mr. Higdon was the Senior Vice President of Capital Research and Management, a Los Angeles (USA)-based international investment management firm, until June 2006. He joined Capital Research and Management in 1974 and has covered Philippine stocks from 1989 to 2006. He was the Vice President of the New World Fund, which focused on companies doing business in emerging countries and was a Director of Capital Strategy Research.

Mr. Higdon received his Bachelor of Science degree, major in Political Science, from the University of Tennessee in 1968.

*Publicly-listed Corporation*

***Jose C. Ibazeta***, age 76, Filipino

Mr. Ibazeta has been a Director of ICTSI* since December 1987. On March 1, 2019, he was appointed as Chairmanof the Nomination Sub-Committee and a former member of Audit Committee of ICTSI.

Formerly, he was named a Trustee and Vice-President of ICTSI Foundation in 2009, He also served as ICTSI's Treasurer until February 2007, and he was appointed as President and Chief Executive Officer of the Power Assets and Liabilities Management Corporation (PSALM) by the President of the Republic of the Philippines. He served as PSALM President and CEO from February 1, 2007 to March 30, 2010. In April 2010, he declined his nomination as Director of ICTSI by reason of his appointment as Acting Secretary of the Department of Energy, a position he held from April 1, 2010 until June 30, 2010. He was re-elected a Director of ICTSI* in August 2010.

In addition, Mr. Ibazeta is a Consultant to the Chairman of the Board of A Soriano Corporation*. He is a Director of A Soriano Corporation, Anscor Consolidated Corporation, AFC Agribusiness Corporation, Anscor Holdings, Inc., Minuet Realty Corporation, Phelps Dodge Philippines Energy Products Corporation, Seven Seas Resorts and Leisure, Inc, Island Aviation, Inc, and Vicinetum Holdings, Inc. He is also the Chairman and President of Island Aviation, Inc, President of Seven Seas Resorts and Leisure, Inc, and Pamalican Resort, Inc. Mr. Ibazeta is also the founding Chairman and a Director of Philippine Stratbase Consultancy, Inc.

At AGP Group Holdings, PTE, Ltd, Mr. Ibazeta is a member of the Board, the Executive Committee and the Compliance Steering Committee as well as Chairman of the Audit Committee. He is Chairman of the AG&P Estate Management, Inc, member of the Board of Atlantic, Gulf & Pacific Company of Manila, Inc, AG&P FieldCOM, Inc, and Gas Entec Co, Ltd. He is the Treasurer and a member of the Board of AGP Philippines Holdings, Inc.

Mr. Ibazeta is a member of the Board of Trustees of Radio Veritas and St James the Great Parish Foundation. He received his Bachelor of Science in Economics degree from the Ateneo de Manila University in 1963 and his Masters Degree in Business Administration from the University of San Francisco, USA in 1968. He completed all academic requirements and passed the comprehensive exams for an MBC in Banking and Finance from the New York University in 1975.

*Publicly-listed Corporation*

***Stephen A. Paradies****, age 65, Filipino*

Mr. Paradies has been a Director of ICTSI* since December 1987. Currently, On March 1, 2019, he was was appointed as the Chairman of the Board Risk Oversight Committee and a member of Audit Committee, Nomination Sub-Committee, Remuneration Sub-Committee, and Related Party Transactions Committee of ICTSI. He is also a Director of ICTSI Warehousing, Inc. and Sociedad Puerto Industrial Aguadulce S.A. Moreover, Mr. Paradies is the Senior Vice President-Treasurer of Aboitiz & Company, Inc.; a Trustee of Bloomberry Cultural Foundation, Inc.; a Director of Union Properties, Inc., Prime Metro BMD Corp., and

Chairman of NapaGapa Beverages, Inc.

Mr. Paradies received his Bachelor of Science degree, major in Business Management, from the Santa Clara University, California, USA.

**Publicly-listed Corporation*

***Andres Soriano III**, age 67, American*

Mr. Soriano has been a Director of ICTSI* since July 1992. Currently he is the Chairman of the Remuneration Sub-Committee.

In addition, Mr. Soriano is the Chairman and Chief Executive Officer (CEO) of A. Soriano Corporation*, the Chairman and President of Anscor Consolidated Corp., the Chairman of the Andres Soriano Foundation, Inc., Phelps Dodge International Philippines, Inc., Phelps Dodge Philippines Energy Products Corp., and Seven Seas Resorts and Leisure, Inc., and a Director of Anscor Property Holdings, Inc., A. Soriano Air Corporation, and the Manila Peninsula Hotel, Inc.

Formerly, Mr. Soriano was the President and Chief Operating Officer (COO) of San Miguel Corporation* and later, its Chairman and CEO. He was also the Chairman of Coca Cola (Philippines), Coca Cola Amatil (Australia) and Nestle (Philippines) and was a Director of SPI Technologies, Inc., eTelecare Global Solutions, Inc., G.E. Asian Advisory and Wharton East Asia Executive Board.

Mr. Soriano received a Bachelor of Science degree in Economics, major in Finance and International Business, from Wharton School of Finance and Commerce, University of Pennsylvania in 1972.

**Publicly-listed Corporation*

*Executive Officers*

***Martin L. O'Neil**, age 58, American / Irish*

Mr. O'Neil was the Executive Vice President of ICTSI* prior to his retirement on June 1, 2018. He has assumed the Executive Vice President role in October 2015. He previously served as the Senior Vice President and the Chief Financial Officer of ICTSI* during the periods from 2006 to 2010 and July 2013 to October 2015. He is currently a Director and the Chairman of International Container Terminal Holdings, Inc. (ICTHI); a Director of Tecon Suape S.A. (TSSA), ICTSI Georgia Corp., Sociedad Portuario Industrial Aguadulce S.A. (SPIA), Terminal Maritima de Tuxpan S.A. de C.V. (TMT), ICTSI (Hong Kong) Ltd., Tungsten RE Ltd., and Victoria International Container Terminal Limited (VICTL). From 2001 to 2003, he was the Head of the London office of Telegraph Hill Communications Partners, a San Francisco based firm advising on private equity investments and management of private equity portfolio companies. He was a Managing Director of JP Morgan & Co., where he was active in project finance, capital markets and mergers and acquisitions in New York, Hong Kong, and London. He was a Director of JP Morgan Capital Corporation, the JP Morgan's private equity investment arm, and it was during this time that he invested in and served as a Director of ICTSI International Holdings Corp. (IIHC). He joined JP Morgan & Co. in 1984.

Mr. O'Neil is a dual citizen of USA and Ireland and graduated from Harvard College in Cambridge, Massachusetts (USA), with a BA degree (cum laude) in 1983, and was also named a Harvard College Scholar. He currently serves as a member of Harvard's Committee on University Resources.

**Publicly-listed Corporation*

***Rafael D. Consing, Jr.**, age 50, Filipino*

Mr. Consing is the Senior Vice President and Chief Financial Officer of International Container Terminal Services, Inc. (ICTSI)*. He was appointed to the said position on October 5, 2015 and was subsequently appointed as the Compliance Officer on February 9, 2016. Prior to such role, he was the Vice President and Treasurer of ICTSI*. Concurrently, he is a Director and Treasurer of the following ICTSI subsidiaries: Hijo International Port Services, Inc., Subic Bay International Terminal Corp., Subic Bay International Terminal Holdings, Inc., ICTSI Subic Inc., Cordilla Properties Holdings, Inc., IW Cargo Handlers, Inc., ICTSI Warehousing, Inc., Laguna Gateway Inland Container Terminal, Inc., Intermodal Terminal Holdings, Inc., Cavite Gateway Terminal, Inc., a Director of Falconer Aircraft Management, Inc., Tecplata S.A., Contecon Manzanillo S.A., Terminal Maritima de Tuxpan, S.A. de C.V., Sociedad Puerto Industrial Aguadulce S.A., Operadora Portuaria Centroamericana S.A. de C.V., ICTSI Oregon, Inc., Global Procurement Ltd., ICTSI Honduras Ltd., Aeolina Investments Limited, Crixus Limited, ICTSI Georgia Corp., ICTSI QFC LLC, ICTSI Project Delivery Services Co. Pte. Ltd., ICTSI South Asia Pte. Ltd., ICTSI Mauritius Ltd., Consultports S.A. de C.V., Motukea International Terminal Limited, , Asiastar Consultants Limited, ICTSI Far East Pte. Ltd., and Manila North Harbour Port, Inc.; the Chairman of CGSA Transportadora S.L. and SPIA Spain S.L.; a Director and the Deputy Chairman of ICTSI Ltd. and International Container Terminal Holdings, Inc.; a Director A of ICTSI Capital B.V., Royal Capital B.V., ICON Logistiek B.V., ICTSI Americas B.V., ICTSI Cameroon B.V., Tecplata B.V., Global Container Capital B.V., CGSA B.V., SPIA Colombia B.V., CMSA B.V., TSSA B.V., ICTSI Treasury B.V., ICTSI Cooperatief U.A., ICTSI Oceania B.V., ICTSI Tuxpan B.V., ICTSI Africa B.V., ICTSI Global Cooperatief U.A., and ICTSI Global Finance B.V.; and a Commissioner of PT ICTSI Jasa Prima Tbk.

Mr. Consing started his career at the Multinational Investment Bancorporation in June 1989. From 1999 to 2007, he assumed various roles in HSBC, including Director and the Head of Debt Capital Markets for the Philippines, and subsequently for South East Asia, and later on as the Managing Director and the Head of the Financing Solutions Group, Asia Pacific. In HSBC, Mr. Consing was involved in strategic and situational financing and advisory activities, including acquisition and leveraged finance, debt capital markets, credit ratings and capital advisory. He also held positions in investment banking with Bankers Trust NY / Deutsche Bank and ING Barings. In 1993 to 1995, Mr. Consing served as the Vice President and the Treasurer of Aboitiz & Company, Inc. and Aboitiz Equity Ventures, Inc*.

Mr. Consing received his A.B. degree, major in Political Science, from the De La Salle University, Manila, in 1989. He is an alumnus of the Emerging CFO: Strategic Financial Leadership Program of the Stanford Graduate School of Business.

**Publicly-listed Corporation*

***Jose Joel M. Sebastian,** age 55, Filipino*

Mr. Sebastian is the Senior Vice President, Finance. He was appointed to the said position on October 5, 2015. He joined ICTSI* as the Vice President and Controller in September 2008. Concurrently, he is a Director and the President of International Container Terminal Holdings, Inc., ICTSI Ltd., and ICTSI Georgia Corp.; the Deputy Chairman of CGSA Transportadora S.L. and SPIA Spain S.L.; a Director and the President of Bauan International Ports, Inc., Davao Integrated Port & Stevedoring Services Corp.,, a Director and Treasurer ofMindanao International Container Terminal Services, Inc., South Cotabato Integrated Ports Services, Inc., Abbotsford Holdings, Inc., ICTSI Asia Pacific Business Services, Inc. and Falconer Aircraft Management, Inc.; a Director A of ICTSI Capital B.V., Royal Capital B.V., ICON Logistiek B.V., ICTSI Americas B.V., ICTSI Cameroon B.V., Tecplata B.V., Global Container Capital B.V., CGSA B.V., SPIA Colombia B.V., CMSA B.V., TSSA B.V., ICTSI Treasury B.V., ICTSI Cooperatief U.A., ICTSI Oceania B.V., ICTSI Tuxpan B.V., ICTSI Africa B.V., ICTSI Global Cooperatief U.A., and ICTSI Global Finance B.V.; and a Director of Cordilla Properties Holdings, Inc., , Tartous International Container Terminal, JSC., International Container Terminal Services Private Limited, ICTSI DR Congo S.A., PT ICTSI Jasa Prima Tbk, Global Procurement Ltd., ICTSI Honduras Ltd., Lekki International Container Terminal Services LFTZ Enterprises, Tecon Suape S.A., Contecon Guayaquil S.A., Contecon Manzanillo S.A., Terminal Maritima de Tuxpan, S.A. de C.V., Aeolina Investments Limited, Crixus Limited, ICTSI (M.E.) DMCC, ICTSI Middle East DMCC, ICTSI QFC LLC, ICTSI South Asia Pte. Ltd., ICTSI Project Delivery Services Co. Pte. Ltd., Consultports, S.A. de C.V., Motukea International Terminal Limited, South Pacific International Container Terminal Limited, Operadora Portuaria Centroamericana S.A. de C.V., Tungsten RE Ltd and Manila North Harbour Port, Inc.

Mr. Sebastian started his professional career with SGV & Co. in 1984 and was admitted to the partnership in 1999. His expertise is in financial audits of publicly-listed companies in the telecommunications, port services, shipping, real estate, retail, power generation and distribution, manufacturing, media and entertainment industries.

Mr. Sebastian is a Certified Public Accountant. He graduated from the De La Salle University, Manila, in 1983 with a degree in Bachelor of Science in Commerce major in Accounting. He also attended the Accelerated Development Programme of the University of New South Wales in 1996.

**Publicly-listed Corporation*

***Gigi Iluminada T. Miguel**, age 49, Filipino*

Ms. Miguel was appointed on May 2, 2018 as the Vice President and Treasurer of ICTSI*. Prior to such role, she was the Liability and Capital Director of ICTSI. Concurrently, she is also a Director of Pakistan International Container Terminal. Prior to joining ICTSI, she was already a seasoned banker, having been connected with China Banking Corporation.

Ms. Miguel received her Master's Degree in Business Administration from Ateneo Graduate School of Business, and is a graduate of BS Applied Mathematics from the University of the Philippines.

**Publicly-listed Corporation*

***Rafael T. Durian**, age 85, Filipino*

Atty. Durian has been the ICTSI*'s Corporate Secretary since 1987. He is likewise the Corporate Secretary of International Container Terminal Holdings, Inc. and ICTSI Foundation, Inc.; and the Corporate Secretary and a Director of Razon Industries, Inc., Sureste Realty Corp. and Provident Management Group, Inc.

Atty. Durian earned his Bachelor of Laws degree from San Beda College and is a member of the Integrated Bar of the Philippines. He was a Partner at Cruz Durian Alday & Cruz-Matters Law Office.

**Publicly-listed Corporation*

***Silverio Benny J. Tan**, age 62, Filipino*

Atty. Tan is a partner in and was managing partner from 2013 to 2015, in the law firm of Picazo Buyco Tan Fider & Santos. He is a director and corporate secretary of Prime Metroline Holdings, Inc., Bravo International Port Holdings Inc., Alpha International Port Holdings Inc., Eiffle House Inc., Cyland Corp., OSA Industries Philippines Inc. and Negros Perfect Circles Food Corp. He is also a director of the following companies: Mapfre Insular Insurance Corporation, Celestial Corporation, Skywide Assets Ltd., Monte Oro Minerals (SL) Ltd., and Dress Line Holdings Inc. and its subsidiaries and affiliates. He is the corporate secretary of several companies including: Apex Mining Company Inc.*, Sureste Properties, Inc., Bloomberry Resorts and Hotels Inc., Bloomberry Resorts Corporation*, Lakeland Village Holdings Inc., Devoncourt Estates Inc., Monte Oro Resources & Energy Inc., and Pilipinas Golf Tournaments, Inc. He is the assistant corporate secretary of ICTSI*, International Container Terminal Holdings, Inc and ICTSI Ltd., ICTSI Honduras Ltd. and a trustee and the auditor of the ICTSI Foundation, Inc.

Atty. Tan holds a Bachelor of Laws, cum laude, from the University of the Philippines - College of Law and a Bachelor of Arts Major in Political Science, cum laude, from the University of the Philippines College Iloilo. Atty. Tan placed third in the 1982 Philippine Bar exams.

**Publicly-listed Corporation*

***Benjamin M. Gorospe III**, age 51, Filipino*

Atty. Gorospe was appointed as the Assistant Corporate Secretary of ICTSI* on September 17, 2013. He is also the Global Head for Tax and Regional Legal Manager for the Americas of ICTSI*. Atty. Gorospe is a Director and the Corporate Secretary of Davao Integrated Port & Stevedoring Services Corp., Mindanao International Container Terminal Services, Inc., Cordilla Properties Holdings, Inc.; the Assistant Secretary of International

Container Terminal Holdings, Inc., Global Procurement Ltd., ICTSI Ltd., ICTSI Honduras Ltd. and ICTSI Georgia Corp.; and a Director of ICTSI Far East Pte. Ltd., ICTSI South Asia Pte. Ltd., Tungsten RE Ltd., and Consultports S.A. de C.V.

Atty. Gorospe joined ICTSI* in 2003 as a Tax Manager. Prior to this, he worked with the Tax Department of SyCip Gorres Velayo & Co. (a member firm of Ernst & Young Global Limited) for five (5) years and with its Audit Department for one (1) year.

Atty. Gorospe completed his law degree at the University of the Philippines, Diliman. He is also a Certified Public Accountant. He graduated from Xavier University with a degree of Bachelor of Science in Commerce, major in Accounting.

**Publicly-listed Corporation*

*Regional Heads and Global Corporate Officers for the ICTSI group of companies*

***Andrew James Dawes**, age 46, British*

Mr. Dawes is the Senior Vice President, Regional Head – Asia Pacific of the ICTSI* Group.

Mr. Dawes is the Director and Chairman of Victoria International Container Terminal Limited, and Pakistan International Container Terminal Limited; the Director and President of ICTSI Subic, Inc.; and a Director of Yantai International Container Terminal Limited, ICTSI South Pacific Limited, Motukea International Terminal Limited, South Pacific International Container Terminal Limited, and Subic Bay International Container Terminal Corporation.

Prior to his current role, Mr. Dawes was Managing Director of APM Terminals Salalah in Oman.
He also held senior roles in multinational port management companies in Europe, the Middle East, Africa and the Americas. He was chief executive officer of Intels Nigeria Ltd. in Lagos, managing director and chief operations officer of various APM Terminals in both regional and concessions locations in Africa and the Middle East. He likewise held key roles in DP World, P&O Ports, and Southampton Container Terminal in the UK.

**Publicly-listed Corporation*

***Christian Martin R. Gonzalez**, age 43, Filipino*

Mr. Gonzalez is the Senior Vice President, Global Corporate Head of the ICTSI* Group. He recently served as Vice President, Regional Head – Asia Pacific.

Prior to his current role, he served as the Director General and Chief Executive Officer (CEO) of Madagascar International Container Terminal Services Ltd. (MICTSL), which operates the port in Toamasina, Madagascar, and thereafter, appointed as the Vice President and Head of Asia Pacific Region & Manila International Container Terminal.

When he first joined the ICTSI Group in 1997, he worked in various Operations departments before he was appointed as the Assistant Manager for Special Projects of ICTSI Ltd. He was named MICT Operations Manager in 2003. In 2006, he was designated as the Chief Operating Officer and later CEO of MICTSL in 2009. In 2010, he was designated as a Director of Bloomberry Resorts and Hotels, Inc. and The Country Club. In 2012, Mr. Gonzalez was appointed as the Head of ICTSI's Business Development for Asia region. He was also appointed as the President of ICTSI Foundation, Inc. on April 15, 2016. He is currently the Chairman and President of Cavite Gateway Terminal, Inc., Laguna Gateway Inland Container Terminal, Inc., President of ICTSI Asia Pacific Business Services, Inc., Chairman and President of Intermodal Terminal Holdings, Inc., President of IW Cargo Handlers, Inc., ICTSI D.R. Congo S.A. and Subic Bay International Terminal Holdings, Inc.; the Chairman of, ICTSI Subic, Inc., Cordilla Properties Holdings, Inc., and ICTSI Far East Pte. Ltd.; President Commissioner of PT ICTSI Jasa Prima Tbk.; a Director Yantai International Container Terminal Ltd., Director of Bauan International Port, Inc., Davao Integrated Port & Stevedoring Services Corp., Hijo International Port Services, Inc., Chairman of Mindanao International Container Terminal Services, Inc., Director South Cotabato Integrated Ports Services, Inc., Director of Subic Bay International Terminal Corp., Sociedad Puerto Industrial

Aguadulce S.A., Contecon Guayaquil S.A., ICTSI Honduras Ltd., ICTSI Ltd., ICTSI (Hong Kong) Ltd., International Container Terminal Services Private Limited, Abbotsford Holdings, Inc., ICTSI Warehousing, Inc., ICTSI Project Delivery Services Co. Pte. Ltd., ICTSI South Asia Pte. Ltd., ICTSI South Pacific Limited, Motukea International Terminal Limited, South Pacific International Container Terminal Limited, Asiastar Consultants Limited, Tungsten RE Ltd., Manila North Harbour Port, Inc., Bloomberry Resorts Corporation*, Sureste Properties, Inc., and Prime Metroline Transit Corporation; and a Commissioner of PT Makassar Terminal Services.

Mr. Gonzalez is a graduate of Instituto de Estudios Superiores de la Empresa (IESE) Business School, the graduate school of management of the University of Navarra, in Barcelona, Spain, where he received his Bilingual Masters in Business Administration. He is also a graduate of Business Administration from Pepperdine University in California.

**Publicly-listed Corporation*

***Anders Kjeldsen,*** *age 49, Danish*

Mr. Kjeldsen is the Senior Vice President, Regional Head – Latin America of the ICTSI* Group. He is likewise a Director of Sociedad Puerto Industrial Aguadulce S.A.. Prior to joining ICTSI*, he served as Head of Latin America portfolio for APM Terminals until January 2017. Before moving to Latin America, he was appointed as portfolio Chief Operation Officer for Global Ports Investment PLC. (GPI, PLC.) in Russia for 3 years.

Prior to his role in GPI PLC., Mr. Kjeldsen headed the APM Terminals West Med where he was responsible for a total of 5 million TEU capacity, being the business units in Algeciras and Tangier. He joined the A.P. Moller-Maersk Group in 1991. During the last 28 years, he worked in most disciplines of the container terminal industry. He has been involved in terminal operations in most parts of the world such as Denmark, Germany, Netherlands, Spain, Russia and Panama.

Mr. Kjeldsen is an officer from the Danish Army and undertook several executive development programs at Wharton and IMD.

**Publicly-listed Corporation*

***Hans-Ole Madsen,*** *age 53, Danish*

Mr. Hans-Ole Madsen is the Senior Vice President, Regional Head for Europe and Middle East and Africa of the ICTSI* Group. Concurrently, he is the Chairman of ICTSI DR Congo S.A.; a Deputy Chairman of Adriatic Gate Container Terminal; and a Director of the following ICTSI subsidiaries: Pakistan International Container Terminal Limited, Baltic Container Terminal Ltd., Batumi International Container Terminal LLC; ICTSI (M.E.) DMCC, ICTSI Middle East DMCC, Lekki International Container Terminal Services LFTZ Enterprise, and Madagascar International Container Terminal Services, Ltd.

Mr. Madsen has more than 30 years of international experience within the port, shipping & logistic industry.

**Publicly-listed Corporation*

***Sandy Alipio,*** *age 48, Filipino*

Mr. Alipio, as Vice President, transitioned to Chief Risk Officer and Head of Business Strategy and Controls of ICTSI* Group last March 6, 2019. Before his current role, he was Vice President for Audit and Compliance.

Prior to his work at ICTSI*, he spent a decade working for the San Francisco-based, Elan Pharmaceuticals, holding several positions such as Internal Control, Senior Director, R&D Finance, Vice President of BioNeurology Finance and the Vice President of Internal Audit & SOX.

From 2000 to 2004, Mr. Alipio was a Senior Manager for Audits and Business Advisory at KPMG LLP in San Francisco. He was with Makati-based SGV and Co. from 1994 and was seconded in Chicago back in 1997. He was also a Manager for Assurance and Business Advisory Services in 2000.

A Certified Internal Auditor and a Certified Public Accountant, Mr. Alipio is a graduate of University of the Philippines, Diliman.

*Publicly-listed Corporation*

***Caroline C. Causon****, age 41, Filipino*

Ms. Causon is the Vice President of Financial Planning and Budgeting of the ICTSI* Group. She was appointed to the said position in April 2018. She is also currently a Director of Batumi International Container Terminal Ltd.

Prior to ICTSI, she handled various senior assurance and financial advisory roles at SGV & Co. (Ernst & Young Philippines), Manabat Sanagustin & Co. (KPMG Philippines) and the Rizal Commercial Banking Corporation.

Ms. Causon is a Certified Public Accountant. She graduated from the University of Santo Tomas with a degree in Bachelor of Science in Accountancy (Cum Laude) in 1999.

**Publicly-listed Corporation*

***Michael Robin Cruickshanks,*** *age 61, British*

Mr. Cruickshanks is the Vice President for Global Corporate Human Resources of the ICTSI* Group. Mr. Cruickshanks has extensive experience within the field of human resources in the industries of investment banking and logistics. Prior to ICTSI, Mr. Cruickshanks was the HR advisor to National Commercial Bank in Jeddah, Saudi Arabia. He also worked for global Swiss-based logistics company Panalpina World Transport in the role of Global Head of Compensation and Benefits, covering 16,000 plus employees in over 90 countries. Mr. Cruickshanks also held the position of Managing Director, Compensation and Benefits for the Dutch investment bank, Rabobank International. From 1993 - 1999, he was based in Madrid, Spain and New York, U.S.A. for Santander Investment to serve as Global Head of Compensation & Benefits as well as parallel generalists role supporting front line staff.

Mr. Cruickshanks holds a BSc (Honours) degree in Zoology from Newcastle University as well as Post-graduate Diploma in Business Information Technology.

*Publicly-listed Corporation*

***Brian Mark Hibbert****, Age 51, British*

Mr. Hibbert was appointed as Chief Information Officer of the ICTSI* Group on October 1, 2018 after heading operational technology within the Group for several months.

Prior to joining ICTSI, Brian served as Head of Operations Technology and Transformation Leader in a global capacity for APM Terminals. As Vice President of Product Management for web-based logistics startup International Asset Systems, Inc. in Oakland, CA. USA. Brian also served in multiple leadership roles between 1995 to 2008 as a member of the original pioneering team that grew Navis LLC, a terminal systems provider, into the market leading position it maintains today.

Brian was educated in the United Kingdom at Palmers College and later studied Product Management and Marketing at Caltech in Pasadena, California. He graduated the APM Terminals Magnum program held in conjunction with Esade of Barcelona in 2013.

**Publicly-listed Corporation*

***Vivien F. Miñana****, age 54, Filipino*

Ms. Miñana was appointed in 2006 as the Vice President and Senior Administration Officer of the ICTSI* Group and ICTSI Ltd. Prior to her appointment in 2006, she was the Vice President and Controller of ICTSI* and ICTSI Ltd. from 2000 to 2006. Currently, Ms. Miñana is the Treasurer of Container Terminals Systems Solutions Philippines, Inc.

A Certified Public Accountant, Ms. Miñana received her Master's Degree in Business Management from the Asian Institute of Management in Manila, and is a graduate of BS Accounting from the De La Salle University, Manila.

**Publicly-listed Corporation*

***Tico Wieske****, age 55, Dutch*

He is the Vice President for Global Commercial of the ICTSI* Group.

Mr. Wieske is a Director of Victoria International Container Terminal Limited and Motukea International Terminal Limited. Before joining ICTSI*, he was the Global Head of Key Client Management Asia Carriers of APM Terminals, Hongkong. Prior to this, he was the Chief Commercial Officer of APM Terminals, Asia Pacific Region. He represented APM Terminals in various boards including, ACT Aqaba Container Terminal in Jordan, APMT Port of Bahrain, SAGT South Asia Gate Way Terminals in Colombo Sri Lanka, SETV Abidjan Ivory Coast, DIT Douala Cameron and MPS in Tema, Ghana.

Mr. Wieske earned his B.A. Economics degree in J. van Zwijndregt in Hague, the Netherlands.

**Publicly-listed Corporation*

***Johan Swart****, age 60, South African*

Mr. Swart is Vice President, Head of Global Engineering – Equipment Maintenance of the ICTSI* Group effective March 6, 2019.

Prior to his current role, Mr. Swart served as Vice President for Maintenance at Global Container Terminals in Canada. From 2008 to 2015, he was Head of Engineering at APM Terminals in Ghana and Nigeria. He also spent 30 years working for Transnet Port Terminals in Cape Town, holding several positions such as Container Crane Commissioning Electrician, Technical Assistant – Electrical Engineering Container Cranes, Senior Technical Supervisor – Electrical Engineering Container Lifting Equipment and Technical Manager – Electrical and Mechanical.

Mr. Swart holds a National Technical Certificate in Electrical Engineering from Maitland Technical College South Africa and a Diploma in Electrical Engineering at Transnet Port Terminals, South Africa, among other certifications.

**Publicly-listed Corporation*

***Tricianne M. Zingapan,*** *age 47, Filipino*

Ms. Zingapan is the Vice President for Global Corporate Audit and Compliance for the ICTSI* Group effective March 6, 2019.

Prior to joining ICTSI Group, she was the Head of Internal Audit for Coca-Cola FEMSA Philippines. Ms. Zingapan spent more than 6 years with Coca-Cola FEMSA Philippines starting in 2012 where she held several leadership positions including National Key Accounts Finance Head, Financial Planning & Analysis Head, Internal Controls & Finance Transformation Head and Head of Internal Audit. Her career in Coca-Cola FEMSA included an assignment in Mexico with the Corporate Controllership group.

She spent close to a decade in Shell holding various roles and leadership positions, including Retail Finance Head, Asia-Pacific Aviation Regional Finance Head based in Singapore and thereafter, as the LPG Philippine Finance Head while playing an important role in the Philippines LPG Portfolio Project for Shell.

Early in her career, she worked in Singapore as an Associate/Consultant for AT Kearney and as an e-Procurement Account Manager for Ariba.

Ms. Zingapan received her Bachelor of Science in Business Administration and Accountancy from the University of the Philippines, Diliman (*Cum Laude*) and a Master's degree in Business Administration from the JL Kellogg Graduate School of Business, Northwestern University in the USA.

**Publicly-listed Corporation*

The Directors of the Company are elected at the Annual Stockholders' Meeting to hold office until the next succeeding annual meeting, and until their respective successors have been elected and qualified.

Except for the Chairman, Enrique K. Razon, Jr., all Directors are nominees as they do not have shareholdings sufficient to elect themselves to the Board.

**Directors' Attendance**

Pursuant to the Company's By – laws, the Board should hold a regular meeting every month but special meetings may also be called by the Chairman of the Board or the President. The attendance of the Board for the Annual Stockholders Meeting as well as both regular and special meetings in 2018 is as follows:

| Board | Name | Date of Election[1] | No. of Meetings Held during the year | No. of Meetings Attended | % |
|---|---|---|---|---|---|
| Chairman | Enrique K. Razon Jr. | April 19, 2018 | 25 | 25 | 100% |
| Member | Jon Ramon M. Aboitiz | April 19, 2018 | 25 | 24 | 96% |
| Member | Jose C. Ibazeta | April 19, 2018 | 25 | 24 | 96% |
| Member | Stephen A. Paradies | April 19, 2018 | 25 | 24 | 96% |
| Member | Andres Soriano III | April 19, 2018 | 25 | 22 | 88% |
| Independent | Octavio Victor R. Espiritu | April 19, 2018 | 25 | 23 | 100% |
| Independent | Joseph R. Higdon | April 19, 2018 | 25 | 25 | 100% |

[1]*April 19, 2018 was when a Regular Board Meeting, Annual Stockholders Meeting and Organizational Board Meeting were conducted.*

**Directors' Trainings**

Each director attended corporate governance trainings, continuing education program and conferences in 2018:

| Name | No. of Hours | Topic Discussed | Organizer | Date |
|---|---|---|---|---|
| Enrique K. Razon, Jr. | 4 | Advanced Corporate Governance Training Program | Institute of Corporate Directors | August 15, 2018 |
| Jose C. Ibazeta | 4 | Advanced Corporate Governance Training Program | Institute of Corporate Directors | August 15, 2018 |

| | | | | |
|---|---|---|---|---|
| Andres A. Soriano III | 4 | Sustainability Reporting and Enhancing Audit Committee Effectiveness | SGV & Co. | July 2, 2018 |
| Stephen a. Paradies | 4 | Digital Disruption: Reshaping Leadership, Innovation and Risk, Cyber Risk and Discussion on the Asia-Pacific Risk Landscape | Aboitiz Equity Ventures, Inc. | August 31, 2018 |
| Octavio Victor R. Espiritu | 4 | Advanced Corporate Governance Training Program | Institute of Corporate Directors | September 10, 2018 |
| Joseph Higdon | 4 | Advanced Corporate Governance Training Program | Institute of Corporate Directors | April 24, 2018 |

Directors and Executive Officers

The following have been nominated as Members of the Board of Directors for the ensuing year and their respective profiles are provided above:

| Office | Name | Citizenship | Age |
|---|---|---|---|
| Chairman of the Board and President | Enrique K. Razon, Jr. | Filipino | 59 |
| Director | Cesar A. Buenaventura* | Filipino | 89 |
| Director | Octavio Victor R. Espiritu* | Filipino | 75 |
| Director | Joseph R. Higdon* | American | 77 |
| Director | Jose C. Ibazeta | Filipino | 76 |
| Director | Stephen A. Paradies | Filipino | 65 |
| Director | Andres Soriano III | American | 67 |

**As Independent Director*

Nominees for Independent Directors/Nomination Committee

In line with established procedures, a formal nomination of an Independent Director is signed by an incumbent Director, and is submitted to the Corporate Secretary. The Corporate Secretary, guided by the By-Laws, Revised Manual on Corporate Governance and the Revised Corporation Code, forwards the same to the Nomination Committee. In accordance with its Revised Manual on Corporate Governance, the Nominations Committee passes upon the qualifications of the nominee and the process includes an examination of the nominee's business background and company affiliations. The Nominations Committee ascertains that the nominee does not possess any of the disqualifications to serve as an Independent Director of ICTSI as provided in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

Octavio Victor R. Espiritu, Joseph R. Higdon and Cesar A. Buenaventura were nominated as Independent Directors of ICTSI. There are no other nominees for independent directors. Octavio Victor R. Espiritu was nominated by Jose C. Ibazeta, an incumbent Director. Messrs. Espiritu and Ibazeta are not related. Joseph R. Higdon was nominated by the Chairman, Enrique K. Razon, Jr. Messrs. Higdon and Razon are not related. Cesar A. Buenaventura was nominated by Stephen A. Paradies. Messrs. Buenaventura and Paradies are not related. Information on the nominees are stated on page 8 of this Information Statement.

Section 10, Article I of ICTSI's By – laws provide non-controlling shareholders a right to nominate candidates for the Board of Directors. The amendment of ICTSI's By – laws to incorporate the provisions of SRC Rule 38 (as amended) was approved by the SEC on 23 June 2010.

No director has resigned or declined to stand for re-election to the Board of Directors since the date of the last annual stockholders' meeting because of a disagreement with the Company on any matter relating to its operations, policies or practices.

The Nomination Committee is composed of Jose C. Ibazeta (Chairman), Stephen A. Paradies and Octavio Victor R. Espiritu.

Significant Employees

No person who is not an executive officer of ICTSI is expected to make a significant contribution to ICTSI.

Family Relationships

Stephen A. Paradies is the brother-in-law and Christian R. Gonzalez is the nephew of Chairman and President, Enrique K. Razon, Jr. There are no other family relationship up to the fourth civil degrees either by consanguinity or affinity among the directors and officers listed.

Involvement in Certain Legal Proceedings

ICTSI is not aware of any of legal cases which occurred during the past five years that are material to an evaluation of the ability or integrity of any of its directors, executive officers or controlling person, including:

(a) Any bankruptcy petition filed by or against any business of which a director, executive officer or controlling partner was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;

(b) Any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the nominee's involvement in any type of business, securities, commodities or banking activities; and

(d) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Due to the nature of the Group's business, it is involved in various legal proceedings, both as plaintiff and defendant, from time to time. The majority of outstanding litigation involves subrogation claims under which insurance companies have brought claims against the operator, shipping lines and/or brokerage firms for reimbursement of their payment of insurance claims for damaged equipment, facilities and cargoes. Except as discussed below, ICTSI is not engaged in any legal or arbitration proceedings (either as plaintiff or defendant), including those which are pending or known to be contemplated and its Board has no knowledge of any proceedings pending or threatened against the Group or any facts likely to give rise to any litigation, claims or proceedings which might materially affect its financial position or business. Management and its legal counsels believe that the Group has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal actions and proceedings, if any, will not have a material adverse impact on the Group's consolidated financial position and results of operations.

***MICT***

The MICT Berth 6 Project is a port development project being undertaken by the Company with the approval of the PPA and in compliance with the Company's commitment under its concession contract with the PPA. The City Council of Manila issued Resolution No. 141 dated September 23, 2010, adopting the Committee Report of the ad hoc committee that investigated the reclamation done in Isla Puting Bato in Manila, which stated that the project should have had prior consultation with the City of Manila, approval and ordinance from the City of Manila, and consent from the City Mayor. The Company and its legal counsels' position is that Resolution No. 141 of the City Council of Manila is purely recommendatory and is not the final word on the issue whether the MICT Berth 6 Project is validly undertaken or not.

On November 26, 2010, the PPA, through the Office of the Solicitor General, filed a petition for *certiorari* and prohibition with application for the issuance of a temporary restraining order and/or writ of preliminary injunction assailing City Council Resolution No. 141 before the Supreme Court. The Supreme Court granted a temporary restraining order ("TRO") enjoining the Mayor of Manila and the City Council of Manila from stopping or suspending the implementation of the MICT Berth 6 Project of the PPA. The TRO is still valid and continuing until further orders from the Supreme Court. The Supreme Court also granted the Company's motion to intervene in the case of PPA vs. City of Manila and City Council of Manila. The parties filed their respective comments and replies before the Supreme Court. As of March 5, 2019, the parties still await the Supreme Court's resolution on this case.

Notwithstanding the foregoing legal proceedings, the MICT Berth 6 Project was completed and inaugurated by the President of the Republic of the Philippines in July 2012.

In 2013, a case was filed by Malayan Insurance Co., Inc. (MICO) against ICTSI before the Regional Trial Court of Manila, Branch 55, for damages allegedly sustained by the assured cargo of Philippine Long Distance Telephone Company (PLDT) consisting of telecommunications equipment. The amount of claim is ₱223.8 million (approximately US$4.5 million) plus legal interest and attorney's fees of ₱1.0 million (US$20.1 thousand).

PLDT initially filed a claim against ICTSI, claiming that the cargo had been dropped while inside a container at the terminal of ICTSI and holding the latter responsible for the value of the equipment. ICTSI did not pay the claim, arguing that there is no evidence that the cargo had been damaged. ICTSI further argued that the containerized equipment was never dropped to the ground but was merely wedged in between containers while being moved in the container yard. The case is currently on trial.

***PICT***

In 2007, the Trustees of the Port of Karachi (KPT) filed a civil suit against the Pakistan International Container Terminal (PICT) in the Honorable High Court of Sindh (HCS) claiming a sum of approximately US$2.2 million along with the interest, as default payment of wharfage and penalty thereon, for the alleged mis-declaration of the category of goods on the import of Ship to Shore Cranes and Rubber Tyre Gantry Cranes in 2004. The HCS has rendered a judgement and decree in favor of PICT and ordered that KPT is not entitled to the amount of wharfage charges claimed by it. In June 2017, KPT filed an appeal against the aforesaid judgment before the Divisional Bench of HCS. Upon advice of PICT's legal advisor, management believes that there is no merit in this claim.

Also in 2007, PICT has filed an interpleader civil suit before HCS against the Deputy District Officer, Excise and Taxation (DDO) and the Trustees of KPT in respect of demand raised by the DDO on PICT to pay property tax out of the Handling, Marshalling and Storage (HMS) Charges payable to KPT amounting to approximately US$0.2 million for the period from 2003 to 2007. In compliance with the Order of HCS, PICT deposited the amount with Nazir of HCS, out of amount withheld by PICT from HMS charges billed by KPT. In 2014, another demand was made by DDO amounting to approximately US$0.7 million for the period from 2008 to 2014. On an application filed by PICT for directions, HCS ordered for deposit of the aforementioned amount out of HMS charges billed by KPT and PICT subsequently complied with the order of HCS. In 2015, HCS issued further orders directing PICT to deposit the remaining HMS charges due and payable with Nazir of HCS in quarterly installments and PICT complied accordingly. The decision of the suit is still pending, and PICT's legal advisor believes that there may be no adverse implication for depositing the payments with Nazir of HCS due to KPT in view of complying with the HCS's order.

While completing the tax audit proceedings for the tax year 2013, the Deputy Commissioner Inland Revenue (DCIR) modified the deemed assessment of PICT and made certain disallowances/additions on the taxable income and raised an income tax demand of approximately US$0.9 million. PICT filed an appeal before the Commissioner Inland Revenue - Appeals (CIR-A) who partially decided the appeal in favor of PICT. Consequently, PICT made the payment of approximately US$0.71 million, in respect of issues confirmed by the CIR(A), and filed a second appeal before the Appellate Tribunal Inland Revenue, which is now pending for adjudication. Upon advice of PICT's tax advisor, management believes that the issues involved in the appeal is expected to be decided in favor of PICT.

In 2017, the Assistant Commissioner Sindh Revenue Board (AC-SRB) under Sindh Sales Tax on Services Act, 2011 raised a demand of approximately US$3.7 million along with penalty and default surcharge, for the tax periods January 2013 to December 2014 on exempt services provided by PICT. PICT filed an Appeal with Commissioner Appeals - SRB which is pending for hearing. The tax advisor of PICT is of the view that PICT has strong defense and appeal will be decided in favor of PICT.

In 2017, the Additional Commissioner Inland Revenue (ACIR) modified the deemed assessment of PICT for the tax year 2016 by passing an order under section 122(5A) of the Income Tax Ordinance, 2001 and made certain additions / disallowances to the taxable income and tax credits claimed by PICT and raised an income tax demand of approximately US$1.59 million. PICT filed an appeal before the Commissioner Inland Revenue – Appeals (CIR-A) who had decided the appeal partly in favor of PICT. Being aggrieved by the decision of CIR-A, PICT as well as the tax department filed the appeals before Appellate Tribunal Inland Revenue (ATIR) which are pending for adjudication. PICT has also sought stay from HCS against the demand created by ACIR after appeal effect proceedings. HCS vide its final order directed the ACIR not to take any coercive recovery measures until the finalization of appeal before the ATIR which is pending adjudication. The tax advisor of PICT is of the view that the issues involved in the appeal will be decided in favor of PICT.

***TSSA***

In 2008, a civil suit was filed by former customer Interfood Comercio (Interfood) against TSSA for damages to perishable cargo amounting to BRL7.0 million (approximately US$3.0 million). Interfood's cargo (garlic and birdseed) was declared improper for human and animal consumption due to long storage period at TSSA before it was claimed and such cargo was destroyed by Brazilian customs authorities. The lower court and Court of Appeals ruled in favor of Interfood. The case has been pending in the Supreme Court for more than four years. An amount of BRL12.0 million (approximately US$3.1 million) in TSSA's bank account has been garnished by the lower court. The provision aggregating BRL13.8 million (US$4.2 million), BRL13.8 million (US$4.2 million) and BRL13.8 million (US$3.6 million) were recognized as part of "Accounts payable and other current liabilities" account in the consolidated balance sheets as at December 31, 2016, 2017 and 2018, respectively. In July 2016, the State Court rendered a decision against TSSA. The said judgment, however, is still subject to a last appeal with the Supreme Court in Brasilia.

***TICT***

On December 28, 2012, TICT filed a Notice of Termination of its 10-year Investment Agreement with Tartous Port General Company (TPGC) on the grounds of "unforeseen change of circumstances" and "Force Majeure". In early 2013, TPGC submitted to arbitration TICT's termination notice. On April 1, 2014, the arbitration panel decided in favor of TPGC. While the award has become executory on April 20, 2015, management and its legal counsels believe that TPGC will not be able to successfully enforce the award outside of Syria.

***BICTL***

In 2015, BICTL filed a case against Revenue Service with the Tbilisi City Court for the cancellation of the tax assessment in the amount of US$860.7 thousand (GEL2.3 million). The case involves Value-Added Tax on fees collected by BICTL for services rendered in relation to the export of scrap materials. The Revenue Service alleged that such fees are subject to VAT while BICTL believes that it has good legal basis to treat the services as a VAT zero-rated sale of services. In March 2016, the Tbilisi City Court rendered a decision in favor of Revenue Service. BICTL has appealed the said decision with the appellate court. The Tbilisi Court of Appeals considered BICTL's arguments and position. On May 16, 2018, the said court partially satisfied BICTL's claim and major part of the penalty was cancelled.

***ICTSI Oregon***

Due to continuing labor disruption caused by the International Longshore and Warehouse Union (ILWU) in Portland commencing in June 2012, ICTSI Oregon has filed two separate counter-claims in federal court against the ILWU seeking monetary damages. The first is a claim for damages caused by the ILWU's unlawful secondary activity under the National Labor Relations Act. The second is an antitrust claim brought against the ILWU and the Pacific Maritime Association (PMA). The antitrust claim was initially dismissed by the federal court. The judge granted ICTSI Oregon permission to appeal the dismissal to the United States Court of Appeals for the

Ninth Circuit. In July 2017, the Ninth Circuit upheld the dismissal of the claim. ICTSI Oregon filed a petition for writ of certiorari with the United States Supreme Court seeking to reverse the Ninth Circuit's decision. This petition was denied. Accordingly, the antitrust claim has been finally disposed of.

ICTSI Oregon's second counterclaim against ILWU is a claim for money damages caused by the ILWU's unlawful secondary activity under the National Labor Relations Act. In connection with that claim, the National Labor Relations Board (NLRB) sought and obtained two federal court injunctions against the ILWU, prohibiting illegal work stoppages as well as a finding of contempt of court against the union for injunction violations. The federal district court initially stayed ICTSI Oregon's damage claim for unlawful secondary activity pending completion of administrative proceedings before the NLRB. The NLRB's administrative proceedings were completed in a manner favorable to ICTSI Oregon in 2015. However, the ILWU appealed to the United States Court of Appeals for the District of Columbia Circuit in Washington D.C. On November 6, 2017, the US Court of Appeals rejected the ILWU's appeals and upheld two NLRB decisions declaring that the ILWU engaged in deliberate work stoppages and slowdowns, made false safety claims, and engaged in other illegal coercive conduct against ICTSI Oregon and its customers.

As a result of the US Court of Appeals decisions, the federal district court in Oregon lifted the stay and has scheduled a trial of ICTSI Oregon's damage claim commencing in the later part of 2019. This is a substantial claim, seeking a multi-million dollar judgment against the ILWU.

ICTSI also had brought a breach of fiduciary duty claim against the PMA in federal court. Based on a settlement between ICTSI and PMA, that claim was voluntarily dismissed in 2018.

***SPIA***

In February 2018, Conalvias Construcciones S.A.S., (Conalvias) filed an arbitration case at the Arbitration Center of the Chamber of Commerce of Bogota against SPIA for the unlawful termination of the Construction of Paving Works and Utilities contract ("the Contract"), and for several breaches committed by SPIA under the Contract. The arbitration case is on-going and SPIA has filed a counterclaim against Conalvias for damages incurred as a result of contractual breaches committed by Conalvias. The counterclaim filed by SPIA will be amended to indicate the amount of damages once the full assessment of the claim is completed.

## Certain Relationships and Related Party Transactions

Transactions with Related Parties

The table below summarizes transactions with related parties for the last three years, as disclosed in the accompanying consolidated financial statements:

| | | | 2016 | | 2017 | | **2018** | |
|---|---|---|---|---|---|---|---|---|
| Related Party | Relationship | Nature of Transaction | Amount | Outstanding Receivable (Payable) Balance | Amount | Outstanding Receivable (Payable) Balance | **Amount** | **Outstanding Receivable (Payable) Balance** |
| | | | | | *(In Millions)* | | | |
| **ICBV** | | | | | | | | |
| SPIA | Joint venture | Interest-bearing loans (see Note 8) (i) | US$52.00 | US$249.20 | US$25.40 | US$269.48 | **US$2.80** | **US$–** |
| | | Interest income (converted into interest-bearing loan) (see Note 8) (i) | 12.45 | 19.98 | 15.52 | 35.50 | **13.35** | – |
| | | Interest receivable (i) | 14.58 | 7.43 | 17.75 | 9.05 | **14.35** | – |
| **SPIA Spain S.L.** | | | | | | | | |
| SPIA | Joint venture | Interest-bearing loans (see Note 8) (i) | – | – | – | – | **(1.29)** | **270.99** |
| | | Interest income (converted into interest-bearing loan) (see Note 8) (i) | – | – | – | – | **4.41** | **53.26** |
| | | Interest receivable (i) | – | – | – | – | **4.95** | **9.73** |
| **YICT** | | | | | | | | |
| YPH | Non-controlling shareholder | Port fees (ii) | 1.77 | – | 1.59 | – | **0.32** | **0.15** |
| | | Trade transactions (iii) | – | – | – | – | **0.87** | **(0.07)** |
| | | Interest-bearing loans (iv) | 21.60 | (21.60) | 21.60 | – | **–** | **–** |
| | | Interests on loans (iv) | 0.07 | (0.03) | 0.28 | – | **–** | **–** |
| YPG | Common shareholder | Port fees (ii) | 2.36 | (0.14) | 3.10 | (0.17) | **3.86** | **(0.90)** |
| | | Trade transactions (iii) | 1.87 | (0.02) | 1.66 | – | **1.74** | **(0.20)** |
| **SCIPSI** | | | | | | | | |
| Asian Terminals, Inc. | Non-controlling shareholder | Management fees | 0.20 | (0.03) | 0.17 | (0.02) | **0.19** | **(0.02)** |
| **AGCT** | | | | | | | | |
| Luka Rijeka D.D. (Luka Rijeka) | Non-controlling shareholder | Provision of services (v) | 0.37 | (0.02) | 0.25 | (0.04) | **0.32** | **(0.03)** |

| Related Party | Relationship | Nature of Transaction | 2016 Amount | 2016 Outstanding Receivable (Payable) Balance | 2017 Amount | 2017 Outstanding Receivable (Payable) Balance | **2018 Amount** | **2018 Outstanding Receivable (Payable) Balance** |
|---|---|---|---|---|---|---|---|---|
| | | | | | *(In Millions)* | | | |
| **PICT** | | | | | | | | |
| Premier Mercantile Services (Private) Limited | Common Shareholder | Stevedoring and storage charges (vi) | 5.17 | (0.03) | 5.50 | (0.40) | **2.09** | **(0.01)** |
| Premier Software (Private) Limited | Common shareholder | Software maintenance charges | 0.01 | – | – | – | **–** | **–** |
| Marine Services (Private) Limited, Portlink International (Private) Limited, and AMI Pakistan (Private) Limited | Common shareholder | Container handling revenue (vii) | 0.52 | 0.03 | 0.37 | 0.01 | **0.13** | **–** |
| **LGICT** | | | | | | | | |
| NCT Transnational Corp. | Non-controlling shareholder | Management fees | 0.41 | (0.04) | 0.47 | (0.04) | **0.45** | **(0.03)** |
| | | Maintenance and repairs | 0.09 | (0.02) | 0.14 | (0.01) | **0.13** | **(0.02)** |
| **BIPI** | | | | | | | | |
| Atlantic Gulf and Pacific Co. of Manila, Inc. (AG&P) | Common shareholder | Rent expense | 0.05 | (0.02) | 0.06 | (0.02) | **0.09** | **(0.03)** |
| | | Utilities | 0.03 | – | 0.03 | – | **0.03** | **(0.01)** |
| **IDRC** | | | | | | | | |
| Ledya SARL | Non-controlling shareholder | Management fees | – | – | 0.85 | (0.85) | **1.43** | **(0.53)** |
| **Parent Company** | | | | | | | | |
| Prime Metro BMD Corporation | Common shareholder | Construction services (viii) | – | – | – | – | **4.73** | **5.73** |
| | | Dredging services (viii) | – | – | – | – | **1.41** | **0.40** |
| | | Rental income | – | – | – | – | **0.22** | – |
| **CGT** | | | | | | | | |
| Prime Metro BMD Corporation | Common shareholder | Contract administration and site management services (ix) | – | – | 0.10 | (0.02) | **0.61** | **(0.25)** |

*(i)* *On October 1, 2018, ICBV assigned to SPIA Spain S.L. all its outstanding interest-bearing loans, including interest converted into interest-bearing loan, and interest receivable with SPIA as of the same date, amounting to US$321.1 million and US$9.6 million, respectively.*

*(ii)* *YICT is authorized under the Joint Venture Agreement to collect port charges levied on cargoes; port construction fees and facility security fee in accordance with government regulations. Port fees remitted by YICT for YPH /YPG are presented as part of "Port authorities' share in gross revenues" in the consolidated statements of income. Outstanding payable to YPH/YPG related to these port charges are presented under "Accounts payable and other current liabilities" account in the consolidated balance sheets.*

*(iii)* *Trade transactions include utilities, rental and other transactions paid by YICT to YPH and YPG.*

*(iv)* *On December 5, 2016, YICT obtained a US$21.6 million (RMB150.0 million) short-term loan from YPH at an interest rate of 4.35 percent per annum and maturity date of January 25, 2017. The loan was used to refinance YICT's maturing loan with ABC. On January 12 and March 1, 2017, YICT prepaid a total amount of US$3.0 million (RMB20.0 million) and the balance of US$18.9 million (RMB130 million) was renewed with an interest rate of 4.50 percent per annum and a maturity date of April 30, 2017. The remaining loan from YPH was fully paid upon the availment of a long-term loan from ABC on April 26, 2017 (see Notes 15.2.4 and 17).*

*(v)* *AGCT has entered into agreements with Luka Rijeka, a non-controlling shareholder, for the latter's provision of services such as equipment maintenance, power and fuel and supply of manpower, among others. Total expenses incurred by AGCT in relation to these agreements were recognized and presented in the consolidated statements of income as part of Manpower costs, Equipment and facilities-related expenses and Administrative and other operating expenses.*

*(vi)* *PICT has entered into an agreement with Premier Mercantile Services (Private) Limited for the latter to render stevedoring and other services, which are settled on a monthly basis.*

*(vii)* *Marine Services (Private) Limited, Portlink International (Private) Limited, and AMI Pakistan (Private) Limited are customers of PICT.*

*(viii)* *ICTSI has entered into contracts with Prime Metro BMD Corporation for the construction of port facilities and sublease of office space.*

*(ix)* *CGT has entered into contract with Prime Metro BMD Corporation for contract administration and site management services.*

*(x)* *On October 1, 2018, ICBV assigned to SPIA Spain S.L. all its outstanding interest-bearing loans, including interest converted into interest-bearing loan, and interest receivable with SPIA as of the same date, amounting to US$321.1 million and US$9.6 million, respectively.*

*(xi)* *YICT is authorized under the Joint Venture Agreement to collect port charges levied on cargoes; port construction fees and facility security fee in accordance with government regulations. Port fees remitted by YICT for YPH /YPG are presented as part of "Port authorities' share in gross revenues" in the consolidated statements of income. Outstanding payable to YPH/YPG related to these port charges are presented under "Accounts payable and other current liabilities" account in the consolidated balance sheets.*

*(xii)* *Trade transactions include utilities, rental and other transactions paid by YICT to YPH and YPG.*

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*(xiv)* *AGCT has entered into agreements with Luka Rijeka, a non-controlling shareholder, for the latter's provision of services such as equipment maintenance, power and fuel and supply of manpower, among others. Total expenses incurred by AGCT in relation to these agreements were recognized and presented in the consolidated statements of income as part of Manpower costs, Equipment and facilities-related expenses and Administrative and other operating expenses.*

*(xv)* *PICT has entered into an agreement with Premier Mercantile Services (Private) Limited for the latter to render stevedoring and other services, which are settled on a monthly basis.*

*(xvi)* *Marine Services (Private) Limited, Portlink International (Private) Limited, and AMI Pakistan (Private) Limited are customers of PICT.*

*(xvii)* *ICTSI has entered into contracts with Prime Metro BMD Corporation for the construction of port facilities and sublease of office space.*

*(xviii)* *CGT has entered into contract with Prime Metro BMD Corporation for contract administration and site management services.*

The outstanding balances arising from these related party transactions are current and payable without the need for demand.

Outstanding balances at year-end are unsecured and interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2016, 2017 and 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Aside from the transactions described above, ICTSI does not have any other transactions with its directors, executive officers, security holders or members of their immediate family.

## Item 6. Compensation of Directors and Executive Officers

The aggregate compensation paid to the Chairman of the Board and President, and four (4) highest paid executive officers named below, as a group, for 2018 amounted to US$2.6 million (2017: US$2.5 million). The estimated amount of compensation expected to be paid in 2019 to the Chairman of the Board and President and four (4) highest paid executive officers as a group, amounted to US$2.4 million.

| Name and Principal Position | Year | Salary | Bonus and Others[4] | Total[5] |
|---|---|---|---|---|
| Enrique K. Razon, Jr. | | | | |
| *Chairman of the Board and President* | | | | |
| Martin O'Neil[1] | | | | |
| *Executive Vice-President* | | | | |
| Rafael D. Consing, Jr. | | | | |
| *Senior Vice-President, Chief Financial Officer and Compliance Officer* | | | | |
| Jose Joel M. Sebastian | | | | |
| *Senior Vice-President, Finance* | | | | |
| Gigi Iluminada T. Miguel[2] | | | | |
| *Vice-President and Treasurer* | | | | |
| Benjamin M. Gorospe III | | | | |
| *Assistant Corporate Secretary* | | | | |
| Chairman of the Board and President and four (4) highest paid executive officers, as a group | 2019 (Estimate) | US$0.3M | US$2.1M | US$2.4M |
| | 2018 (Actual) | 0.4M | 2.2M | 2.6M |
| | 2017 (Actual) | 0.4M | 2.1M | 2.5M |
| All officers and Directors, as a group, Unnamed[3] | 2019 (Estimate) | 1.4M | 8.8M | 10.2M |
| | 2018 (Actual) | 1.2M | 6.5M | 7.7M |
| | 2017 (Actual) | 1.2M | 6.8M | 8.0M |

[1]*Retired on June 1, 2018*

[2]*Appointed on May 2, 2018*

[3]*Including four (4) highest paid executive officers*

[4]*Mainly includes non-cash compensation based on Stock Incentive Plan paid out of the allocated Treasury Shares of ICTSI*

[5]*Includes total compensation paid in the Philippines by the registrant and its subsidiaries*

The members of the Board of Directors receive directors' fees as compensation in accordance with the Company's By-Laws. There are no material terms of any other arrangements or contracts where any director of ICTSI was compensated or is to be compensated, directly or indirectly, in 2017, 2018 or in the coming year, for any service provided as a director.

Named executive officers are covered by Letters of Appointment with the Company stating therein their respective terms of employment.

There are no existing compensatory plans or arrangements, including payments to be received from ICTSI by any named executive officer from a change-in-control of the Company, except for the automatic vesting of awarded shares under the Stock Incentive Plan referred to below.

Certain officers were granted awards under the Stock Incentive Plan (SIP) in 2016, 2017 and 2018. Discussion on the SIP is further disclosed in Note 19, *Share-based Payment Plan*, to the Annual Audited Consolidated Financial Statements.

**Item 7. Independent Public Accountants**

The principal external auditor is the firm SGV & Co. The Group has engaged Mr. Arnel F. De Jesus, partner of SGV & Co., for the audit of the Group's books and accounts in 2018.

The appointment of the partner-in-charge will be in compliance with SEC Rule 68, Paragraph 3 (b)(iv) and SEC Memorandum Circular No. 8, Series of 2003, which require the rotation of the external auditor every five (5) years and a two-year cooling off period in the re-engagement of the same signing partner or individual auditor.

The reappointment of SGV & Co. as the Company's external auditors is part of the agenda for this year's annual stockholders meeting.

A representative of the external auditor is expected to be present at the annual stockholders' meeting and will have an opportunity to make a statement if he or she so desires. The representative will also be available to respond to appropriate questions from the stockholders.

**External Audit Fees and Services**

ICTSI paid its external auditors the following fees (in thousands) for the last three years for professional services rendered:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Audit Fees | US$1,070.2 | US$1,203.9 | **US$1,283.9** |
| Audit-related Fees | 379.1 | 437.4 | − |
| Tax Fees | 72.9 | 239.9 | **288.6** |
| Other Fees | 151.1 | 92.3 | **348.9** |

Audit Fees include the audit of the Group's annual financial statements.

Audited-Related Fees include the review of interim financial statements and issuance of comfort letters for the capital market raising transactions of the Group. Tax fees paid to SGV & Co./Ernst & Young are for tax compliance, tax advisory services and transfer-pricing studies. The increases in 2017 and 2018 were mainly due to increased number of engagments on tax advisory and on tax planning for the restructuring of the subsidiaries.

Other fees mainly include due diligence services related to business development and other various one-time engagements.

The Audit Committee makes recommendations to the Board concerning the external auditors and pre-approves audit plans, scope and frequency before the conduct of the external audit. The Audit Committee reviews the nature of the non-audit related services rendered by the external auditors and the appropriate fees paid for these services.

The reappointment of SGV & Co. as the Company's external auditors was approved by the stockholders in a meeting held on April 19, 2018.

Changes in and Disagreements with Accountants of Accounting and Financial Disclosure

There were no changes or disagreements with ICTSI's external auditors, SyCip Gorres Velayo and Co. (a member firm of Ernst & Young Global Limited), on accounting and financial statement disclosures.

**Item 8. Compensation Plans**

ICTSI is centered on empowering, motivating and energizing its employees' talents. The Company continues to improve and develop competencies in the people working for its success.

An Employees Stock Option Plan ("ESOP") was established in 1991 under which shares from authorized but unissued capital stock were set aside for subscription by directors, officers, and employees. A Stock Option

Committee composed of three (3) directors determined the number of shares to which a particular recipient was entitled. The subscription price under the ESOP was 95% of the issue price in the initial public offering of the Company and is subject to revision by Stock Option Committee from time to time.

In January 2007, Board approved the amendment of ESOP to convert it into a restricted stock plan called the “Stock Incentive Plan” (the “SIP”). The amendment of the ESOP into an SIP was approved by the stockholders at a special meeting held in March 2007.

Under the SIP, shares from our treasury will be granted to a participant by a resolution of Stock Incentive Committee. The Committee determines who and how many will be the awarded shares under the SIP.

ICTSI currently has no stock options, warrants or rights plan.

Descriptions and explanations of the above transactions are further disclosed in Note 20, *Share-based Payment Plan*, to the Annual Audited Consolidated Financial Statements.

## PART I.C. ISSUANCE AND EXCHANGE OF SECURITIES

**Item 9. Authorization or Issuance of Securities Otherwise for Exchange**
There are no authorization or issuance of securities otherwise for exchange to disclose.

**Item 10. Modification or Exchange of Securities**
There are no modification or exchange of securities to disclose.

**Item 11. Financial and Other Information**
There are no financial and other information to disclose.

**Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**
There are no mergers, consolidations, acquisitions and similar matters to disclose.

**Item 13. Acquisition or Disposition of Property**
There are no acquisition or disposition of property to disclose.

**Item 14. Restatement of Accounts**
There is no restatement of accounts to disclose.

## Part I.D. OTHER MATTERS

**Item 15. Action with Respect to Reports**

<u>Ratification of All Acts, Contracts, Investments and Resolutions of the Board of Directors and Management since the Last Annual Stockholders’ Meeting</u>

As a matter of corporate policy, Management seeks the approval and ratification by the Stockholders of all acts, contracts, investments and resolutions of the Board of Directors and Management since April 19, 2018, the date of the last Annual Stockholders’ Meeting. These are reflected in the minutes of the meetings of the Board of Directors, in the regular reports and disclosures to the Securities and Exchange Commission and to the Philippine Stock Exchange, and in the 2018 Annual Report and the Report of the Chairman.

The affirmative vote of a majority of the votes cast on this matter is necessary for the ratification of all acts, contracts, investments and resolutions of the Board of Directors and Management, which include the following:

**January 5, 2018 (Special Meeting)**
Approval to the issuance of new senior perpetual securities (Project Wind).

**January 10, 2018 (Special Meeting)**
Approval of Project Wind Pricing and Final Terms.

**January 11, 2018 (Regular Meeting)**

Approval of Project Wind Tap under the New Perpetual Securities.

**February 9, 2018 (Special Meeting)**
Approval of Exclusivity Agreement with Ecossential Foods Corporation.

**February 15, 2018 (Regular Meeting)**
Approval of the following: (1) Designation of the date of the annual stockholder meeting; (2) Renewal of ANZ (Manila) Credit Facilities; (3) Application of Permits for Three E-com Office; (4) Opening of Credit Card Account with RCBC; and (5) Review of the Company's Mission and Vision Statements.

**March 6, 2018 (Special Meeting)**
Approval of the following: (1) Financial Statements; and (2) Release of Appropriation.

**March 14, 2018 (Regular Meeting)**
Approval of the following: (1) Guarantee to ISPL, MITL, and SPICTL Loan Facilities with ANZ Bank (PNG); (2) Increase of Credit Limit in Petron Fleet Card; (3) Appointment of Christian R. Gonzalez as Authorized Representative in Cases; and (4) Awarding of Shares in Favor of Members of the Management.

**April 19, 2018 (Regular Meeting)**
Approval of the Dividend Declaration.

**April 27, 2018 (Regular Meeting)**
Approval of the following: (1) Appointment of Bank Signatories; (2) Renewal of Metrobank Credit Facilities; and (3) Sale of Motor Vehicles.

**May 2, 2018 (Special Meeting)**
Approval of the (1) Retirement of Mr. Martin O'Neil and (2) Appointment of Ms. Gigi Iluminada T. Miguel as Vice President and Treasurer.

**May 9, 2018 (Special Meeting)**
Approval of the launching of Sustainability Report.

**May 15, 2018 (Special Meeting)**
Approval of the appointment of proxy for SCIPSI's annual stockholders meeting.

**May 30, 2018 (Regular Meeting)**
Approval of the appointment of Rafael D. Consing, Jr. as Chief Risk Officer.

**June 4, 2018 (Special Meeting)**
Approval of the following: (1) Amendment of Inward Manifest; (2) Authority to Sign POA for Court Lawsuits in Poland; (3) Conversion of Cabuyao Lots; and (4) Fremantle Bid.

**June 18, 2018 (Special Meeting)**
Approval of the following: (1) Appointment of Authorized Representatives to Appear Before Any Government Agency; (2) Appointment of Legal Representatives in Ecuador; (3) Amendment of Bank Signatories in Metrobank; and (4) Awarding of Shares to Mr. Martin O'Neil under SIP.

**June 27, 2018 (Regular Meeting)**
Approval of the Appointment of Legal Representatives to Represent the Company in a Labor Case in Mexico.

**July 27, 2018 (Regular Meeting)**
Approval of the following: (1) Authority of Mr. Joel M. Sebastian to enter and sign into a lease agreement with SM Prime Holdings, Inc.; and (2) Opening of Trading Account with Deutsche Bank Regis.

**August 24, 2018 (Regular Meeting)**
Approval of the following: (1) Environmental Compliance Certificate application with DENR; (2) Pre-Work Permit application with the Manila City Hall; and (3) Standard Chartered Bank Amendment in Credit Facilities.

**September 5, 2018 (Regular Meeting)**
Approval of the following: (1) Philippine Competition Notification and appointment of Messrs. Christian R. Gonzalez, Rafael D. Consing, Jr. and Benjamin M. Gorospe, III as Authorized Representatives; (2) Appointment of Bank Signatories; (3) ICTSI Retirement Fund with ATRAM Trust Corporation; (4) Appointment of BPO Inc. to process payroll crediting of the Corporation's confidential employees' salaries and bonuses; and (5) Share Purchase Agreement with Harbour Centre Port Terminal, Inc.

**October 5, 2018 (Regular Meeting)**
Approval of the Appointment of Antonio G. Coronel as Authorized Representative for BOC Accreditation of Importer/Exporter.

**November 7, 2018 (Special Meeting)**
Approval of the following: (1) Renewal of Metrobank credit facilities; (2) Participation in the infrastructure and superstructure modernization, management and operation of ports in Iloilo; (3) Credit facilities with Standard Chartered; (4) Participation in development of Laem Chabang Port Phase 3 – Port project in Thailand; and (5) Application for Tax Clearance.

**November 26, 2018 (Regular Meeting)**
Approval of the re-purchase by the Company from the open market of up to an additional 30 million ICTSI shares.

**December 10, 2018 (Regular Meeting)**
Approval of the following: (1) Authorizing Christain R. Gonzalez or Voltaire C. Wycoco to apply for Port Terminal service accreditation for PPA AO 10-2018 Compliance; (2) Confirming the authority of Mr. Justin C. Tolentino as authorized represented to enter mutual release, waiver and quitclaim with Coca-Cola FEMSA Phils.; (3) Credit Facilities with Citibank, N.A.; (4) Participation in the investment n and operation of international container terminals in Port of Sudan; (5) Credit facilities with New Zealand Banking Group Limited; (6) Board performance self – assessment; (7) Review of compliance of the CG Manual and CG initiatives; (8) Setting of the board meetings for the coming year and (9) Participation in investment in and operation of international container terminals in Port of Sudan.

**January 2, 2019 (Special Meeting)**
Approval of the cancellation of the deposits in future stock subscription ("DFFS") made in its subsidiary, ICTSI Holdings, Inc., and receipt of the funds pertaining to the DFFS.

**January 9, 2019 (Regular Meeting)**
Approval of the following: (1) Guaranty of loan facility program of ICTSI Middles East DMCC; (2) Application for Permit to Use Computerized Accounting System of Bureau of Internal Revenue; (3) Updating of AIFs for bank transactions; (4) Updating of AIFs on the availment of bank facilities; (5) Updating of Trustees of ICTSI Retirement Fund; (6) Participation in Kribi concession bid and appointment of Attorneys-in Fact; (7) entry into a Deed of Sale of Equipment; (8) ICTSI Guarantees Euro260M Term Loan Credit Facility under its 2014 Loan Facility Program; (9) Appointment of Attorney-in-Fact for COL; (10) Application for OMB license; (11) review and approval of the mission, vision, values and corporate strategy and (12) Availment of facilities, programs and services of Globe and appointment of Attorney-in-Fact.

**February 7, 2019 (Regular Board Meeting)**
Approval of the following: (1) transfer of appointment of Ms. Vivien Miñana from ICTSI to ICTSI ROHQ; (2) engagement of assistance of NBI; (3) revocation of appointment of Esteban Andres Christensen as Legal Representative of the Company; (4) application for License to Possess Explosive/ Explosive Ingredients; (5) participation in the development, management and operation of port in in Rio de Janeiro; (6) participation in the development, management and operation of port in United Mexican States; (7) appointment of Representative to Access Information from the Philippine Ports Authority; and (8) participation in the development, management and operation of port Republic of Colombia.

**February 12, 2019 (Special Board Meeting)**
Election of Cesar A. Buenaventura as Independent Director.

**February 15, 2019 (Special Board Meeting)**

Approval of the following: (1) Notice of Annual Stockholders Meeting and (2) Related Party Transaction's Charter and Policy.

**March 1, 2019 (Special Board Meeting)**
Approval of the following: (1) New Committee Chairmanship and Membership, as endorsed by the Corporate Governance Committee; (2) Appointment of Voltaire C. Wycoco as AIF for the Memorandum of Agreement with Bureau of Custom for Laguna Gateway; and (3) Appointment of Voltaire C. Wycoco as Attorney-in-Fact for the Memorandum of Agreement with Bureau of Customs for Cavite Gateway Terminal;

**March 6, 2019 (Special Meeting)**

Approval of the following: (1) Appointment of Tricianne M. Zingapan as Vice President, Head of Global Corp Audit & Compliance, and of Johan Swart as Vice President, Head of Global Engineering-Equipment Maintenance effective March 6, 2019; (2) Transition of Sandy Alipio as Chief Risk Officer and Head of Business Strategy and Controls; and (3) Adoption of Corporate Governance Committee Charter.

Summary of the Minutes of the 2018 Annual Stockholders' Meeting

The Annual Meeting of Stockholders of INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. (ICTSI or "Company") was called to order at 10:00 a.m., April 19, 2018, at the Solaire Ballrooms 2 to 5, Solaire Resort & Casino, 1 Asean Avenue, Entertainment City, Parañaque City, pursuant to written notices given by the Corporate Secretary Atty. Rafael T. Durian.

Chairman Enrique K. Razon, Jr. presided the meeting. Assistant Corporate Secretary, Atty. Silverio Benny J. Tan, acted as secretary of the meeting ("Secretary") and took minutes of the proceedings.

The following members of the Board of Directors were present: Enrique K. Razon Jr., Stephen A. Paradies, Jose C. Ibazeta, Andres Soriano III, John Ramon Aboitiz and Joseph R. Higdon.

**1. CALL TO ORDER**

The Meeting of Stockholders of ICTSI was called to order at 10:00 A.M. by the Chairman of the Board, Enrique K. Razon, Jr., who presided over the meeting. The Assistant Corporate Secretary, Silverio Benny J. Tan, acted as the secretary of the meeting (the "Secretary") and took the minutes of the proceedings.

**2 DETERMINATION OF QUORUM**

On request of the Chairman, the Secretary certified that notices for the Annual Meeting of Stockholders of ICTSI were sent out to stockholders as of record date of March 16, 2018 starting March 23, 2018. The Secretary further certified that stockholders representing 2,174,929,989 shares, out of a total of 2,734,805,199 shares, or 79.53% of total outstanding shares were present in person or by proxy. There was, therefore, a quorum for the meeting.

**3. APPROVAL OF THE MINUTES OF THE ANNUAL MEETING OF STOCKHOLDERS HELD ON APRIL 20, 2017**

The Chairman said that the first item in the agenda was the approval of the minutes of the previous Annual Meeting of Stockholders. A stockholder moved for the approval of the minutes of the Annual Stockholders Meeting dated April 20, 2017, copies of which were posted in the board outside the hall. The motion was duly seconded. There being no objection to the motion, the Chairman declared the motion carried.

The total votes of those present and through validated proxies with specific instructions on this motion, are detailed below:

| VOTES | NUMBER OF VOTES CAST |
|---|---|
| Approving | 2,174,634,289 |
| Dissenting | - |

| | |
|---|---|
| Abstaining | 295,700 |

## 4. CHAIRMAN'S REPORT

The Chairman Mr. Enrique K. Razon, Jr. then gave the Chairman's report:

"*Fellow Shareholders, good morning;*

*The year 2017 was the first time in many years that we saw synchronized growth in global trade across almost all markets and regions. The last half of the year also marked a turnaround for the container shipping industry where all the major carriers were profitable again for the first time since 2007. The year was both steady for the Company where we enjoyed organic growth in our operating terminals with a few exceptions, and a year of start-ups where we completed and started up four terminals.*

*As the shipping industry continued its slow recovery from the crisis, a new era has been ushered in with the consolidation of major shipping lines. This has resulted in a reduction of shipping line companies into only 10 very large carriers. To a certain extent, what this translates to are added complexities in negotiations and redirection of investments into infrastructure and equipment to accommodate these very large vessels.*

***Business Development***

*The diversity of our operations allowed us to withstand the otherwise negative impact of volatility in certain regions driven by consolidation.*

*In Colombia, we formally opened Puerto Aguadulce together with our joint venture partner PSA International after a soft opening in November 2016. Leveraging on state-of-the-art equipment and systems, Puerto Aguadulce is setting a new standard in the region, and is now ramping up operations.*

*We further strengthened our market positioning in Iraq with the first fully foreign-funded port infrastructure development in the country. Last year, our Iraqi operations opened its new terminal, Berth 27, representing the first phase of Basra Gateway Terminal's expansion. This added 300,000 TEUs to BGT's annual capacity, and is now almost at full capacity.*

*We also concluded an agreement with the General Company for Ports in Iraq last October for the second phase expansion, which includes the construction of two new berths. This will be completed in the second quarter of 2019, which by then would further add another 600,000 TEUs to the terminal, raising the total annual capacity to 1.2 million TEUs.*

*In the Oceania region, we reached an accord with the Papua New Guinea government and local stakeholders to operate two terminals—South Pacific International Container Terminal in Lae in the industrial province of Morobe, and Motukea International Terminal near Port Moresby, PNG's capital. These two new terminals are the main gateways for PNG.*

*In the Philippines, in coordination with the Department of Transportation, we started construction of Cavite Gateway Terminal—the country's first roll-on, roll-off container barge terminal in Tanza, Cavite. With the initial phase development scheduled for completion this year, the USD30 million project will be integrated with the Port of Manila. Businesses will now have an alternative way to move cargo to and from the Port of Manila and the economic zones of Cavite via container barges plying the Manila Bay. This should significantly relieve Metro Manila road traffic of container trucks.*

*Towards the end of the year, we purchased 34.83 percent of the total outstanding shares of Manila North Harbour Port. The purchase is in sync with our aim to interconnect marine terminals and dry ports in Luzon to facilitate cargo movement within the country.*

*As part of efforts to improve our core operations and concentrate on terminals that give us leeway in delivering superior services, ICTSI terminated concessions in the Port of Oregon in the United States, Lekki in Nigeria and New Muara Container Terminal in Brunei.*

***Group Volume***

*The Group handled consolidated volume of 9,153,458 TEUs in 2017, five percent more than the 8,689,363 TEUs in 2016. The volume increase resulted from continuing improvements in global trade, the ramp-up in Iraq, new liner services in Mexico, and the contribution of new terminals in DR Congo and Australia. Without these new terminals, volume would have increased by four percent in spite of a big drop in Ecuador.*

*Operations in Asia Pacific continue to account for the biggest slice of the Group's total volume for 2017 at 52.6 percent. This is followed by the Americas at 31.2 percent. Europe Middle East and Africa accounted for 16.2 percent.*

***Financial Performance***

*For the year in review, gross revenues amounted to USD1.244 billion, 10 percent higher compared to the USD1.128 billion in 2016.*

*EBITDA was up 10 percent to USD578 million compared to the USD525.1 million in 2016 largely because of the strong operating results from Iraq, Mexico, Honduras, Madagascar, China, Poland, and Brazil. EBITDA would have been much higher if not for start-up costs of the new terminals particularly Melbourne. However, these start-ups will be the drivers of growth in the coming years.*

*EBITDA margin decreased to 46.4 percent, from 46.5 percent in the previous year.*

*Total cash operating expenses in 2017 increased 13 percent to USD475.9 million, from USD419.6 million in the previous year. This was due to the start-up costs of new terminals, and lower margin volume at start-ups. Adding to the increase were higher fuel prices and power rates at certain terminals.*

*The increase was tapered by savings from our cost optimization initiatives and the favorable translation impact of Philippine Peso- denominated expenses at certain Philippine terminals.*

*Overall, positive operating results generated consolidated net income of USD 207.7 million compared to the USD193 million in 2016.*

*Adding to this was a one-time gain of USD7.5 million related to the termination of the sub-concession agreement in Nigeria.*

*Without this one time gain and the charge of USD23.4 million on the termination of the Oregon lease, net income would have declined by
14 percent.*

*Fully diluted earnings per share was up six percent to 6.9 cents, from 6.5 cents in 2016.*

***Fund Management***

*Capital expenditure, net of capitalized borrowing costs, and other expenses amounted to USD174.8 million or 73 percent of the USD240 million budgeted for 2017. Expenditures went into the completion of Iraq and Australia, continuing developments in Mexico and Honduras, and capacity expansion at the Manila International Container Terminal. Our share of expenditures in Colombia amounted to USD25 million.*

*For 2018, we have a CAPEX budget of USD380 million mainly for continuing capacity expansion in Manila, Mexico, and Iraq; completion of the Honduras expansion; equipment and infrastructure development in Papua New Guinea; and the new barge terminal in Cavite.*

*To ensure the financing of acquisitions and capital expenditures, and for other corporate purposes, the Group issued new Senior Guaranteed Perpetual Capital Securities amounting to US$400 million.*

***Riding the Momentum with Caution***

*As the dust starts to settle, the race to build larger and larger ships begins anew. For us, the only way to keep up and stay relevant is to increase our efficiency and productivity—to stay ahead of the game.*

*Given our ongoing expansion and modernization projects and other mechanisms in place, we will be ready to meet the demands of the new shipping era. ICTSI will continue to leverage on the gains we made over the past year as we tread with caution in search of new opportunities to become the best at what we do. We are ready.*

*Thank you.*"

The Chairman then said that he will now entertain questions on the report. However no one stood up to ask any question. A stockholder moved for the approval of the Chairman's annual report and the motion was duly seconded. In the absence of any objection, the annual report for 2017 of the Chairman was approved.

Based on the votes of those present and through validated proxies with special instructions, 2,173,408,409 votes were cast in favor of the motion while none voted against, with 1,521,580 abstentions.

**5. APPROVAL OF THE 2017 AUDITED FINANCIAL STATEMENTS**

The next item in the agenda was the approval of the 2017 Audited Financial Statements.

Upon a motion duly made by a stockholder and seconded by another, and in the absence of any objections, the Audited Financial Statements of the Company as of December 31, 2017 which were reproduced in the Annual Report, was approved by the stockholders.

The total votes of those present and through validated proxies with specific instructions on this motion, are detailed below:

| VOTES | NUMBER OF VOTES CAST |
|---|---|
| Approving | 2,173,408,409 |
| Dissenting | - |
| Abstaining | 1,521,580 |

**6. APPROVAL/RATIFICATION OF ACTS, CONTRACTS, INVESTMENTS AND RESOLUTIONS OF THE BOARD OF DIRECTORS AND MANAGEMENT SINCE THE LAST ANNUAL STOCKHOLDERS' MEETING**

The Chairman said that we now go to the approval and ratification of all acts, contracts, investments and resolutions and other activities approved by the Board and Management. A stockholder moved for the approval of all acts, contracts, investments and resolutions of the Board of Directors and Management since the Annual Stockholders Meeting of April 20, 2017 as they appear in the minutes of the Board meetings and in reports and disclosures made to the Securities and Exchange Commission and the Philippine Stock Exchange. This motion was seconded by another stockholder, and in the absence of any objection to the motion, the Chairman declared the motion carried.

The total votes of those present and through validated proxies with specific instructions on this motion, are detailed below:

| VOTES | NUMBER OF VOTES CAST |
|---|---|
| Approving | 2,173,408,409 |
| Dissenting | - |
| Abstaining | 1,521,580 |

## 7. ELECTION OF DIRECTORS

The Chairman asked the Secretary to identify the nomination received for the Board of Directors. The Secretary reported that the formal nomination of the following to the Board of Directors of the Company was received by the Office of the Corporate Secretary in accordance with the By-Laws, namely:

**ENRIQUE K. RAZON, JR.**
**JOSE C. IBAZETA**
**STEPHEN A. PARADIES**
**ANDRES SORIANO III**
**JON RAMON M. ABOITIZ**

and as nominees for Independent Directors:

**OCTAVIO VICTOR R. ESPIRITU**
**JOSEPH R. HIGDON**

No other nominations were received. The Secretary further reported that the nominations were passed upon to the Nomination Committee.

A stockholder moved that since there were only seven (7) nominees for the seven (7) available seats in the Board, the Secretary be directed to cast the votes for the seven (7) nominees, except for the proxies with specific instructions, and that the said seven (7) nominees be declared duly elected for the ensuing term. The said motion was duly seconded.

The Chairman asked the body whether there was any objection, and there being none, he declared the motion carried.

The Chairman instructed the Secretary to cast a vote for the seven (7) nominees and declare them as duly elected Directors for the ensuing term, except for stockholders who voted through proxy with specific instructions.

On behalf of the directors, the Chairman thanked the stockholders for their re-election.

The total votes of those present and through validated proxies with specific instructions on this motion, are detailed below:

| | **In favor** | **Against** | **Abstain** | **Total Shares Voting** |
|---|---|---|---|---|
| Enrique K. Razon, Jr. | 2,128,943,258 | 45,761,291 | 225,440 | 2,174,929,989 |
| Jose C. Ibazeta | 1,858,456,020 | 298,323,769 | 18,150,200 | 2,174,929,989 |
| Stephen A. Paradies | 1,835,417,173 | 321,362,616 | 18,150,200 | 2,174,929,989 |
| Andres Soriano III | 1,858,554,240 | 298,225,549 | 18,150,200 | 2,174,929,989 |
| Jon Ramon M. Aboitiz | 1,835,515,393 | 321,264,396 | 18,150,200 | 2,174,929,989 |
| Octavio Victor R. Espiritu | 2,023,093,684 | 151,836,305 | - | 2,174,929,989 |
| Joseph R. Higdon | 2,075,048,288 | 99,881,701 | - | 2,174,929,989 |

## 8. APPOINTMENT OF EXTERNAL AUDITORS

The next item in the agenda was the appointment of the External Auditor. A stockholder nominated Sycip Gorres Velayo and Company (SGV), which the Audit Committee had recommended, as External Auditor for 2018. Upon motion duly made and seconded, the nomination was closed. The Chairman asked the stockholders if there was any objection and there being none, he declared the resolution approved. In the absence of any other nomination, SGV was appointed External Auditor for 2018.

The total votes of those present and through validated proxies with specific instructions on this motion, are detailed below:

| VOTES | NUMBER OF VOTES CAST |
|---|---|
| Approving | 2,173,189,169 |
| Dissenting | 1,740,820 |
| Abstaining | - |

**9. OTHER MATTERS & ADJOURNMENT**

The Chairman asked the stockholders if there are any matters that should be brought to the attention of the stockholders, but no one stood up to raise anything.

The Chairman then announced that the Board of Directors has declared a cash dividends of P 2.50 per share for stockholders of record as of May 4, 2018, payable on May 11, 2018. The stockholders applauded the announcement.

A stockholder moved for the adjournment of the meeting, which was duly seconded. There being no objection, the Chairman announced that the meeting was adjourned. He invited the stockholders to partake of brunch courtesy of the Company, thanked them for their attendance and greeted them good morning.

Compliance with Leading Practice on Corporate Governance

(a) Evaluation System

On December 10, 2018, the Board approved the updated the internal self-rating and evaluation system to measure compliance with the Revised Manual on Corporate Governance by the Board of Directors and top-level management, as well as observe and maintain high standards by the Company for leading practices on good corporate governance.

To ensure accountability, fairness and transparent corporate governance, and the implementation of the Company's vision, mission, and strategic objectives, including the means to effectively monitor the management's performance, the Board periodically reviews the Company Mission, Vision and Values.

(b) Director's Trainings

The Directors of the Company undergoes a minimum of at least 4 hours of trainings, programs, seminars, and roundtable discussions on corporate governance with service providers or private / government institutions that are accredited by the SEC to ensure that the Company is in compliance with the adopted leading practices on good governance.

On February 26, 2019, the Compliance Team provided an On-Boarding to the newly elected Independent Director, Cesar A. Buenaventura.

**Anti – Bribery Policy and Procedure**

Pursuant to the Code of Business Conduct, ICTSI rolled out its Anti-Bribery Compliance Policy and Procedure. This shall provide guidance to all ICTSI employees, suppliers, and third parties acting on its behalf. This policy sets out procedures specifically targeted at addressing corruption risks. Through this policy, ICTSI is able embed the culture of anti-corruption practices to its personnel, as evident in its intensified campaigns done during the New Employee orientation programs, and through refresher courses during employee engagement programs and fora.

ICTSI holds itself to the highest ethical standards, and is committed to acting with integrity in its business dealings and relationships, both locally and internationally. ICTSI complies with the relevant anti-corruption legislations in all the countries where it has a presence, such as the US Foreign Corrupt Practices Act and the UK Bribery Act. Local business customs and/or culture shall never be a valid reason for engaging in bribery and other corrupt practices.

ICTSI employees are prohibited from asking for, accepting or receiving bribes, or any other personal benefit that would induce the employee to breach his/her duty to act in good faith, to act impartially or in accordance with a position of trust. ICTSI also strictly implements its programs against tipping and other forms of extortion.

To promote anti-corruption and transparency in dealings with suppliers, ICTSI implemented in April 2018 the use of its e-sourcing system, as a medium to send requests for quotations and for suppliers to submit their quotations accordingly. This means that suppliers shall send quotes through this system instead of via e-mail, fax, hard copy, phone call, etc. This provides a more systematic process of submitting quotations for a single requirement and promotes transparency and fairness amongst vendors.

**Employee Trainings**

As employees may have some weaknesses in their workplace skills, ICTSI adheres to its objective of keeping its employees abreast of recent developments and concepts which they could use in their respective fields. ICTSI believes that training programs present crucial opportunities to expand the knowledge base of all employees which in the end will not only benefit employees individually but the company as an organization.

Acknowledging that training is crucial for organization development and success, ICTSI, in 2018, implemented the following programs:

1.) **Behavioral trainings which are initiated by the company as part of organization development**

a. Strategic Planning and Leadership trainings
b. Customer Service Training;
c. Labor and Employee Relations Summit;
d. Team Building Sessions.

2.) **Company Orientation Programs**

a. Operations for Non-Operations;
b. Orientation for newly hired employees;
c. Orientation re: government mandated benefits and new laws (TRAIN & Data Privacy)
d. Orientation for HMI;
e. Orientation for Retiring Employees;
f. Operations for Non-Operations;
g. Ugnayan sa Pantalan.
h. Claims for Non-Claims
i. ISO Workshop
j. Refresher on Company Policies – Tipping & Bribery

3.) **Technical training programs for skills enhancement**

a. Prime Movers, Reach Stackers, Quay Cranes, Rubber Tired Gantries, Sidelifter
b. Hatch Clerk Training
c. Management of Terminal Operations
d. MS Excel Training program – Basic & Advanced
e. PISM Purchasing & Supply Chain Trainings
f. Certified Management Accountant Program
g. Digital Communication & Branding
h. PC Assembly, Hardware & Software Troubleshooting / Repair & Data Recovery
i. IT Programming Courses
j. Fire Fighting Seminar & Drill
k. Earthquake Drill
l. Port Safety & Health Standards
m. Training Course for Pollution Officers
n. Chemical Spill Training & Drill
o. Occupational Safety & Health Seminar

i. SAP GT Training
ii. Commercial Claims 101
iii. First Aid with Basic Life Support
iv. Business Communication

**Health, Safety and Productivity of its Employees**

Aside from investing in employee trainings, ICTSI also trusts that investing in well-being of employees with health and welfare benefits can help attract and retain employees. Offering convenient access to health care services will not only promote health awareness but will likewise reduce lost productivity. Moreover, proactively upkeeping and supporting the health needs of employees will reduce absenteeism, improve productivity and increase employee engagement.

In view of the above, ICTSI maintains its own medical and dental facilities for the use of its employees and their dependents. Medical Services include medical check-ups, consultations, treatments, minor surgeries, issuance of medical certificates and approval of sick leave applications. All regular employees and their immediate dependents are provided access to clinic medicines (i.e., antibiotics, maintenance medicines, over-the-counter (OTC) medicines, etc.) ICTSI likewise provides free Chest X-Ray for dependents with suspected Pulmonary Tuberculosis.

Services of duly licensed nurses are also readily available. The nurses assist the doctor in the treatment of employees and/or their dependent/s, dispense medicine to patients based on the doctor's prescription, file medical records of employees and/or their dependents, apply first aid and/or other immediate/necessary treatment to employees especially in cases of injuries sustained in accidents or incidents occurring within the company premises in the absence of a doctor, assist in transporting employee patients to accredited hospitals in case of emergencies, and conduct home visits to absent employees upon the written request from authorized representative/officer of ICTSI.

Aside from medical services rendered by accredited doctors and nurses, free dental services are performed by duly licensed dentists whose duties include oral check-ups, oral prophylaxis, tooth filing, and tooth extraction.

ICTSI's medical and dental facilities provide round the clock services for employees and their dependents. ICTSI maintains its own ambulance to address emergency medical cases. A fire truck is always on stand-by within the terminal premises to provide immediate service and assistance in cases of fire and other catastrophes.

The introduction of a health insurance plan which provides employees access to medical insurance coverage for their Out-Patient and In-Patient (hospitalization, consultation, laboratory, etc.) medical needs is also worth noting. It is provided through an approved Health Care Provider and offers a choice of varying medical plans. Employee has the option to use his/her medical and dental reimbursement (MDR) benefit to enroll his/her dependents in any of our available Dependent Programs. This MDR benefit may also be used for the order and free delivery of medicines via MEDEXPRESS, a delivery service drugstore.

Annual Physical Exam is also conducted religiously in order to promote health awareness and early detection of illnesses. It is a routine test performed on employees to check their overall health. With the yearly physical examination, medical practitioners are able to identify the health status of the employees. Through the variety of blood tests and screenings during the exams such as Complete Blood Count (CBC), Urinalysis, Chest X-ray, Electrocardigram (ECG), Fecalysis and Visual Acuity Screening, they are able to check on employees with Hypertension, Diabetes, Tuberculosis and other illnesses. Through this, further complications and spread of infectious diseases are prevented by giving some recommendations for follow up testing as well as changes in lifestyle, exercise or diet with the overall objective to improve and maintain employees' health. By identifying the disease, proper disease management can be done thus preventing further unnecessary hospitalizations and at the same time reducing the cost of primary care.

During the APE event, partner healthcare professionals also provides Cardiometabolic Workplace Wellness program which includes Biometric Tests (Blood Sugar, Cholesterol, Blood Pressure screening, Body Mass Index/Obesity screening and Foot Doppler test) which helps the company in profiling our employees and assessing their overall cardiometabolic health status thus, helping us further to reduce rates of illnesses like

Hypertension, Diabetes, Dyslipidemia, etc. Further, from the baseline workforce profiling gathered during APE, we design and provide a customized wellness program like prevention of lifestyle-related diseases and Smoking Cessation campaign among others. ICTSI also strongly upholds the importance of a safe, secure and healthful work environment. In this regard, it recognizes the need to sustain a drug and alcohol free workplace. Annual drug test for all employees during the company's scheduled APE and Random Drug Test per month for minimum of 100 employees is conscientiously conducted.

**Safety Trainings**

In 2018, ICTSI, in its flagship operations in Manila International Container Terminal (MICT), hereinafter "ICTSI-MICT," kept its momentum in implementing health and safety programs as part of its continued thrust to make its operations safer and more efficient. Last year, the terminal developed and deployed the following initiatives, which were aimed to promote Health and Safety (H&S) leadership among its line personnel, encourage workforce engagement and reduce health and safety issues for various users of the port facilities.

Demonstrating Effective H&S Leadership & Engaging the Workforce

- To help reinforce the importance of health and safety (H&S), the General Manager has modified the sequence of items normally taken up during its MANCOM meetings and made H&S as the first item to be discussed. This set-up has been replicated as well by the Operations Head in his daily meetings with his teams.

- To promote an awareness of health and safety issues and help cultivate an atmosphere of collaboration among different departments and between management and workers, Health & Safety Committee meetings are regularly conducted (at least on a monthly basis). Measures to mitigate identified hazards are typical topics of discussion during these meetings.

- Prior to the commencement of a job or work shift, toolbox meetings are facilitated by line managers / supervisors (in coordination with health and safety officers). During these pre-job safety meetings, workplace hazards and safe work practices related to the specific work activity are being discussed.

- Safety inspections and walkarounds are periodically conducted by H&S officers and line personnel to identify hazards in the terminal premises. The hazards and corresponding mitigations are promptly communicated with workers so that they are made aware of the hazards in their jobs. These regular inspections do not only demonstrate management's commitment to improving health and safety but also gives an opportunity for managers and workers to interact and jointly assess if the H&S programs are working effectively.

- Harnessing the power of audio-visual communication, safety videos (about ergonomics, safe manual handling, health and wellness) were developed and are now played / featured in TV monitors deployed in several locations around the terminal.

- Since it is critical for all employees to know the necessary steps to be taken in the event of an emergency, emergency drills are being conducted at least every quarter. Emergencies related to fire and earthquakes are the common ones and are facilitated in collaboration with emergency response experts coming from local government and regulatory agencies (i.e. MMDA, BFP and Manila Disaster Risk Reduction Management Office or MDRRMO).

HSE Management for other Port Users (Contractors and Customers):

- Whenever services of Contractors are engaged by ICTSI-MICT for its various projects, their capabilities and competencies are assessed (through an enhanced Procurement process) to help ensure that the company's health and safety standards are met. This is also because work activities performed by contractor personnel are often non-routine and involve varying degrees of risk. Regardless of the contract / scope of work, ICTSI-MICT ensures that contractors work safely and have equal priority as employees in respect to health and safety.

- Drivers of trucks entering MICT premises are subjected to a health and safety induction for them to be informed about the various safety rules and regulations, the traffic flow and the potential hazards inside the terminal. After the brief training session (which is being provided daily), a laminated document containing the necessary ‘safety reminders for drivers’ is then issued to them to help them conduct their transactions safely and efficiently.

• For vessel crew / personnel who wish to disembark due to shore leave or any other approved purpose, ICTSI-MICT has assigned service vehicles to shuttle them safely from the berth areas to the designated pedestrian exit gate and vice-versa. Prior to disembarking, vessel personnel undergo a Safety Induction (so that that they will be aware of the terminal’s safety rules and regulations).

Other Health & Safety improvements

• A state of the art workshop for ICTSI-MICT’s mobile equipment was unveiled early last year. It is equipped with sprinkler and foam-water fire protection systems that were designed and built in accordance with world-class standards (NFPA 13 and 16, respectively).

• To help prevent workplace illnesses and injuries, ICTSI-MICT purchased various WEM (workplace environment measurement) equipment to monitor the levels of ventilation, noise and illumination in its various work areas. The results of the work environment measurement exercises are being used as basis not only for compliance to health and safety regulations but also for continuous workplace facilities improvement.

• During the 4th quarter of 2018, studies were performed to explore the feasibility of two traffic management improvement projects to be implemented in 2019. The first project, which is the establishment of safety zones, is aimed to reduce pedestrian traffic inside the terminal. The designated safety zones are planned to be the only areas where drivers will be allowed to disembark from their trucks, minimizing the risks of pedestrian and vehicle collisions. The second project, which is the establishment of a unitary traffic flow for the terminal, is not only aimed to reduce the collisions of trucks and mobile equipment and other property damage accidents but also introduce efficiency improvements by reducing truck turn around time and RTG idle time.

(c) Revised Manual of Corporate Governance

The Group adopted a Manual on Corporate Governance in January 2003. Its latest Revised Manual on Corporate Governance (“CG Manual”), pursuant to SEC Memorandum Circular 19-2016, was submitted to the Philippine SEC on May 31, 2017 and is available in the Company website. Last January 29, 2018, the Company, through its Compliance Officer, submitted a Certificate attesting to its full compliance with the objectives set forth in the CG Manual. The Company has not deviated from its CG Manual and further commits itself to principles and best practices of governance in the attainment of corporate goals.

Presently, the Compliance Officer is Rafael D. Consing, Jr. The Compliance Officer coordinates with the Philippine SEC with respect to compliance requirements; monitors compliance with the CG Manual; and reports any governance-related issues to the Board.

For the annual report on corporate governance, the SEC has recently implemented the use of the Integrated Annual Corporate Governance Report (“I-ACGR”) by virtue of SEC Memorandum Circular 15-2017. Accordingly, the Company submitted its 2017 I-ACGR last May 30, 2018. For the 2018 I-ACGR, the Company is set to submit the same on or before the mandated deadline, which is May 30, 2019.

(d) Continuing Improvements for Corporate Governance

The Company continues to improve its systems and processes to enhance adherence to and strengthen practices of good corporate governance. In compliance with the latest mandates of the SEC such as those provided under SEC Memorandum Circular 19-2016 and incorporated in the CG Manual, the Company has implemented significant developments. Among others, the Board has established the Corporate Governance Committee, Board Risk Oversight Committee and Related Party Transactions Committee in addition with the Audit Committee, Nomination Subcommittee and Remuneration Subcommittee. To achieve an appropriate mix of competence and expertise, the composition of the Board is checked against prevailing requirements. To ensure diversity and allow a healthy balance of ideas, wisdom and experience on the management and business of ICTSI, the Board is made to be a majority of Non-Executive Directors. The competence of the Board is followed through by the Company by the conduct of annual continuing training for all directors and orientation program for first-time directors.

The Company also prioritizes healthy external relations. Through the Investor's Relations Office, the Company effectively communicates and relates with all its stockholders as well as all stakeholders.

These improvements are being updated and documented by the Company through the I-ACGR submitted annually to the SEC.

In the previous years, ICTSI's Independent Directors constitute at least 20% of the membership of the Board, or two seats in the ICTSI Board, in accordance with prevailing laws. To further promote best practices in good corporate governance, the Board has elected its third Independent Director last February 12, 2019.

Recognition and Awards in 2018

**2018**

December: **Platinum Award**
For the fifth year in a row, ICTSI was honored by **The Asset Corporate Awards** as being in the in Platinum category. ICTSI is recognized as one of the elite companies in Asia which has shown All-Round Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations. The award was given at a gala dinner held on December 10, 2018 in Hong Kong, SAR. ICTSI also won two special awards for Best Initiative on Innovation (i.e. MICT Gate Automation System) and Best Initiative on Social Responsibility (i.e. Water Supply for Aeta Communities in Tarlac).

November: ICTSI was awarded as Winner for the Priority Integrated Sector - Logistics Category in the **ASEAN Business Awards (ABA)** 2018. The award was given at the ABA gala dinner held on November 12, 2018.

June: ICTSI was awarded by **Corporate Governance Asia** as one of the Best Investor Relations Companies in the Philippines during the 8th Asian Excellence Recognition Awards 2018. ICTSI's CFO, Mr. Rafael D. Consing, Jr., was recognized as one of Asia´s Best CFO, while Mr. Arthur R. Tabuena was recognized as one of the Best Investor Relations Professional in the Philippines.

Dividends and Dividend Policy

Since 2015 to 2018, ICTSI was able to declare dividends from PhP 0.90 - PhP 2.50, which is based on the Company's unrestricted retained earnings. Dividends are payable to all common stockholders, on the basis of outstanding shares held by them, each share being entitled to the same unit of dividend as any other share. Dividends are payable to stockholders whose names are recorded in the stock and transfer book as of the record date fixed by the Board. Preferred A shareholders are entitled to dividends at rates fixed by the Board. On the other hand, Preferred B shareholders earns no dividends. Discussion on the parent company retained earnings available for dividend declaration is further disclosed in *Schedule J* to the Annual Audited Consolidated Financial Statements.

The details of ICTSI's declaration of cash dividends are as follows:

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Date of Board approval | April 21, 2016 | **April 20, 2017** | **April 20, 2017** |
| Cash dividends per share | US$0.020 (0.91) | **US$0.050 (2.47)** | **US$0.050 (2.50)** |
| Record date | May 5, 2016 | **May 5, 2017** | **May 4, 2018** |
| Payment date | May 18, 2016 | **May 17, 2017** | **May 11, 2018** |

## Item 16. Matters Not Required to be Submitted

There are no matters not required to be submitted to be disclosed.

## Item 17. Amendment of Charter, Bylaws or Other Documents

There are no amendment of charter, bylaws or other documents to be disclosed.

## Item 18. Other Proposed Actions

Approval of the 2018 Minutes of the Annual Stockholders' Meeting

The Minutes of the Annual Stockholders' Meeting of ICTSI held on April 19, 2018 ("Minutes") will be presented for approval of the Stockholders in the Annual Stockholders' Meeting. Such action on the part of the Stockholders will not constitute approval or disapproval of the matters conferred to in said Minutes since it has already been obtained in that meeting.

The Minutes and related records are available for inspection by any Stockholder at any reasonable hour during business days. The Minutes of the 2018 Annual stockholders Meeting, subject to the shareholders' approval, has been disclosed and uploaded in ICTSI's company website. In addition, copies of the Minutes shall be posted and will be available for review by the Stockholders present in the Annual Stockholders' Meeting.

The affirmative vote of a majority of the votes cast on this matter is necessary for approval of the Minutes.

Approval of the 2018 Audited Consolidated Financial Statements

The annual consolidated financial statements of ICTSI and subsidiaries as of and for the year ended December 31, 2018 and the accompanying notes to annual consolidated financial statements (referred to as "Consolidated Financial Statements") prepared by ICTSI and audited by SGV & Co., the independent auditors appointed by the stockholders, will be submitted for approval of the Stockholders at the Annual Stockholders' Meeting.

The Consolidated Financial Statements have been meticulously prepared in conformity with the Financial Reporting Standards reflecting the amounts based on the best estimates and informed judgment of the management with an appropriate consideration to materiality the same being the Company management's responsibility.

In this regard, management maintains a comprehensive system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized. Management likewise discloses to ICTSI's audit committee and to its external auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors thoroughly reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of ICTSI.

SGV & Co. have examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and have expressed their opinion on the fairness of presentation upon completion of such examination in the Report to the Stockholders and Board of Directors of ICTSI and subsidiaries.

The affirmative vote of majority of the votes cast on this proposal will constitute approval of the Consolidated Financial Statements.

## Item 19. Voting Procedures

The Chairman will announce each proposal to the floor, which shall be voted upon separately. In the absence of any objection from the floor, the Chairman shall instruct the Corporate Secretary to enter a unanimous vote of approval, except where the particular proxies provide for a negative vote or an abstention. If there is an objection, the Chairman will call for a division of the house. The votes of shareholders present in person or by

Proxy shall be counted by hand, and the Chairman will announce the result of the voting, unless voting by ballots is called for. If voting by ballots is decided, ballots will be distributed to Stockholders present in person or by Proxy in the meeting. The ballots will be filled up by Stockholders, and submitted to the Corporate Secretary or his duly authorized representatives. The valid ballots will be counted by the Corporate Secretary or a committee that the Board may organize for the purpose for the votes of the Stockholders. The Chairman will then announce the result after the counting.

The following matters require the following votes:

| **Subject Matter** | **Votes Required** |
|---|---|
| Approval of Minutes of the Annual Stockholders' Meeting | Majority of the votes cast |
| Approval of the 2018 Audited Financial Statements | Majority of the votes cast |
| Ratification of all acts, contracts, investments and resolutions of the Board of Directors and Management | Majority of the votes cast |
| Election of Directors | The top seven (7) nominees with the most number of votes are elected |
| Reappointment of SGV & Co. as the Company's external auditors | Majority of the votes cast |

Undertaking to Provide Annual Report

**A copy of the 2018 ICTSI Annual Report on SEC Form 17-A for the fiscal year ended 31 December 2018, as filed with the Securities and Exchange Commission, will be sent to any stockholder at the address he indicates, without charge upon written request addressed to:**

**The Corporate Secretary**
**International Container Terminal Services, Inc.**
**3F ICTSI Administration Building**
**Manila International Container Terminal**
**MICT South Access Road, Port of Manila**
**1012 Manila, Philippines**

**Item 20. Proxies**

There are no matters regarding proxies to be disclosed.

## Part IV. SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Manila on March 7, 2019.

For and behalf of the Board of Directors

By:

**BENJAMIN M. GOROSPE III**
*Assistant Corporate Secretary*

*Schedule 1* – Proxy Form

Instructions for submission of attached Proxy Form

1. Submission of the Proxy

(a) The proxy form must be completed, signed and dated by the shareholder or his duly authorized representative, and received at the principal office and mailing address of ICTSI **not later than 5:00 p.m. on 18 March 2019**, with the following details:

Attention: Atty. Benjamin M. Gorospe III, Assistant Corporate Secretary
3/F ICTSI Administration Bldg., MICT South Access Road, Port of Manila

(b) If the shares of stock are owned by two or more joint owners, the proxy form must be signed by all of the joint owners.

(c) If the shares of stock are owned in an "and/or" capacity, the proxy form must be signed by either one of the owners.

(d) If the shares of stock are owned by a corporation, association, partnership, or unincorporated entity, the proxy form must be accompanied by a certification, signed by a duly authorized officer, partner or representative of such corporation, association, partnership or unincorporated entity, to the effect that the person signing the proxy form has been authorized by the governing body or has the power pursuant to its by-laws, constitutive documents or duly approved policies of such corporation, association, partnership or unincorporated entity, for such purpose.

(e) A proxy form given by a broker or dealer in respect of shares of stock carried by such broker or dealer for the account of a customer must be supported by a sworn certification that the same is given with the express prior authorization of such customer.

(f) If any customer of a broker or dealer who is the beneficial owner of shares of stock executes a sub-proxy, the broker or dealer shall certify that the signature on the sub-proxy is the true and genuine signature of its customer.

2. Revocation of Proxy

An owner of shares of stock who has given a proxy has the power to revoke it by a written instrument duly signed and dated, which must be received at ICTSI's principal office and mailing address **not later than 5:00 p.m. on 18 March 2019**. A proxy is also considered revoked if an individual stockholder attends the meeting in person and expresses his intention to vote in person.

3. Validation of Proxies

Proxy validation will be held at the Executive Lounge, 4/F ICTSI Administration Building, South Access Road, MICT, Port of Manila on **29 March 2019 at 10:00 a.m.** Validation of proxies will be done by the Corporate Secretary and persons designated by the Corporate Secretary who shall be under his supervision and control, in accordance with the procedure and guidelines set out in the ICTSI's By-Laws and Rule 20(11)(b) of the Amended Implementing Rules and Regulations of the Securities Regulation Code.

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.**

**PROXY**

The undersigned (the "Principal") hereby constitutes and appoints [Name of Proxy] ______________________________________________________ (the "Proxy") as his/her attorney-in-fact, so that the Proxy or any other person empowered by the Proxy, shall have, without need of further authorization from the Principal, with full power and authority to represent and vote any and all of the shares of stock of the Principal in INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. (the "Corporation") at any and all stockholders' meetings of the Corporation, or any adjournment thereof, on all matters that may be brought before said meetings, including the election of directors, as fully and to all intents and purposes as such Principal might do if present and acting in person.

This proxy shall be valid for a period of five (5) years from date hereof unless sooner revoked by the Principal in writing.

IN WITNESS WHEREOF, this proxy has been executed by the Principal on the date and place indicated below.

_________________________________
Signature over Printed Name of Principal
Date signed: _________________________
Place signed:_________________________

**Annex "A"**

## Management Report

### Management's Discussion and Analysis or Plan of Operations

The following discussion and analysis relate to the consolidated financial position and results of operations of ICTSI and its wholly and majority-owned subsidiaries (collectively known as "ICTSI Group") and should be read in conjunction with the accompanying audited consolidated financial statements and related notes as of and for the year ended December 31, 2018. References to "ICTSI", "the Company", and "Parent Company" pertain to ICTSI Parent Company, while references to "the Group" pertain to ICTSI and its subsidiaries.

### Overview

The Group is an international operator of common user container terminals serving the global container shipping industry. Its business is the acquisition, development, operation and management of container terminals focusing on facilities with total annual throughputs ranging from 50,000 to 3,000,000 twenty-foot equivalent units (TEUs). It also handles break bulk cargoes (BBC) and provides a number of ancillary services such as storage, container packing and unpacking, inspection, weighing, and services for refrigerated containers or reefers. As of report date, the Group is involved in 32 terminal concessions and port development projects in 19 countries worldwide. There are 30 operating terminals in nine key ports; an inland container terminal; and a barge terminal in the Philippines, two each in Indonesia and Papua New Guinea and one each in China, Ecuador, Brazil, Poland, Georgia, Madagascar, Croatia, Pakistan, Honduras, Mexico, Iraq, Argentina, DR Congo, Colombia and Australia; an existing concession to construct and operate a port in Tuxpan, Mexico; and the recently signed concession in the Republic of Sudan.

ICTSI was established in 1987 in connection with the privatization of Manila International Container Terminal (MICT) in the Port of Manila, and has built upon the experience gained in rehabilitating, developing and operating MICT to establish an extensive international network concentrated in emerging market economies. International acquisitions principally in Asia, Europe, Middle East and Africa (EMEA) and Americas substantially contributed to the growth in volume, revenues, EBITDA and net income. ICTSI's business strategy is to continue to develop its existing portfolio of terminals and proactively seek acquisition opportunities that meet its investment criteria.

The Group operates principally in one industry segment which is cargo handling and related services. ICTSI has organized its business into three geographical segments:

- Asia
  - Manila - Manila International Container Terminal, Port of Manila, Philippines (MICT)
  - Zambales - New Container Terminal (NCT) 1 and 2, Subic Bay Freeport Zone, Olongapo City, Philippines (SBITC/ICTSI Subic)
  - Batangas - Bauan Terminal, Bauan, Philippines (BIPI)
  - Laguna - Laguna Gateway Inland Container Terminal, Calamba City, Laguna, Philippines (LGICT)
  - Cavite - Cavite Gateway Terminal, Tanza, Cavite, Philippines (CGT)
  - Davao - Sasa Wharf, Port of Davao (DIPSSCOR) and Hijo International Port, Davao del Norte, Philippines (HIPS)
  - General Santos - Makar Wharf, Port of General Santos, Philippines (SCIPSI)
  - Misamis Oriental - Phividec Industrial Estate, Tagaloan, Philippines (MICTSI)
  - Manila - Manila North Harbour Port, Inc., North Harbor, Manila, Philippines (MNHPI)
  - Indonesia - Makassar Port Container Terminal, Makassar, South Sulawesi, Indonesia (MTS) and Port of Tanjung Priok, Jakarta, Indonesia (OJA)
  - China - Yantai International Container Terminal, Port of Yantai, Shandong Province, China (YICT)

- Pakistan - Port of Karachi, Karachi, Pakistan (PICT)
- Australia - Webb Dock Container Terminal and ECP at Webb Dock East, Port of Melbourne, Australia (VICT)
- Papua New Guinea - Port of Motukea, Papua New Guinea (MITL) and Port of Lae, Papua New Guinea (SPICTL)

▪ EMEA
- Poland - Baltic Container Terminal, Gdynia, Poland (BCT)
- Georgia - Port of Batumi, Batumi, Georgia (BICTL)
- Croatia - Brajdica Container Terminal, Rijeka, Croatia (AGCT)
- Madagascar - Port of Toamasina, Toamasina, Madagascar (MICTSL)
- DR Congo - Matadi Gateway Terminal, Mbengu, Matadi, Democratic Republic of Congo (IDRC)
- Iraq - Basra Gateway Terminal at Port of Umm Qasr, Iraq (ICTSI Iraq)
- Sudan - Port of Port Sudan, Republic of Sudan (AGT)

▪ Americas
- Brazil - Suape Container Terminal, Suape, Brazil (TSSA)
- Ecuador - Port of Guayaquil, Guayaquil, Ecuador (CGSA)
- Argentina - Port of La Plata, Buenos Aires Province, Argentina (TECPLATA)
- Mexico - Port of Manzanillo, Manzanillo, Mexico (CMSA) and Port of Tuxpan, Mexico (TMT)
- Colombia - Port of Buenaventura, Buenaventura, Colombia (SPIA)
- Honduras - Puerto Cortés, Republic of Honduras (OPC)

Concessions for port operations entered into, acquired and terminated by ICTSI and subsidiaries for the last three years are summarized below:

*Port of Port Sudan, Republic of Sudan.* On January 3, 2019, ICTSI, through its wholly-owned subsidiary ICTSI Middle East DMCC, signed a Concession Agreement with the Sea Ports Corporation of Sudan (SPC) to operate, manage and develop the container terminal at the port of Port Sudan, Republic of the Sudan for 20 years. Port Sudan is the only major modern port in the country and serves as the international gateway for more than 95% of Sudan’s cargo flows. The Group is currently working with SPC for the handover preparations and is expecting to take over the container terminal in the first half of 2019.

*Manila North Harbour Port, Inc., Philippines.* On September 21, 2017, the BOD of ICTSI granted the authority to acquire shares in MNHPI. On the same date, ICTSI signed a Share Purchase Agreement (SPA) with Petron Corporation for the acquisition of 10,449,000 MNHPI shares, representing 34.83% of the total issued and outstanding shares of MNHPI for a total consideration of Php1.75 billion (US$33.8 million). The completion of the SPA was subject to several conditions, one of which was the approval of the acquisition by the Philippine Ports Authority which was obtained on October 20, 2017. The SPA was completed on October 30, 2017. An additional investment cost of Php2.45 billion (US$47.3 million) was incurred in relation to this acquisition.

On September 5, 2018, ICTSI has signed a SPA with Harbour Centre Port Terminal, Inc. (HCPTI) for the acquisition of 4,550,000 shares in MNHPI from HCPTI. The subject shares represent 15.17% of the total issued and outstanding shares of MNHPI. The total consideration is Php910.0 million (US$16.8 million). As of report date, the completion of the SPA remains subject to a number of conditions precedent. Upon completion of this transaction, ICTSI's shareholdings in MNHPI will increase from 34.83% to 50%. An additional investment cost will be incurred in relation to this acquisition.

*Port of Motukea and Port of Lae, Papua New Guinea*. In September 2017, ICTSI received a notification from PNG Ports Corporation Limited (PNGPCL), a Papua New Guinea (PNG) state-owned enterprise, of the confirmation by the Independent Consumer and Competition Commission in PNG with respect to the two 25-year agreements signed by ICTSI through its wholly-owned subsidiaries, Motukea International Terminal Limited (MITL) and South Pacific International Container Terminal Limited (SPICTL), with PNGPCL for the operation, management and development of the two international ports in Motukea and Lae in PNG.

SPICTL and MITL were allowed by PNGPCL to take over the port facilities and begin operations at the Port of Lae in February 2018 and at the Port of Motukea in May 2018, respectively. The terminal operating agreements and other related contracts took effect on June 1, 2018 after all the parties have complied with the agreed conditions precedent.

*Cavite Gateway Terminal, Philippines.* On April 21, 2017, ICTSI, through its wholly-owned subsidiary, Cavite Gateway Terminal (CGT), in partnership with the Philippine Department of Transportation, project launched the country's first container roll-on roll-off barge terminal in Tanza, Cavite. CGT will facilitate off-the-roads seaborn transport of containers between Port of Manila and Cavite and service industrial locators in Cavite area. CGT's barge terminal has an annual capacity of 115,000 TEUs. The terminal was formally inaugurated and commenced commercial operations on November 22, 2018.

*Port of Umm Qasr, Iraq.* In April 2014, ICTSI, through its wholly owned subsidiary ICTSI (M.E.) JLT, and General Company for Ports of Iraq (GCPI) signed the Contract for the Construction and Operation of Three New Quays and Management and Operation of Quay No. 20 ("Contract") in the Port of Umm Qasr ("Port") in Iraq. The Contract grants ICTSI the rights to: (a) manage and operate the existing container facility at Berth 20 of the Port for a period of 10 years, (b) build, under a build-operate-transfer (BOT) scheme, a new container and general cargo terminal in the Port for a concession period of 26 years, and (c) provide container and general cargo terminal services in both components. On March 1, 2016, an addendum to the Contract ("First Addendum") was signed by the parties granting ICTSI, through ICTSI Dubai, the right to manage and operate an additional existing Quay No. 19 for a total of 13 years, with the first three years for the completion of rehabilitation works. Also, the First Addendum extended the original term for the management and operation of Quay No. 20 from 10 to 13 years. On March 26, 2017, a second addendum to the Contract ("Second Addendum") was signed by the parties granting ICTSI, through ICTSI Dubai, on the right to manage and operate Quay No. 21 co-terminus with the Contract and the First Addendum. The Second Addendum extended the term for the management and operation of Quay No. 19 and 20 from 13 to 21 years.

Berth 21 started commercial operations in the third quarter of 2018 while the remaining rehabilitation works are being completed. Phase 1 of the expansion project (Berth 27) was completed and fully operational in the first quarter of 2017. On October 22, 2017, ICTSI signed an agreement with GCPI for the Phase 2 of expansion development of the Port which involves development of two new berths, Berths 25 and 26, including a 20-hectare yard area. The development of this phase of the expansion project is on-going and is expected to be completed in the third quarter of 2019.

*Extension of Contracts*

*Davao Sasa Port, Philippines.* On April 21, 2006, the Philippine Ports Authority (PPA) granted DIPSSCOR a ten-year contract for cargo handling services at Sasa Wharf, Port of Davao in the Philippines that expired on April 20, 2016. Since then, the local office of the PPA in Davao City has granted DIPSSCOR a series of hold-over authorities for a period ranging from six months to one year. On November 12, 2018, a hold-over authority was issued by the PPA Port Manager with availability of six months starting August 26, 2018 or until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. As of report date, DIPSSCOR has not yet received the extension of the hold-over authority.

*Makar Wharf, Port of General Santos, South Cotabato, Philippines.* On February 20, 2006, the PPA granted South Cotabato Integrated Port Services, Inc. (SCIPSI) a ten-year contract for the exclusive management and operation of arrastre, stevedoring, bagging and crated cargo handling services at Makar Wharf, Port of General Santos, General Santos City in the Philippines that expired on February 19, 2016. Since then, the local office of the PPA in General Santos City has granted SCIPSI a series of hold-over authorities for a period of one year. On October 19, 2018, a hold-over authority was issued by the PPA Port Manager with availability of six months starting August 25, 2018 or until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. As of report date, SCIPSI has not yet received the extension of the hold-over authority.

*Termination of Contracts*
*Deep Water Port, Ibeju-Lekki, Lagos State, Federal Republic of Nigeria.* On May 17, 2017, ICTSI, through its subsidiary Lekki International Container Terminal Services LFTZ Enterprise (LICTSE), and Lekki Port LFTZ Enterprise (LPLE) signed a settlement and release agreement cancelling LICTSE's sub-concession agreement dated August 10, 2012, subject to payment of an agreed amount to LICTSLE. The said Sub-concession Agreement (Agreement) granted LICTSLE exclusive right to develop and operate, and to provide handling equipment and container terminal service at the container terminal within Lekki Port located at Ibeju Lekki, Lagos State, Federal Republic of Nigeria for a period of 21 years. On May 23, 2017, ICTSI received the agreed amounts of US$12.5 million representing the return of payments made to Lekki Port pursuant to the Agreement, and US$7.5 million representing compensation of costs incurred by ICTSI in relation to the project. The termination of the Sub-concession Agreement has been finalized and was deemed effective May 24, 2017.

*Port of Portland, Oregon, U.S.A.* In October 2016, the Board of ICTSI Ltd. has authorized the management of ICTSI Oregon to negotiate with the Port of Portland and reach terms mutually acceptable to both parties with respect to the termination of the lease agreement after two major customers, Hanjin Shipping Co. and Hapag-Lloyd stopped calling the Port of Portland in March 2015 due to continuing labor disruptions. In late 2016, the Port of Portland and ICTSI Oregon began discussions of a mutual agreement to terminate the lease agreement. As a result, the Company has provided for probable loss on the pre-termination of the lease agreement amounting to US$23.4 million in 2016 based on the Company's best estimate of the probable outcome of the negotiations with the Port.

On March 8, 2017, ICTSI, through ICTSI Oregon, and the Port of Portland have signed a Lease Termination Agreement and both parties have mutually agreed to terminate the 25-year Lease Agreement to operate the container facility at Terminal 6 of the Port of Portland with an effective date of March 31, 2017. The Lease Termination Agreement allows ICTSI Oregon to be relieved of its long-term lease obligations. In exchange, the Port of Portland will receive US$11.45 million in cash compensation and container handling equipment including spare parts and tools.

*Muara Container Terminal, Brunei Darussalam.* The Agreement with the Brunei Government for the operation and maintenance of the Muara Container Terminal in Brunei Darussalam was no longer renewed and ended effective February 21, 2017.

*Others*
*Port of Tanjung Priok, Indonesia*. On November 2, 2017, PT ICTSI Jasa Prima Tbk (IJP), an ICTSI subsidiary in Indonesia, signed a Conditional Share Purchase Agreement with PT Samudera Terminal Indonesia (STI) for the purchase of IJP's interest in PT Perusahaan Bongkar Muat Olah Jasa Andal (OJA), subject to certain conditions. As of report date, the conditions precedent have not yet been fulfilled.

**Results of Operations and Key Performance Indicators**

Results of Operations

The following table shows a summary of the results of operations for the year ended

December 31, 2018 as compared with the same period in 2017 and 2016 as derived from the accompanying audited consolidated financial statements.

**Table 1.1 Audited Consolidated Statements of Income**

| | For the Years Ended December 31 | | | | |
|---|---|---|---|---|---|
| *In thousands, except % change data* | 2016 | 2017 | **2018** | % Change *2016 vs 2017* | % Change *2017 vs 2018* |
| Gross revenues from port operations | US$1,128,395 | US$1,244,438 | **US$1,385,785** | 10.3 | 11.4 |
| Revenues from port operations, net of port authorities' share | 944,693 | 1,053,911 | **1,182,679** | 11.6 | 12.2 |
| Total income (net revenues, interest and other income) | 980,396 | 1,104,418 | **1,238,637** | 12.7 | 12.2 |
| Total expenses (operating, financing and other expenses) | 723,355 | 856,155 | **929,782** | 18.4 | 8.6 |
| EBITDA[1] | 525,078 | 578,012 | **642,221** | 10.1 | 11.1 |
| EBIT[2] | 377,248 | 404,547 | **446,509** | 7.2 | 10.4 |
| Net income attributable to equity holders of the parent | 180,016 | 182,141 | **221,494** | 1.2 | 21.6 |
| **Earnings per share** | | | | | |
| Basic | US$0.066 | US$0.069 | **US$0.078** | 4.5 | 11.8 |
| Diluted | 0.065 | 0.069 | **0.077** | 6.2 | 12.2 |

1 EBITDA is not a uniform or legally defined financial measure. It generally represents earnings before interest, taxes, depreciation and amortization. EBITDA is presented because the Group believes it is an important measure of its performance and liquidity. EBITDA is also frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the industry.

The Group's EBITDA figures are not; however, readily comparable with other companies' EBITDA figures as they are calculated differently and thus, must be read in conjunction with related additional explanations. EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Group's results as reported under PFRS. Some of the limitations concerning EBITDA are:

- EBITDA does not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for working capital needs;
- EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal debt payments;
- Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in the industry may calculate EBITDA differently, which may limit its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of the business. The Group compensates for these limitations by relying primarily on the PFRS results and uses EBITDA only as supplementary information.

2 EBIT, or Earnings Before Interest and Taxes, is calculated by taking net revenues from port operations and deducting cash operating expenses and depreciation and amortization.

The following table presents the computation of EBITDA as derived from the Group's consolidated net income attributable to equity holders of the parent for the year:

**Table 1.2 EBITDA Computation**

| | For the Years Ended December 31 | | | | |
|---|---|---|---|---|---|
| *In thousands, except % change data* | 2016 | 2017 | **2018** | % Change *2016 vs 2017* | % Change *2017 vs 2018* |
| Net income attributable to equity holders of the parent | US$180,016 | US$182,141 | **US$221,494** | 1.2 | 21.6 |
| Non-controlling interests | 13,455 | 25,576 | **28,329** | 90.1 | 10.8 |
| Provision for income tax | 63,571 | 40,547 | **59,032** | (36.2) | 45.6 |
| Income before income tax | 257,042 | 248,264 | **308,855** | ( 3.4) | 24.4 |
| Add (deduct): | | | | | |
| Depreciation and amortization | 147,830 | 173,465 | **195,712** | 17.3 | 12.8 |
| Interest and other expenses | 155,910 | 206,790 | **193,611** | 32.6 | ( 6.4) |
| Interest and other income | (35,704) | (50,507) | **(55,957)** | 41.5 | 10.8 |
| EBITDA | US$525,078 | US$578,012 | **US$642,221** | 10.1 | 11.1 |

Key Performance Indicators

The five (5) key performance indicators (KPIs) include gross moves per hour per crane, crane availability and berth utilization, which affect the operations of the Group, and volume growth in twenty-foot equivalent unit (TEU) and gross revenue growth, which are both financial in nature. These KPIs are discussed in detail in the succeeding paragraphs.

*2018 Compared with 2017*

Gross moves per hour per crane ranged from 16.2 to 31.5 moves per hour in 2017 to 14.3 to 30.7 moves per hour in 2018. Crane availability ranged from 81.6 percent to 99.4 percent in 2017 to 75.7 percent to 99.7 percent in 2018. Berth utilization was at 18.1 percent to 90.7 percent in 2017 and 19.2 percent to 84.6 percent in 2018.

*2017 Compared with 2016*

Gross moves per hour per crane ranged from 17.3 to 32.6 moves per hour in 2016 to 16.2 to 31.5 moves per hour in 2017. Crane availability ranged from 79.4 percent to 99.1 percent in 2016 to 81.6 percent to 99.4 percent in 2017. Berth utilization was at 16.3 percent to 76.5 percent in 2016 and 18.1 percent to 90.7 percent in 2017.

The gross moves per hour per crane is a measure of crane productivity while working on vessels during discharging or loading operations. The crane availability relates to the efficiency of the maintenance of the crane. While berth utilization is a measure of how long the berth is utilized for a given period and this indicator measures the efficiency of the operations and the productivity on the vessel.

**Comparison of Operating Results for the Years Ended December 31, 2018 and 2017**

TEU Volume

The below table presents the volume (in TEU) handled by the Group for the years ended December 31, 2017 and 2018:

**Table 1.3a Volume**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2017 | **2018** | % Change |
| Asia | 4,815,905 | **5,237,452** | 8.8 |
| Americas | 2,855,580 | **2,935,281** | 2.8 |
| EMEA | 1,481,973 | **1,563,888** | 5.5 |
| | 9,153,458 | **9,736,621** | 6.4 |

The Group's consolidated volume increased by 6.4 percent to 9,736,621 TEUs for the year ended

December 31, 2018 from 9,153,458 TEUs handled for the same period in 2017 mainly due to improvement in trade activities; new contracts with shipping lines and services; and contribution of new terminals, VICT, SPICTL and MITL. Excluding new terminals, consolidated volume would have increased by 2.6 percent in 2018.

Volume from the Asia segment, consisting of terminals in the Philippines, China, Indonesia, Pakistan, Australia and Papua New Guinea grew by 8.8 percent to 5,237,452 TEUs for the year ended December 31, 2018 from 4,815,905 TEUs for the same period in 2017 mainly due to improvement in trade activities at most of the Philippine terminals; new services at YICT; and contribution of new terminals, VICT, SPICTL and MITL, tapered by decreased vessel calls at PICT. Excluding new terminals, volume from Asia operations would have increased by 1.5 percent in 2018. The Asia operations accounted for 52.6 percent and 53.8 percent of the consolidated volume for the years ended December 31, 2017 and 2018, respectively.

Volume from the Americas segment, consisting of terminals in Brazil, Ecuador, Honduras and Mexico increased by 2.8 percent to 2,935,281 TEUs for the year ended December 31, 2018 from 2,855,580 TEUs for the same period in 2017 mainly due to new contracts with shipping lines and services and increased transshipments at CMSA; and higher trade volumes at OPC, slightly tapered by reduced transshipments at CGSA. The Americas operations accounted for 31.2 percent and 30.1 percent of the consolidated volume for the years ended December 31, 2017 and 2018, respectively.

Volume from the EMEA segment, consisting of terminals in Iraq, DR Congo, Poland, Georgia, Madagascar and Croatia, increased by 5.5 percent to 1,563,888 TEUs for the year ended December 31, 2018 from 1,481,973 TEUs for the same period in 2017 mainly due to new shipping lines and services at BCT; and increased trade volumes at AGCT, BICT and IDRC, slightly tapered by market decline in Iraq resulting to decrease in trade volumes at BGT. The EMEA operations accounted for 16.2 percent and 16.1 percent of the Group's consolidated volume for the years ended December 31, 2017 and 2018, respectively.

Total Income

Total income consists of: (1) Revenues from port operations, net of port authorities' share in gross revenues; (2) Interest income; (3) Foreign exchange gain; and (4) Other income.

The table below illustrates the consolidated total income for the years ended December 31, 2017 and 2018:

**Table 1.4a Total Income**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| *(In thousands, except % change data)* | 2017 | **2018** | % Change |
| Gross revenues from port operations | US$1,244,438 | **US$1,385,785** | 11.4 |
| Port authorities' share in gross revenues | 190,527 | **203,105** | 6.6 |
| Net revenues | 1,053,911 | **1,182,680** | 12.2 |
| Interest income | 21,853 | **24,089** | 10.2 |
| Foreign exchange gain | 5,048 | **3,577** | (29.1) |
| Other income | 23,606 | **28,291** | 19.8 |
| | US$1,104,418 | **US$1,238,637** | 12.2 |

For the year ended December 31, 2018, net revenues stood at 95.5 percent of the total consolidated income while interest income, foreign exchange gain and other income accounted for 1.9 percent, 0.3 percent and 2.3 percent, respectively. For the same period in 2017, net revenues stood at 95.4 percent of the total consolidated income while interest income, foreign exchange gain and other income accounted for 2.0 percent, 0.5 percent and 2.1 percent, respectively.

*Gross Revenues from Port Operations*

Gross revenues from port operations include fees received for cargo handling, wharfage, berthing, storage, and special services.

The below table illustrates the consolidated gross revenues for the years ended December 31, 2017 and 2018:

**Table 1.5a Gross Revenues from Port Operations**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| *(In thousands, except % change data)* | 2017 | **2018** | % Change |
| Asia | US$591,246 | **US$694,300** | 17.4 |
| Americas | 401,382 | **407,071** | 1.4 |
| EMEA | 251,810 | **284,414** | 12.9 |
| | US$1,244,438 | **US$1,385,785** | 11.4 |

The Group's consolidated gross revenues from port operations increased by 11.4 percent to US$1,385.8 million for the year ended December 31, 2018 from US$1,244.4 million for the same period in 2017 mainly due to volume growth; new contracts with shipping lines and services; increase in revenues from non-containerized cargoes, storage and ancillary services; tariff adjustments; and contribution of new terminals, VICT, SPICTL and MITL. Excluding new terminals, consolidated gross revenues would have increased by 6.6 percent in 2018.

Gross revenues from the Asia segment reported a growth of 17.4 percent to US$694.3 million for the year ended December 31, 2018 from US$591.2 million for the same period in 2017 mainly due to volume growth at most of the Philippine terminals and YICT; and contribution of new terminals, VICT, SPICTL and MITL, partially tapered by lower trade volumes at PICT; and unfavorable translation impact of the depreciation of PHP-based revenues at Philippine terminals. Excluding new terminals, gross revenues from Asia operations would have increased by 7.5 percent in 2018. The Asia operations captured 47.5 percent and 50.1 percent of the consolidated gross revenues for the years ended December 31, 2017 and 2018, respectively.

Gross revenues from the Americas segment increased by 1.4 percent to US$407.1 million for the year ended December 31, 2018 from US$401.4 million for the same period in 2017 mainly due to volume growth, higher storage revenues at CMSA; and higher storage and ancillary revenues combined with tariff adjustments at OPC, tapered by lower transshipments at CGSA; and unfavorable translation impact of the depreciation of BRL-based revenues at TSSA. The Americas operations accounted for 32.3 percent and 29.4 percent of the consolidated gross revenues for the years ended December 31, 2017 and 2018, respectively.

Gross revenues from the EMEA segment increased by 12.9 percent to US$284.4 million for the year ended December 31, 2018 from US$251.8 million for the same period in 2017 primarily due to volume growth at AGCT, BICT and IDRC; increase in general cargoes and storage revenues at BGT; new shipping lines and services combined with increase in revenues from general cargoes at BCT; and favorable translation impact of the appreciation of EUR-based revenues at MICTSL and AGCT. The EMEA operations stood at 20.2 percent and 20.5 percent of the consolidated gross revenues for the years ended December 31, 2017 and 2018, respectively.

*Port Authorities' Share in Gross Revenues*

Port authorities' share in gross revenues, which represents the variable fees paid to Port Authorities by certain terminals, grew by 6.6 percent to US$203.1 million for the year ended December 31, 2018 from US$190.5 million for the same period in 2017 as a result of volume growth and stronger revenues at these terminals.

*Interest Income, Foreign Exchange Gain and Other Income*

Consolidated interest income increased by 10.2 percent to US$24.1 million for the year ended December 31, 2018 from US$21.9 million for the same period in 2017 mainly due to higher interest income earned from advances to SPIA, a joint venture associate.

Foreign exchange gain decreased by 29.1 percent to US$3.6 million for the year ended December 31, 2018 from US$5.0 million for the same period in 2017 mainly due to the unfavorable translation impact of certain currencies against US dollar. Foreign exchange gain mainly arises from the settlement and translation or restatement adjustments of foreign currency-denominated monetary assets and liabilities.

Other income increased by 19.8 percent to US$28.3 million for the year ended December 31, 2018 from US$23.6 million for the same period in 2017 mainly due to a non-recurring gain from pre-termination of interest rate swap; and reversal of accrued taxes and provisions at CMSA in 2018, tapered by the absence of the non-recurring gain from reimbursement of costs incurred in relation to the termination of the sub-concession agreement at LICTSLE in 2017; and recognition of income tax credit at OPC in 2017. Other income includes the Group's rental, dividend income, and other sundry income accounts.

Total Expenses

The below table shows the breakdown of total expenses for 2017 and 2018.

**Table 1.6a** **Total Expenses**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| *(In thousands, except % change data)* | 2017 | **2018** | % Change |
| Manpower costs | US$207,583 | **US$217,154** | 4.6 |
| Equipment and facilities-related expenses | 157,207 | **198,971** | 26.6 |
| Administrative and other operating expenses | 111,109 | **124,334** | 11.9 |
| Total cash operating expenses | 475,899 | **540,459** | 13.6 |
| Depreciation and amortization | 173,465 | **195,712** | 12.8 |
| Interest expense and financing charges on borrowings | 100,413 | **101,310** | 0.9 |
| Interest expense on concession rights payable | 33,106 | **37,545** | 13.4 |
| Equity in net loss of joint ventures and an associate | 36,337 | **22,268** | (38.7) |
| Foreign exchange loss and others | 36,935 | **32,488** | (12.0) |
| | US$856,155 | **US$929,782** | 8.6 |

Total cash operating expenses of the Group increased by 13.6 percent to US$540.5 million for the year ended December 31, 2018 from US$475.9 million for the same period in 2017 mainly due to start-up costs at new terminals, VICT, SPICTL and MITL; increase in prices of fuel; higher fuel and power consumption driven by volume growth, and equipment rentals at certain terminals, partially tapered by continuous monitoring of cost optimization measures; and favorable translation impact of PHP-based expenses at Philippine terminals and BRL-based expenses at TSSA. Excluding new terminals, consolidated cash operating expenses would have increased by 3.0 percent in 2018.

*Manpower Costs*

Manpower costs increased by 4.6 percent to US$217.2 million for the year ended December 31, 2018 from US$207.6 million for the same period in 2017 primarily due to cost contribution of new terminals, VICT, SPICTL and MITL; and government-mandated and contracted salary rate adjustments at certain terminals, partially tapered by continuous monitoring of cost optimization measures. Excluding new terminals, consolidated manpower costs would have decreased by 1.3 percent in 2018.

Manpower costs accounted for 43.6 percent and 40.2 percent of consolidated cash operating expenses for the years ended December 31, 2017 and 2018, respectively.

*Equipment and Facilities-related Expenses*

Equipment and facilities-related expenses consist mainly of repairs and maintenance costs of port equipment and facilities, fixed port leases, power and light, tools expenses, equipment rentals, and fuel, oil and lubricants.

Equipment and facilities-related expenses increased by 26.6 percent to US$199.0 million for the year ended December 31, 2018 from US$157.2 million for the same period in 2017 mainly due to cost contribution of new terminals, VICT, SPICTL and MITL; increase in prices of fuel; and higher fuel and power consumption driven by volume growth, and equipment rentals at certain terminals. Excluding new terminals, consolidated equipment and facilities-related expenses would have increased by 7.9 percent in 2018.

Equipment and facilities-related expenses represented 33.0 percent and 36.8 percent of consolidated cash operating expenses for the years ended December 31, 2017 and 2018, respectively.

*Administrative and Other Operating Expenses*

Administrative and other operating expenses increased by 11.9 percent to US$124.3 million for the year ended December 31, 2018 from US$111.1 million for the same period in 2017 mainly due to cost contribution of new terminals, VICT, SPICTL and MITL; increase in information technology-related costs; and increase in legal fees, partially tapered by continuous monitoring of cost optimizations measures. Excluding new terminals, consolidated administrative and other operating expenses would have increased by 5.4 percent in 2018.

Administrative and other operating expenses stood at 23.4 percent and 23.0 percent of consolidated cash operating expenses for the years ended December 31, 2017 and 2018, respectively.

*Depreciation and Amortization*

Depreciation and amortization expense increased by 12.8 percent to US$195.7 million for the year ended December 31, 2018 from US$173.5 million for the same period in 2017 mainly due to contribution of new terminals, VICT, SPICTL and MITL; and higher depreciation arising from expansion projects at ICTSI Iraq, CMSA and OPC.

*Interest and Financing Charges on Borrowings*

Interest and financing charges on borrowings increased marginally by 0.9 percent to US$101.3 million for the year ended December 31, 2018 from US$100.4 million for the same period in 2017 primarily due to lower capitalized borrowing costs on qualifying assets; and new loans, partially tapered by interest reduction from pre-termination of the Project Finance Facility at CMSA. Capitalized borrowing costs on qualifying assets amounted to US$10.4 million in 2017 at a capitalization rate ranging from 2.4 percent to 6.7 percent and US$4.3 million in 2018 at a capitalized rate ranging from 3.5 percent to 7.0 percent.

*Interest Expense on Concession Rights Payable*

Interest on concession rights payable increased by 13.4 percent to US$37.5 million for the year ended December 31, 2018 from US$33.1 million for the same period in 2017 mainly due to the concession right liabilities recognized at new terminals, SPICTL and MITL.

*Equity in Net Loss of Joint Ventures and An Associate*

Equity in net loss of joint ventures and an associate decreased by 38.7 percent to US$22.3 million for the year ended December 31, 2018 from US$36.3 million for the same period in 2017 mainly due to the decrease in the Company's share in net loss at SPIA driven by volume growth and positive EBITDA. Equity in net loss of joint ventures and an associate in 2018 is net of the Group's share in net income of MNHPI, a 34.83%-owned associate.

*Foreign Exchange Loss and Others*

Foreign exchange loss and others decreased to US$32.5 million for the year ended December 31, 2018 from US$36.9 million for the same period in 2017 mainly due to lower restructuring and separation costs at certain terminals, partially tapered by non-recurring impairment charge on the goodwill of DIPSSCOR in 2018; and write-off of debt issue cost from pre-termination of project finance facility at CMSA in 2018. Foreign exchange loss mainly results from the translation or restatement as well as from the settlement of foreign currency-denominated monetary assets and liabilities.

EBITDA and EBIT

Consolidated EBITDA grew by 11.1 percent to US$642.2 million for the year ended December 31, 2018 from US$578.0 million for the same period in 2017 mainly due to strong revenues combined with positive contribution of new terminals, SPICTL and MITL, partially tapered by the higher fixed port lease expense at VICT. Excluding the new terminals, consolidated EBITDA would have increased by 9.0 percent in 2018. EBITDA margin slightly decreased to 46.3 percent in 2018 from 46.4 percent in 2017.

Meanwhile, consolidated EBIT increased by 10.4 percent to US$446.5 million for the year ended December 31, 2018 from US$404.5 million for the same period in 2017 mainly due to stronger EBITDA, tapered by higher depreciation charges. Excluding the new terminals, consolidated EBIT would have increased by 10.7 percent in 2017. EBIT margin decreased to 32.2 percent in 2018 from 32.5 percent in 2017.

Income Before Income Tax and Provision for Income Tax

Consolidated income before income tax increased by 24.4 percent to US$308.9 million for the year ended December 31, 2018 from US$248.3 million for the same period in 2017 as a result of strong operating income; decrease in equity in net loss at SPIA; and lower restructuring and separation costs, tapered by increase in depreciation charges; and the impact of the non-recurring items. Excluding new terminals and the non-recurring items, consolidated income before income tax would have increased by 23.3 percent in 2018. The ratio of income before income tax to consolidated gross revenues stood at 19.9 percent and 22.3 percent in 2017 and 2018, respectively.

Consolidated provision for current and deferred income taxes increased to US$59.0 million for the year ended December 31, 2018 from US$40.5 million for the same period in 2017 mainly due to higher taxable income at most of the terminals. Effective income tax rate in 2017 and 2018 stood at 16.3 percent and 19.1 percent, respectively.

Net Income

Consolidated net income increased by 20.3 percent to US$249.8 million for the year ended December 31, 2018 from US$207.7 million for the same period in 2017. Excluding new terminals and the non-recurring items, consolidated net income would have increased by 21.8 percent in 2018.

The ratio of consolidated net income to gross revenues stood at 16.7 percent and 18.0 percent in 2017 and 2018, respectively.

Consolidated net income attributable to equity holders grew by 21.6 percent to US$221.5 million for the year ended December 31, 2018 from US$182.1 million for the same period in 2017. Excluding new terminals and the non-recurring items, net income attributable to equity holders would have increased by 23.0 percent in 2018.

Basic and diluted earnings per share increased to US$0.078 in 2018 from US$0.069 in 2017 and to US$0.077 in 2018 from US$0.069 in 2017 the same period in 2017, respectively, mainly due to higher net income, partially tapered by increase in distributions to holders of perpetual capital securities from issuance of senior guaranteed perpetual capital securities in January 2018.

**Comparison of Operating Results for the Years Ended December 31, 2017 and 2016**

TEU Volume

The below table presents the volume (in TEU) handled by the Group for the years ended December 31, 2016 and 2017:

**Table 6.7a Volume**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | **2017** | % Change |
| Asia | 4,552,881 | **4,815,905** | 5.8 |
| Americas | 3,004,690 | **2,855,580** | (5.0) |
| EMEA | 1,131,792 | **1,481,973** | 30.9 |
| | 8,689,363 | **9,153,458** | 5.3 |

The Group's consolidated volume increased by 5.3 percent from 8,689,363 TEUs for the year ended December 31, 2016 to 9,153,458 TEUs handled for the same period in 2017 mainly due to continuous improvement in trade activities and continuous volume ramp-up at certain terminals; and contribution of new terminals, IDRC and VICT, partially tapered by decrease in vessel calls and lower transshipments at CGSA. Excluding new terminals, consolidated volume would have increased by 3.6 percent in 2017.

Volume from the Asia segment, consisting of terminals in the Philippines, China, Indonesia, Pakistan and Australia, increased by 5.8 percent from 4,552,881 TEUs for the year ended December 31, 2016 to 4,815,905 TEUs for the same period in 2017 mainly due to continuous improvement in trade activities at most of the Philippine Terminals and YICT; and contribution of a new terminal, VICT, tapered by decreased vessel calls and transshipments at PICT. Excluding VICT, volume from Asia operations would have increased by 3.8 percent in 2017. The Asia operations accounted for 52.4 percent and 52.6 percent of the consolidated volume for the years ended December 31, 2016 and 2017, respectively.

Volume from the Americas segment, consisting of terminals in Brazil, Ecuador, Honduras and Mexico, decreased by 5.0 percent from 3,004,690 TEUs for the year ended December 31, 2016 to 2,855,580 TEUs for the same period in 2017 mainly due to reduced vessel calls and lower transshipments at CGSA, tapered by increased trade volumes and new services at CMSA; and marginal economic recovery and improvement in trade activities at TSSA. The Americas operations accounted for 34.6 percent and 31.2 percent of the consolidated volume for the years ended December 31, 2016 and 2017, respectively.

Volume from the EMEA segment, consisting of terminals in Iraq, DR Congo, Poland, Georgia, Madagascar and Croatia, reported a 30.9 percent growth from 1,131,792 TEUs for the year ended December 31, 2016 to 1,481,973 TEUs for the same period in 2017 mainly due to continuous growth and ramp-up at ICTSI Iraq; continuous improvement in trade activities in the region resulting to double-digit growth at all EMEA terminals; and contribution of a new terminal, IDRC. Excluding IDRC, volume from EMEA operations would have increased by 26.3 percent in 2017. The EMEA operations accounted for 13.0 percent and 16.2 percent of the Group's consolidated volume for the years ended December 31, 2016 and 2017, respectively.

Total Income

Total income consists of: (1) Revenues from port operations, net of port authorities' share in gross revenues; (2) Interest income; (3) Foreign exchange gain; and (4) Other income.

The table below illustrates the consolidated total income for the years ended December 31, 2016 and 2017:

**Table 1.8a Total Income**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| *(In thousands, except % change data)* | 2016 | **2017** | % Change |
| Gross revenues from port operations | US$1,128,395 | **US$1,244,438** | 10.3 |
| Port authorities' share in gross revenues | 183,702 | **190,527** | 3.7 |
| Net revenues | 944,693 | **1,053,911** | 11.6 |
| Interest income | 17,651 | **21,853** | 23.8 |
| Foreign exchange gain | 4,659 | **5,048** | 8.3 |
| Other income | 13,393 | **23,606** | 76.3 |
| | US$980,396 | **US$1,104,418** | 12.7 |

For the year ended December 31, 2017, net revenues stood at 95.4 percent of the total consolidated income while interest income, foreign exchange gain and other income accounted for 2.0 percent, 0.5 percent and 2.1 percent, respectively. For the same period in 2016, net revenues stood at 96.3 percent of the total consolidated income while interest income, foreign exchange gain and other income accounted for 1.8 percent, 0.5 percent and 1.4 percent, respectively.

*Gross Revenues from Port Operations*

Gross revenues from port operations include fees received for cargo handling, wharfage, berthing, storage, and special services.

The below table illustrates the consolidated gross revenues for the years ended December 31, 2016 and 2017:

**Table 1.9a Gross Revenues from Port Operations**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| *(In thousands, except % change data)* | 2016 | **2017** | % Change |
| Asia | US$581,405 | **US$591,246** | 1.7 |
| Americas | 387,423 | **401,382** | 3.6 |
| EMEA | 159,567 | **251,810** | 57.8 |
| | US$1,128,395 | **US$1,244,438** | 10.3 |

The Group's consolidated gross revenues from port operations increased by 10.3 percent from US$1,128.4 million for the year ended December 31, 2016 to US$1,244.4 million for the same period in 2017 mainly due to volume growth; tariff rate adjustments at certain terminals; new contracts with shipping lines and services; and contribution of new terminals, IDRC and VICT. Excluding new terminals, consolidated gross revenues would have increased by 6.0 percent in 2017.

Gross revenues from the Asia segment increased by 1.7 percent from US$581.4 million for the year ended December 31, 2016 to US$591.2 million for the same period in 2017 mainly due to volume growth at most of the Philippine terminals and YICT; and contribution of new terminal, VICT, tapered by unfavorable translation impact of the depreciation of PHP-based revenues at Philippine terminals. Excluding VICT, gross revenues from Asia operations would have decreased by 0.3 percent in 2017. The Asia operations captured 51.5 percent and 47.5 percent of the consolidated gross revenues for the years ended December 31, 2016 and 2017, respectively.

Gross revenues from the Americas segment increased by 3.6 percent from US$387.4 million for the year ended December 31, 2016 to US$401.4 million for the same period in 2017 mainly due to volume growth at CMSA; tariff rate adjustments at CGSA; and improvement in trade activities combined with favorable translation impact of the appreciation of Brazilian Reais (BRL) at TSSA, partially tapered by decreased vessel calls at CGSA. The Americas operations accounted for 34.3 percent and 32.3 percent of the consolidated gross revenues for the years ended December 31, 2016 and 2017, respectively.

Gross revenues from the EMEA segment grew by 57.8 percent from US$159.6 million for the year ended December 31, 2016 to US$251.8 million for the same period in 2017 primarily due to continuous volume growth at ICTSI Iraq; continuous improvement in trade activities in the region; and contribution of a new terminal, IDRC. Excluding IDRC, gross revenues from EMEA operations would have increased by 37.6 percent in 2017. The EMEA operations stood at 14.2 percent and 20.2 percent of the consolidated gross revenues for the years ended December 31, 2016 and 2017, respectively.

*Port Authorities' Share in Gross Revenues*

Port authorities' share in gross revenues, which represents the variable fees paid to Port Authorities by certain terminals, grew by 3.7 percent from US$183.7 million for the year ended December 31, 2016 to US$190.5 million for the same period in 2017 as a result of volume growth and stronger revenues at these terminals.

*Interest Income, Foreign Exchange Gain and Other Income*

Consolidated interest income increased by 23.8 percent from US$17.7 million for the year ended December 31, 2016 to US$21.9 million for the same period in 2017 mainly due to higher interest income earned from advances to SPIA, a joint venture associate.

Foreign exchange gain increased by 8.3 percent from US$4.7 million for the year ended December 31, 2016 to US$5.0 million for the same period in 2017 mainly due to the favorable translation impact of certain currencies against US dollar. Foreign exchange gain mainly arises from the settlement and translation or restatement adjustments of foreign currency-denominated monetary assets and liabilities.

Other income increased from US$13.4 million for the year ended December 31, 2016 to US$23.6 million for the same period in 2017 mainly due to the one-time gain from reimbursement of costs related to the terminated sub-concession agreement at LICTSLE; and recognition of income tax credit at OPC. Other income includes the Group's rental, dividend income, and other sundry income accounts.

Total Expenses

The below table shows the breakdown of total expenses for 2016 and 2017.

**Table 1.10a** **Total Expenses**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| *(In thousands, except % change data)* | 2016 | **2017** | % Change |
| Manpower costs | US$192,536 | **US$207,583** | 7.8 |
| Equipment and facilities-related expenses | 119,877 | **157,207** | 31.1 |
| Administrative and other operating expenses | 107,201 | **111,109** | 3.6 |
| Total cash operating expenses | 419,614 | **475,899** | 13.4 |
| Depreciation and amortization | 147,830 | **173,465** | 17.3 |
| Interest expense and financing charges on borrowings | 75,050 | **100,413** | 33.8 |
| Equity in net loss of a joint venture and an associate | 5,572 | **36,337** | 552.1 |
| Interest expense on concession rights payable | 34,050 | **33,106** | (2.8) |
| Foreign exchange loss and others | 41,239 | **36,935** | (10.4) |
| | US$723,355 | **US$856,155** | 18.4 |

Total cash operating expenses of the Group increased by 13.4 percent from US$419.6 million for the year ended December 31, 2016 to US$475.9 million for the same period in 2017 mainly due to cost contribution of new terminals, IDRC and VICT; higher fuel and power consumption as a result of increase in volume; increase in fuel prices and power tariff rate adjustments at certain terminals; and unfavorable translation impact of BRL at TSSA, tapered by cost optimization measures implemented; and favorable translation impact of PHP-based expenses at Philippine terminals. Excluding new terminals, consolidated cash operating expenses would have increased marginally by 0.6 percent in 2017.

*Manpower Costs*

Manpower costs increased by 7.8 percent from US$192.5 million for the year ended December 31, 2016 to US$207.6 million for the same period in 2017 primarily due to contribution of new terminals, IDRC and VICT; government-mandated and contracted salary rate adjustments at certain terminals; and unfavorable translation impact of BRL at TSSA, partially tapered by cost optimization measures implemented; and favorable translation impact of PHP-based costs at Philippine terminals. Excluding new terminals, consolidated manpower costs would have increased marginally by 0.8 percent in 2017.

Manpower costs accounted for 45.9 percent and 43.6 percent of consolidated cash operating expenses for the years ended December 31, 2016 and 2017, respectively.

*Equipment and Facilities-related Expenses*

Equipment and facilities-related expenses consist mainly of repairs and maintenance costs of port equipment and facilities, fixed port leases, power and light, tools expenses, equipment rentals, and fuel, oil and lubricants.

Equipment and facilities-related expenses increased by 31.1 percent from US$119.9 million for the year ended December 31, 2016 to US$157.2 million for the same period in 2017 mainly due to cost contribution of new terminals, IDRC and VICT; fixed port lease expense at VICT; increase in fuel prices and power tariff rate adjustments at certain terminals; and unfavorable translation impact of BRL at TSSA, tapered by cancellation of port lease at ICTSI Oregon as a result of pre-termination of lease agreement; and favorable translation impact of PHP-based expenses at Philippine terminals. Excluding new terminals, consolidated equipment and facilities-related expenses would have stayed flat in 2017.

Equipment and facilities-related expenses represented 28.6 percent and 33.0 percent of consolidated cash operating expenses for the years ended December 31, 2016 and 2017, respectively.

*Administrative and Other Operating Expenses*

Administrative and other operating expenses increased by 3.6 percent from US$107.2 million for the year ended December 31, 2016 to US$111.1 million for the same period in 2017 mainly due to contribution of new terminals, IDRC and VICT; increase in professional fees; and unfavorable translation impact of BRL at TSSA, tapered by reduction in insurance costs, documentary stamp taxes, travel and other office expenses in relation to cost optimization measures implemented; and favorable translation impact of Philippine-based expenses at Philippine terminals. Excluding new terminals, consolidated administrative and other operating expenses would have increased marginally by 0.7 percent in 2017.

Administrative and other operating expenses stood at 25.5 percent and 23.4 percent of consolidated cash operating expenses for the years ended December 31, 2016 and 2017, respectively.

*Depreciation and Amortization*

Depreciation and amortization expense increased by 17.3 percent from US$147.8 million for the year ended December 31, 2016 to US$173.5 million for the same period in 2017 mainly due to higher depreciation arising from the depreciation of port facilities and equipment at the new terminals, IDRC and VICT; and expansion projects at ICTSI Iraq and CGSA.

*Interest and Financing Charges on Borrowings*

Interest and financing charges on borrowings increased by 33.8 percent from US$75.1 million for the year ended December 31, 2016 to US$100.4 million for the same period in 2017 primarily due to higher average loan balance and lower capitalized borrowing costs on qualifying assets. Capitalized borrowing costs on qualifying assets amounted to US$24.3 million in 2016 at a capitalization rate of 6.5 percent and US$10.4 million in 2017 at a capitalization rate ranging from 2.4 percent to 6.7 percent.

*Equity in Net Loss of A Joint Venture and An Associate*

Equity in net loss of a joint venture and an associate increased from US$5.6 million for the year ended December 31, 2016 to US$36.3 million for the same period in 2017 due to the increase in the Company's share in net loss at SPIA arising from start-up costs as SPIA started operations in January 2017. Equity in net loss of a joint venture and an associate is net of the Group's share in net income of MNHPI, a 34.83%-owned associate, of US$0.4 million from October 30, 2017 to December 31, 2017.

*Foreign Exchange Loss and Others*

Foreign exchange loss and others decreased from US$41.2 million for the year ended December 31, 2016 to US$36.9 million for the same period in 2017 primarily due to the absence of non-recurring charge on pre-termination of lease agreement at ICTSI Oregon amounting to US$23.4 million in 2016; and recognition of probable loss on non-trade advances and solidarity contribution on equity at CGSA in 2016, tapered by restructuring and separation costs at certain terminals in 2017; and write-off of costs incurred associated with the securing of the revolving credit facility, upon cancellation of the said facility in June 2017. Foreign exchange loss mainly results from the translation or restatement as well as from the settlement of foreign currency-denominated monetary assets and liabilities.

EBITDA and EBIT

Consolidated EBITDA grew by 10.1 percent from US$525.1 million for the year ended December 31, 2016 to US$578.0 million for the same period in 2017 primarily due to strong volume and revenues; combined with cost optimization measures implemented; and positive contribution of new terminal, IDRC, tapered by the start-up costs and fixed port lease expense at VICT. Excluding the new terminals, consolidated EBITDA would have increased by 11.1 percent in 2017. EBITDA margin slightly decreased from 46.5 percent in 2016 to 46.4 percent in 2017.

Meanwhile, consolidated EBIT increased by 7.2 percent from US$377.2 million for the year ended December 31, 2016 to US$404.5 million for the same period in 2017 mainly due to stronger EBITDA, tapered by higher depreciation charges. Excluding the new terminals, consolidated EBIT would have increased by 13.6 percent in 2017. EBIT margin decreased from 33.4 percent in 2016 to 32.5 percent in 2017.

Income Before Income Tax and Provision for Income Tax

Consolidated income before income tax decreased from US$257.0 million for the year ended December 31, 2016 to US$248.3 million for the same period in 2017 primarily due to higher depreciation charges; higher interest and financing charges; restructuring and separation costs; and increase in equity in net loss of a joint venture, tapered by strong operating income; non-recurring gain from reimbursement of costs related to the terminated sub-concession agreement at LICTSLE in 2017; and absence of a non-recurring charge on pre-termination of lease agreement at ICTSI Oregon in 2016. Excluding new terminals; equity in net loss of a joint venture and an associate; and the non-recurring items, consolidated income before income tax would have increased by 18.2 percent in 2017. The ratio of income before income tax to consolidated gross revenues stood at 22.8 percent and 19.9 percent in 2016 and 2017, respectively.

Consolidated provision for current and deferred income taxes decreased from US$63.6 million for the year ended December 31, 2016 to US$40.5 million for the same period in 2017 mainly due to income tax exemption of OPC which was finalized in the first quarter of 2017. Effective income tax rate in 2016 and 2017 stood at 24.7 percent and 16.3 percent, respectively.

Net Income

Consolidated net income increased by 7.4 percent from US$193.5 million for the year ended December 31, 2016 to US$207.7 million for the same period in 2017. Excluding new terminals; equity in net loss of a joint venture and an associate; and the non-recurring items, consolidated net income would have increased by 22.6 percent in 2017. The ratio of consolidated net income to gross revenues stood at 17.1 percent and 16.7 percent in 2016 and 2017, respectively.

Consolidated net income attributable to equity holders increased by 1.2 percent from US$180.0 million for the year ended December 31, 2016 to US$182.1 million for the same period in 2017. Excluding new terminals; equity in net loss of a joint venture and an associate; and the non-recurring items, net income attributable to equity holders would have increased by 23.6 percent in 2017.

Basic and diluted earnings per share increased from US$0.066 in 2016 to US$0.069 in 2017 and US$0.065 in 2016 to US$0.069 in 2017, respectively.

**Comparison of Operating Results for the Years Ended December 31, 2016 and 2015**

**TEU Volume**

The below table presents the volume (in TEU) handled by the Group for the years ended December 31, 2015 and 2016:

**Table 1.3b Volume**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| | 2015 | **2016** | % Change |
| Asia | 4,094,580 | **4,552,881** | 11.2 |
| Americas | 2,738,079 | **3,004,690** | 9.7 |
| EMEA | 943,334 | **1,131,792** | 20.0 |
| | 7,775,993 | **8,689,363** | 11.7 |

The Group's consolidated volume increased by 11.7 percent from 7,775,993 TEUs for the year ended December 31, 2015 to 8,689,363 TEUs handled for the same period in 2016 mainly due to new shipping lines and services, improvement in trade activities at certain terminals and continuous growth and ramp-up at ICTSI Iraq.

Volume from the Asia segment, consisting of terminals in the Philippines, China, Indonesia and Pakistan, increased by 11.2 percent from 4,094,580 TEUs for the year ended December 31, 2015 to 4,552,881 TEUs for the same period in 2016 mainly due to improvement in trade activities at most of the Philippine terminals; and new shipping lines and services at OJA and PICT, slightly tapered by lower exports at YICT. The Asia operations accounted for 52.7 percent and 52.4 percent of the consolidated volume for the years ended December 31, 2015 and 2016, respectively.

Volume from the Americas segment, consisting of terminals in Brazil, Ecuador, Honduras, Mexico and The United States of America, increased by 9.7 percent from 2,738,079 TEUs for the year ended December 31, 2015 to 3,004,690 TEUs for the same period in 2016 primarily arising from new shipping lines and services at CMSA and CGSA; and increased domestic volumes at TSSA, partially tapered by the full year impact of cessation of operations at ICTSI Oregon. The Americas operations accounted for 35.2 percent and 34.6 percent of the consolidated volume for the years ended December 31, 2015 and 2016, respectively.

Volume from the EMEA segment, consisting of terminals in Poland, Georgia, Madagascar, Croatia and Iraq, reported a 20.0 percent growth from 943,334 TEUs for the year ended December 31, 2015 to 1,131,792 TEUs for the same period in 2016 mainly due to continuous growth and ramp-up at ICTSI Iraq; and marginal economic recovery resulting to increase in trade activities at MICTSL and AGCT. Growth was partially offset by reduced vessel calls and trade volume at BCT. The EMEA operations accounted for 12.1 percent and 13.0 percent of the Group's consolidated volume for the years ended December 31, 2015 and 2016, respectively.

## Total Income

Total income consists of: (1) Revenues from port operations, net of port authorities' share in gross revenues; (2) Interest income; (3) Foreign exchange gain; and (4) Other income.

The table below illustrates the consolidated total income for the years ended December 31, 2015 and 2016:

**Table 1.4b** **Total Income**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| *(In thousands, except % change data)* | 2015 | **2016** | % Change |
| Gross revenues from port operations | US$1,051,325 | **US$1,128,395** | 7.3 |
| Port authorities' share in gross revenues | 169,003 | **183,702** | 8.7 |
| Net revenues | 882,322 | **944,693** | 7.1 |
| Interest income | 13,383 | **17,651** | 31.9 |
| Foreign exchange gain | 3,672 | **4,659** | 26.9 |
| Other income | 6,806 | **13,393** | 96.8 |
| | US$906,183 | **US$980,396** | 8.2 |

For the year ended December 31, 2016, net revenues stood at 96.4 percent of the total consolidated income while interest income, foreign exchange gain and other income accounted for 1.8 percent, 0.5 percent and 1.4 percent, respectively. For the same period in 2015, net revenues stood at 97.4 percent of the total consolidated income while interest income, foreign exchange gain and other income accounted for 1.5 percent, 0.4 percent and 0.7 percent, respectively.

*Gross Revenues from Port Operations*

Gross revenues from port operations include fees received for cargo handling, wharfage, berthing, storage, and special services.

The below table illustrates the consolidated gross revenues for the years ended December 31, 2015 and 2016:

**Table 1.5b** **Gross Revenues from Port Operations**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| *(In thousands, except % change data)* | 2015 | **2016** | % Change |
| Asia | US$564,577 | **US$581,405** | 3.0 |
| Americas | 377,639 | **387,423** | 2.6 |
| EMEA | 109,109 | **159,567** | 46.2 |
| | US$1,051,325 | **US$1,128,395** | 7.3 |

The Group's consolidated gross revenues from port operations increased by 7.3 percent from US$1,051.3 million for the year ended December 31, 2015 to US$1,128.4 million for the same period in 2016 mainly due to volume growth; tariff rate adjustments at certain terminals; new contracts with shipping lines and services; and continuous growth and ramp-up at ICTSI Iraq.

Gross revenues from the Asia segment reported a growth of 3.0 percent from US$564.6 million for the year ended December 31, 2015 to US$581.4 million for the same period in 2016 mainly due to improvement in trade activities at most of the Philippine terminals resulting to volume growth; new contracts with shipping lines and services at OJA and PICT; and tariff rate adjustments at certain terminals, tapered by unfavorable translation impact of the depreciation of PHP-based revenues at Philippine terminals. The Asia operations captured 53.7 percent and 51.5 percent of the consolidated gross revenues for the years ended December 31, 2015 and 2016, respectively.
Gross revenues from the Americas segment increased by 2.6 percent from US$377.6 million for the year ended December 31, 2015 to US$387.4 million for the same period in 2016 mainly due to new shipping lines and services at CGSA and CMSA; and tariff rate adjustments and increased storage and special services at OPC, tapered by lower storage and non-containerized revenues at TSSA; unfavorable translation impact of the depreciation of MXN-based revenues at CMSA; and discontinued vessel calls of two major shipping lines at ICTSI Oregon as a result of the continuing effect of labor disruptions and conflicts.

The Americas operations accounted for 35.9 percent and 34.3 percent of the consolidated gross revenues for the years ended December 31, 2015 and 2016, respectively.

Gross revenues from the EMEA segment grew by 46.2 percent from US$109.1 million for the year ended December 31, 2015 to US$159.6 million for the same period in 2016 primarily due to continuous growth and ramp-up at ICTSI Iraq; and favorable container volume mix and tariff rate adjustments at MICTSL, partially offset by weaker short-sea trade and reduced vessel calls at BCT. The EMEA operations stood at 10.4 percent and 14.2 percent of the consolidated gross revenues for the years ended December 31, 2015 and 2016, respectively.

*Port Authorities' Share in Gross Revenues*

Port authorities' share in gross revenues, which represents the variable fees paid to Port Authorities by certain terminals, grew by 8.7 percent from US$169.0 million for the year ended December 31, 2015 to US$183.7 million for the same period in 2016 as a result of stronger revenues at these terminals.

*Interest Income, Foreign Exchange Gain and Other Income*

Consolidated interest income increased by 31.9 percent from US$13.4 million for the year ended December 31, 2015 to US$17.7 million for the same period in 2016 mainly due to higher interest income earned from advances to SPIA, a joint venture associate.

Foreign exchange gain increased from US$3.7 million for the year ended December 31, 2015 to US$4.7 million for the same period in 2016 mainly due to the favorable translation impact of certain currencies against US dollar. Foreign exchange gain mainly arises from the settlement and translation or restatement adjustments of foreign currency-denominated monetary assets and liabilities.

Other income, on the other hand, increased from US$6.8 million for the year ended December 31, 2015 to US$13.4 million for the same period in 2016 mainly due to gain on disposal of certain property and equipment; recovery of claims from contractors and insurance, tax refunds and credits, and other income. Other income includes the Group's rental, dividend income, and other sundry income accounts of ICTSI and subsidiaries.

## Total Expenses

The below table shows the breakdown of total expenses for 2015 and 2016.

**Table 1.6b Total Expenses**

| | For the Years Ended December 31 | | |
|---|---|---|---|
| *(In thousands, except % change data)* | 2015 | **2016** | % Change |

| | | | |
|---|---|---|---|
| Manpower costs | US$193,164 | **US$192,536** | ( 0.3) |
| Equipment and facilities-related expenses | 124,754 | **119,877** | ( 3.9) |
| Administrative and other operating expenses | 114,382 | **107,201** | (6.3) |
| Total cash operating expenses | 432,300 | **419,614** | ( 2.9) |
| Depreciation and amortization | 126,453 | **147,830** | 16.9 |
| Interest expense and financing charges on borrowings | 61,231 | **75,050** | 22.6 |
| Interest expense on concession rights payable | 37,301 | **34,050** | ( 8.7) |
| Equity in net loss of a joint venture | 3,230 | **5,572** | 72.5 |
| Foreign exchange loss and others | 126,051 | **41,239** | (67.3) |
| | US$786,566 | **US$723,355** | ( 8.0) |

Total cash operating expenses of the Group decreased by 2.9 percent from US$432.3 million for the year ended December 31, 2015 to US$419.6 million for the same period in 2016 mainly due to improved operational efficiencies resulting to lower costs on repairs and maintenance; decline in global fuel prices; cost optimization measures implemented; favorable translation impact of PHP-based expenses at Philippine terminals and MXN-based expenses at CMSA; and lower variable cost at ICTSI Oregon, tapered by increase in variable manpower costs and higher fuel and power consumption as a result of increase in volume; and cost contribution of new terminals, Tecplata, IDRC and VICT.

*Manpower Costs*

Manpower costs decreased by 0.3 percent from US$193.2 million for the year ended December 31, 2015 to US$192.5 million for the same period in 2016 primarily due to decline in variable contracted labor services at ICTSI Oregon; and favorable translation impact of PHP-based costs at Philippine terminals and MXN-based costs at CMSA, tapered by increase in variable contracted services driven by volume growth and government-mandated and contracted salary rate adjustments at certain terminals; and the contribution of new terminals, IDRC and VICT.

Manpower costs accounted for 44.7 percent and 45.9 percent of consolidated cash operating expenses for the years ended December 31, 2015 and 2016, respectively.

*Equipment and Facilities-related Expenses*

Equipment and facilities-related expenses consist mainly of repairs and maintenance costs of port equipment and facilities, fixed port fees, power and light, maintenance expenses, tools expenses, equipment rentals, and fuel, oil and lubricants.

Equipment and facilities-related expenses decreased by 3.9 percent from US$124.8 million for the year ended December 31, 2015 to US$119.9 million for the same period in 2016 mainly due to improved operational efficiencies resulting to slightly lower costs on repairs and maintenance; decline in global prices of fuel; favorable translation impact of PHP-based expenses at Philippine terminals and MXN-based expenses at CMSA; and lower variable cost at ICTSI Oregon, tapered by higher fuel consumption driven by volume growth; and increase in fuel and power tariffs at CGSA.

Equipment and facilities-related expenses represented 28.9 percent and 28.6 percent of consolidated cash operating expenses for the years ended December 31, 2015 and 2016, respectively.

*Administrative and Other Operating Expenses*

Administrative and other operating expenses decreased by 6.3 percent from US$114.4 million for the year ended December 31, 2015 to US$107.2 million for the same period in 2016 mainly due to reduction in travel, insurance costs and professional fees in relation to cost optimization measures implemented; favorable translation impact of Philippine-based expenses at Philippine terminals and MXN-based expenses at CMSA; and decrease in taxes and licenses, tapered by higher IT costs; and the contribution of new terminals, Tecplata, IDRC and VICT.

Administrative and other operating expenses stood at 26.5 percent and 25.5 percent of consolidated cash operating expenses for the years ended December 31, 2015 and 2016, respectively.

*Depreciation and Amortization*

Depreciation and amortization expense increased by 16.9 percent from US$126.5 million for the year ended December 31, 2015 to US$147.8 million for the same period in 2016 mainly from depreciation of Tecplata's port facilities starting January 1, 2016; and higher depreciation arising from expansion of port facilities and acquisition of port equipment at MICT, YICT and OPC.

*Interest and Financing Charges on Borrowings*

Interest and financing charges on borrowings increased by 22.6 percent from US$61.2 million for the year ended December 31, 2015 to US$75.1 million for the same period in 2016 primarily due to higher average loan balance and lower capitalized borrowing costs on qualifying assets. Capitalized borrowing costs on qualifying assets amounted to US$27.5 million in 2015 and US$24.3 million in 2016. Capitalization rate slightly decreased from 6.6 percent in 2015 to 6.5 percent in 2016.

*Interest Expense on Concession Rights Payable*

Interest on concession rights payable decreased by 8.7 percent from US$37.3 million for the year ended December 31, 2015 to US$34.1 million for the same period in 2016 mainly due to the declining principal balances of the Group's concession rights payable as of December 31, 2016.

*Equity in Net Loss of A Joint Venture*

Equity in net loss of a joint venture increased by 72.5 percent from US$3.2 million for the year ended December 31, 2015 to US$5.6 million for the same period in 2016 due to the increase in the Company's share in net loss at SPIA as a result of increase in level of start-up activities in line with the start of initial operations in the fourth quarter of 2016.

*Foreign Exchange Loss and Others*

Foreign exchange loss and others decreased from US$126.1 million for the year ended December 31, 2015 to US$41.2 million for the same period in 2016 primarily due to the absence of non-recurring impairment charges on the concession right assets of Tecplata amounting to US$88.0 million and on the goodwill of PT ICTSI Jasa Prima Tbk (JASA) and OJA aggregating US$26.6 million recognized in 2015, tapered by recognition of non-recurring charge on pre-termination of lease agreement at ICTSI Oregon amounting to US$23.4 million; recognition of probable loss on non-trade advances and solidarity contribution on equity at CGSA in 2016; and unfavorable translation impact of certain currencies against US dollar in 2016. Foreign exchange loss mainly results from the translation or restatement as well as from the settlement of foreign currency-denominated monetary assets and liabilities.

EBITDA and EBIT

Consolidated EBITDA grew by 16.7 percent from US$450.0 million for the year ended December 31, 2015 to US$525.1 million for the same period in 2016 primarily due to strong volume and revenue; combined with cost optimization measures implemented and lower operating costs. The EBITDA growth, however, was partially tapered by cost contributions of the new terminals. Consequently, EBITDA margin went up from 42.8 percent in 2015 to 46.5 percent in 2016.

Meanwhile, consolidated EBIT increased by 16.6 percent from US$323.6 million for the year ended December 31, 2015 to US$377.2 million for the same period in 2016 mainly due to stronger EBITDA. As a result, EBIT margin also increased from 30.8 percent in 2015 to 33.4 percent in 2016.

Income Before Income Tax and Provision for Income Tax

Consolidated income before income tax increased from US$119.6 million for the year ended December 31, 2015 to US$257.0 million for the same period in 2016 primarily due to strong operating income and absence of non-recurring impairment charges recognized on the concession rights assets of Tecplata and goodwill of JASA and OJA in 2015, tapered by recognition of non-recurring charge on pre-termination of lease agreement at ICTSI Oregon; higher depreciation charges at Tecplata; and higher interest and financing charges arising from higher average loan balance and lower capitalized borrowing costs in 2016. Excluding non-recurring charges, consolidated income before income tax would have increased by 19.9 percent in 2016. The ratio of income before income tax to consolidated gross revenues stood at 11.4 percent and 22.8 percent in 2015 and 2016, respectively.

Consolidated provision for current and deferred income taxes increased from US$50.6 million for the year ended December 31, 2015 to US$63.6 million for the same period in 2016 mainly due to higher taxable income as a result of strong operating income, tapered by higher deferred income tax benefit on unrealized foreign exchange loss. Effective income tax rate in 2015 and 2016 stood at 42.3 percent and 24.7 percent, respectively. Excluding non-recurring charges, effective tax rate in 2015 and 2016 would have been 21.7 percent and 22.7 percent, respectively.

Net Income

Consolidated net income increased to US$193.5 million for the year ended December 31, 2016 from US$69.0 million for the same period in 2015. The ratio of consolidated net income to gross revenues stood at 6.6 percent and 17.1 percent in 2015 and 2016, respectively. Excluding non-recurring charges, consolidated net income would have increased by 18.4 percent in 2016.

Consolidated net income attributable to equity holders increased to US$180.0 million for the year ended December 31, 2016 from US$58.5 million for the same period in 2015. Excluding non-recurring charges, consolidated net income attributable to equity holders would have increased by 17.7 percent in 2016.

Basic and diluted earnings per share increased from US$0.011 in 2015 to US$0.066 in 2016 and US$0.011 in 2015 to US$0.065 in 2016, respectively.

## Trends, Events or Uncertainties Affecting Recurring Revenues and Profits

The Group is exposed to a number of trends, events or uncertainties which can affect its recurring revenues and profits. These include levels of general economic activity and containerized trade volume in countries where it operates, as well as certain cost items, such as labor, fuel and power. In addition, the Group operates in a number of jurisdictions other than the Philippines and collects revenues in various currencies. Continued appreciation of the US dollar relative to other major currencies, particularly the Philippine peso, Brazilian Reais, Mexican peso, Australian Dollars and the Euro, may have a negative impact on the Group's reported levels of revenues and profits.

There are no seasonal aspects that has material effects on the financial statement.

## Financial Position

The table below shows the Group's consolidated balance sheets for the years ended December 31, 2016, 2017 and 2018:

**Table 1.11a** **Consolidated Balance Sheets**

| | As of December 31 | | | | |
|---|---|---|---|---|---|
| *(In thousands, except % change data)* | 2016 | 2017 | **2018** | % Change | % Change |
| | | | | *2016 vs 2017* | *2017 vs 2018* |
| Total assets | US$4,182,953 | US$4,370,687 | **US$4,702,932** | 4.5 | 7.6 |
| Current assets | 515,960 | 499,076 | **673,439** | (3.3) | 34.9 |

| | | | | | |
|---|---|---|---|---|---|
| Total equity | 1,766,080 | 1,872,568 | **2,229,200** | 6.0 | 19.0 |
| Total equity attributable to equity holders of the parent | 1,624,397 | 1,707,930 | **2,063,696** | 5.1 | 20.8 |
| Total interest-bearing debt | 1,381,364 | 1,493,605 | **1,307,053** | 8.1 | (12.5) |
| Current liabilities | 446,547 | 401,320 | **438,712** | (10.1) | 9.3 |
| Total liabilities | 2,416,873 | 2,498,119 | **2,473,733** | 3.4 | (1.0) |

| | | | |
|---|---|---|---|
| Current assets/total assets | 12.3% | 11.4% | **14.3%** |
| Current ratio | 1.16 | 1.24 | **1.54** |
| Debt-equity ratio[1] | 0.78 | 0.80 | **0.59** |

[1] Debt includes interest-bearing debt. Equity means Total Equity as shown in the consolidated balance sheets.

Total assets increased by 7.6 percent to US$4.7 billion as of December 31, 2018 mainly due to investments in capital expenditures, which include the on-going rehabilitation and development works at OPC; expansion projects at ICTSI Iraq, CMSA and MICT; terminal construction at CGT; and recognition of concession rights, port equipment acquisitions and infrastructure development at SPICTL and MITL. These investments were funded mainly by cash generated from the Group's operations and debt financing. Non-current assets stood at 88.6 percent and 85.7 percent of the total consolidated assets as of December 31, 2017 and December 31, 2018, respectively.

Current assets increased by 34.9 percent to US$673.4 million as of December 31, 2018 from US$499.1 million as of December 31, 2017 primarily due to net proceeds from issuance of senior guaranteed perpetual capital securities in January 2018; and strong cash inflows generated from operations, tapered by continuous deployment of cash to fund capital expenditures; pre-termination of project finance facility at CMSA and repayment of loan at Parent Company. Current assets accounted for 11.5 percent and 14.3 percent of the total consolidated assets of the Group as of December 31, 2017 and December 31, 2018, respectively. Current ratio stood at 1.24 and 1.54 as of December 31, 2017 and December 31, 2018, respectively.

Total equity increased by 19.0 percent to US$2.2 billion as of December 31, 2018 primarily due to net income generated for the period; and issuance of a $400.0 million senior guaranteed perpetual capital securities in January 2018, tapered by payment of dividends; distributions to holders of perpetual capital securities; increase in other comprehensive loss as a result of net unfavorable exchange differences on translation of foreign operations' financial statements; and purchase of treasury shares in 2018. The proceeds from the issuance of a $400.0 million senior guaranteed perpetual capital securities in January 2018 will be used for the financing of acquisitions and capital expenditures and for general corporate purposes.

Total liabilities decreased by 1.0 percent to US$2.5 billion as of December 31, 2018 mainly due to pre-termination of project finance facility at CMSA, tapered by recognition of concession rights payable at SPICTL and MITL; drawdown from project finance facility at VICT; and loan availments at IDRC and OPC. Financial leverage, the ratio of total interest-bearing debt to total assets, stood at 34.2 percent and 27.8 percent as of December 31, 2017 and December 31, 2018, respectively.

Meanwhile, current liabilities increased by 9.3 percent to US$438.7 million as of December 31, 2018 mainly due to higher accounts payables arising from port equipment acquisitions at MICT and loan availments at SPICTL and MITL, tapered by repayment of loan at Parent Company.

*Material Variances Affecting the Balance Sheet*

Balance sheet accounts as of December 31, 2018 with variances of plus or minus 5.0 percent against December 31, 2017 balances are discussed, as follows:

*Noncurrent Assets*

1. Intangible assets increased by 8.3 percent to US$2.0 billion as of December 31, 2018 mainly due to recent acquisitions of port equipment and infrastructure development and recognition of concession rights assets at SPICTL and MITL; on-going rehabilitation and development works at

OPC; and expansion projects at ICTSI Iraq and MICT.

2. Property and equipment decreased by 5.4 percent to US$1.4 billion as of December 31, 2018 due to depreciation expense recognized during the period, tapered by expansion project at CMSA; and terminal construction at CGT.
3. Investment properties decreased by 7.1 percent to US$7.4 million as of December 31, 2018 mainly due to depreciation expense recognized during the period.
4. Deferred tax assets increased by 42.5 percent to US$158.3 million as of December 31, 2018 mainly due to higher deferred income tax benefit from net operating loss carry-over at VICT; and unrealized foreign exchange losses, mainly Parent Company.
5. Other noncurrent assets increased by 41.2 percent to US$138.9 million as of December 31, 2018 mainly due to advances to contractors related to expansion projects at CMSA and MICT; and increase in deposits for the acquisition of investments.

*Current Assets*

6. Cash and cash equivalents increased by 60.0 percent to US$447.1 million as of December 31, 2018 due to net proceeds from issuance of senior guaranteed perpetual capital securities in January 2018; strong cash inflows generated from operations, tapered by continuous deployment of cash to fund capital expenditures; pre-termination of project finance facility at CMSA; and repayment of loan at Parent Company during the period.
7. Receivables increased by 6.7 percent to US$120.4 million as of December 31, 2018 primarily due to contributions of new terminals, VICT, SPICTL and MITL.
8. Derivative assets increased by 38.1 percent to US$0.4 million as of December 31, 2018 mainly due to gain on mark-to-market valuation from interest rate swap at CGSA.

*Equity*

9. Treasury shares increased to US$58.1 million as of December 31, 2018 mainly as a result of acquisition of 25,039,790 treasury shares in 2018.
10. Retained earnings increased by 7.7 percent to US$882.8 million as of December 31, 2018 mainly due to net income attributable to equity holders of the parent for the year amounting to US$221.5 million, tapered by declaration of dividends and distributions to holders of perpetual capital securities amounting to US$97.6 million and US$60.3 million, respectively.
11. Perpetual capital securities increased by 51.5 percent to US$1.2 billion as of December 31, 2018 due to RCBV's issuance of a US$400.0 million 5.875 percent fixed-for-life senior guaranteed perpetual capital securities in January 2018.
12. Other comprehensive loss increased by 22.7 percent to US$314.8 million as of December 31, 2018 due to net unfavorable exchange differences on translation of foreign operations' financial statements.

*Noncurrent Liabilities*

13. Noncurrent portion of long-term debt decreased by 13.5 percent to US$1.2 billion as of December 31, 2018 mainly due to pre-termination of project finance facility at CMSA, partially tapered by loan availments at IDRC and OPC.
14. Noncurrent portion of concession rights payable increased by 12.9 percent to US$530.7 million as of December 31, 2018 mainly due to recognition of concession right liabilities at SPICTL and MITL.
15. Deferred tax liabilities increased by 29.6 percent to US$104.3 million as of December 31, 2018 mainly due to the income tax effect of unrealized mark-to-market gain on derivative instruments; accelerated depreciation; translation difference between functional and local currency; and difference in depreciation and amortization periods of port infrastructure classified as concession rights.
16. Other noncurrent liabilities increased by 32.2 percent to US$179.5 million as of December 31, 2018 arising mainly from accrual of lease expense at VICT.

*Current Liabilities*

17. Loans payable decreased by 41.6 percent to US$35.7 million as of December 31, 2018 due to

repayment of loan at Parent Company, tapered by loan availments at SPICTL and MITL.

18. Accounts payable and other current liabilities increased by 11.8 percent to US$309.3 million as of December 31, 2018 primarily due to port equipment acquisitions at MICT.
19. Current portion of long-term debt increased to US$50.8 million as of December 31, 2018 primarily due to increase in term loans scheduled for repayment in the next twelve months at certain terminals.
20. Current portion of concession rights payable increased by 6.7 percent to US$10.6 million as of December 31, 2018 arising from higher concession fees scheduled for payment in the next twelve months.
21. Income tax payable increased by 7.0 percent to US$31.6 million as of December 31, 2018 mainly due to contribution of new terminals, SPICTL and MITL and higher taxable income at MICT.
22. Derivative liabilities decreased by 68.2 percent to US$0.6 million as of December 31, 2018 mainly due to pre-termination of interest rate swap at CMSA.

Balance sheet accounts as of December 31, 2017 with variances of plus or minus 5.0 percent against December 31, 2016 balances are discussed, as follows:

*Noncurrent Assets*

23. Property and equipment increased by 5.4 percent to US$1.5 billion as of December 31, 2017 due to increase in capital expenditures arising from completion of port facilities at IDRC, first phase and second phase at VICT; expansion project at CMSA; and ongoing terminal construction at CGT.
24. Investment properties increased by 28.1 percent to US$8.0 million as of December 31, 2017 mainly due to land acquisition at BCT.
25. Deferred tax assets increased by 22.7 percent to US$111.1 million as of December 31, 2017 mainly due to higher deferred income tax benefit from unrealized foreign exchange loss, mainly Parent Company.
26. Investments in and advances to a joint venture and associate increased by 30.2 percent to US$382.2 million as of December 31, 2017 due to acquisition of 34.83% stake in MNHPI and advances granted to SPIA.
27. Other noncurrent assets decreased by 7.5 percent to US$98.4 million mainly due to decrease in advances to contractors related to on-going rehabilitation work and development at OPC and completion of port facilities at IDRC; and decrease in derivate assets due to loss on mark-to-market valuation from interest rate swap at VICT, tapered by increase in deposits for the acquisition of investments.

*Current Assets*

28. Cash and cash equivalents decreased by 14.0 percent to US$279.4 million as of December 31, 2017 mainly due to continuous deployment of cash to fund the Group’s capital expenditures; settlement of lease liability at VICT; and acquisition of 34.83% stake in MNHPI, tapered by strong cash inflows generated from operations and net proceeds from debt financing.
29. Receivables increased by 9.7 percent to US$112.9 million as of December 31, 2017 primarily due to strong revenues at CMSA, ICTSI Iraq, MICTSL and contributions of new terminals, VICT and IDRC.
30. Spare parts and supplies increased by 6.4 percent to US$35.7 million as of December 31, 2017 primarily as a result of acquisition of spare parts at VICT.
31. Prepaid expenses and other current assets increased by 30.2 percent to US$70.8 million as of December 31, 2017 mainly due to tax credit recognized by OPC in 2017 and timing of utilization of prepaid taxes, particularly at Parent Company and CGSA.
32. Derivative assets increased to US$0.3 million as of December 31, 2017 due to gain on mark-to-market valuation from cross currency swap at MICTSL.

*Equity*

33. Treasury shares decreased by 15.9 percent to US$15.1 million as of December 31, 2017 mainly as a result of sale of 10,000,000 treasury shares in 2017.
34. Retained earnings increased by 5.2 percent to US$819.6 million as of December 31, 2017 mainly due to net income attributable to equity holders of the parent for the year amounting to

US$182.1 million, tapered by payment of dividends and distributions to holders of perpetual capital securities amounting to US$100.3 million and US$41.6 million, respectively.

35. Other comprehensive loss decreased by 10.1 percent to US$256.6 million as of December 31, 2017 due to net favorable exchange differences on translation of foreign operations' financial statements.
36. Equity attributable to non-controlling interests increased by 16.2 percent to US$164.6 million as of December 31, 2017 mainly due to the recognition of the non-controlling interest's share in net income.

*Noncurrent Liabilities*

37. Long-term debt increased by 6.3 percent to US$1.4 billion as of December 31, 2017 mainly due to the drawdown from project finance facilities at VICT; loan availment at OPC, tapered by settlement of the Group's Revolving Credit Facility during the period.
38. Deferred tax liabilities increased by 12.8 percent to US$80.5 million as of December 31, 2017 mainly due to the income tax effect of unrealized mark-to-market gain on interest rate swap and capitalized borrowing costs, and translation of non-monetary assets to US dollar.
39. Pension and other non-current liabilities increased by 49.3 percent to US$135.8 million as of December 31, 2017 arising mainly from accrual of lease expense at VICT.

*Current Liabilities*

40. Loans payable grew by 67.2 percent to US$61.2 million as of December 31, 2017 mainly due to a short-term loan availment at Parent Company.
41. Accounts payable and other current liabilities decreased by 20.5 percent to US$276.6 million as of December 31, 2017 primarily due to settlement of lease liability at VICT.
42. Current portion of long-term debt and debt securities increased by 19.8 percent to US$22.1 million as of December 31, 2017 due to increase in maturing term loans of subsidiaries in 2018.
43. Current portion of concession rights payable increased by 13.5 percent to US$9.9 million as of December 31, 2017 arising from higher concession fees scheduled for payment at Parent Company, CGSA and MICTSL in 2018.
44. Income tax payable decreased by 8.6 percent to US$29.5 million as of December 31, 2017 mainly due to income tax payments and income tax exemption at OPC.
45. Derivative liabilities decreased by 27.8 percent to US$1.9 million as of December 31, 2017 due to gain on mark-to-market valuation from interest rate swap at CMSA.

Balance sheet accounts as of December 31, 2016 with variances of plus or minus 5.0 percent against December 31, 2015 balances are discussed, as follows:

*Noncurrent Assets*

46. Property and equipment increased by 20.2 percent to US$1.4 billion as of December 31, 2016 mainly due to increase in capital expenditures arising from ongoing construction of port facilities, expansion projects and port equipment acquisitions at VICT, IDRC and CMSA.
47. Investment properties decreased by 8.6 percent to US$6.3 million as of December 31, 2016 mainly due to recognition of depreciation expense for the year ended December 31, 2016.
48. Deferred tax assets increased by 18.6 percent to US$90.6 million as of December 31, 2016 mainly due to higher deferred income tax benefit from unrealized foreign exchange loss, mainly Parent Company.
49. Investments in and advances to a joint venture and associate increased by 26.6 percent to US$293.6 million as of December 31, 2016 due to continuous funding extended to SPIA for the Group's share on the ongoing construction and development at the Port of Buenaventura.
50. Other noncurrent assets increased by 25.8 percent to US$172.9 million as of December 31, 2016 mainly due to increase in advances to suppliers and contractors for the construction of port facilities at OPC; and gain on mark-to-market valuation from interest rate swap at VICT.

*Current Assets*

51. Cash and cash equivalents decreased by 8.3 percent to US$325.1 million as of December 31, 2016 arising from continuous deployment of cash to fund capital expenditures; and redemption of subordinated capital securities, tapered by strong cash inflows generated from operations and net proceeds from debt financing.
52. Receivables increased by 18.0 percent to US$102.9 million as of December 31, 2016 primarily due to strong revenues at the Parent Company, CMSA, ICTSI Iraq and MICTSL.
53. Spare parts and supplies increased by 21.5 percent to US$33.5 million as of December 31, 2016 primarily as a result of acquisition of spare parts particularly at ICTSI Iraq and TSSA.
54. Prepaid expenses and other current assets increased by 27.6 percent to US$56.3 million as of December 31, 2016 mainly due to increase in input VAT and timing of utilization of prepaid taxes, particularly at the Parent Company, VICT and IDRC.
55. Derivative assets decreased to US$0.1 million as of December 31, 2016 mainly due to realization of currency options entered in December 2015.

*Equity*

56. Treasury shares increased to US$17.9 million as of December 31, 2016 mainly as a result of acquisition of 8,175,510 treasury shares in 2016.
57. Retained earnings increased by 7.8 percent to US$779.4 million as of December 31, 2016 mainly due to net income attributable to equity holders of the parent for the year amounting to US$180.0 million, tapered by payment of dividends and distributions to holders of perpetual capital securities amounting to US$39.9 million and US$34.2 million, respectively.
58. Perpetual capital securities decreased by 8.5 percent to US$761.3 million as of December 31, 2016 primarily due to redemption of subordinated perpetual capital securities aggregating to US$108.3 million in 2016.
59. Other comprehensive loss grew by 10.3 percent to US$285.4 million as a result of net unfavorable exchange differences on translation of foreign operations' financial statements.
60. Equity attributable to non-controlling interests decreased by 6.5 percent to US$141.7 million as of December 31, 2016 mainly due to unfavorable translation adjustments at YICT.

*Noncurrent Liabilities*

61. Long-term debt increased by 29.2 percent to US$1.3 billion as of December 31, 2016 mainly due to the net proceeds from the drawdown from project finance facilities at VICT and CMSA, loan availment at CGSA and drawdown of the Group's Revolving Credit Facility during the period.
62. Deferred tax liabilities increased by 6.8 percent to US$71.4 million as of December 31, 2016 mainly due to the income tax effect of unrealized mark-to-market gain on interest rate swap and capitalized borrowing costs, and translation of non-monetary assets to US dollar.
63. Pension and other non-current liabilities decreased by 23.8 percent to US$91.0 million as of December 31, 2016 arising mainly from the reclassification of the current portion of the accrued lease expense at VICT to current liabilities.

*Current Liabilities*

64. Loans payable increased to US$36.6 million as of December 31, 2016 mainly due to loan refinancing at YICT and loan availment at OPC.
65. Accounts payable and other current liabilities grew by 73.1 percent to US$347.7 million as of December 31, 2016 primarily due to reclassification of the current portion of accrued lease expense and increase in payables arising from on-going port development at VICT; and higher output taxes at CMSA and MICTSL.
66. Current portion of long-term debt and debt securities decreased by 66.1 percent to US$18.5 million as of December 31, 2016 due to settlement of maturing term loans of subsidiaries in 2016.
67. Income tax payable increased by 46.9 percent to US$32.3 million as of December 31, 2016 due to stronger operating income at certain terminals, particularly at the Parent Company, PICT, MICTSL and ICTSI Iraq.
68. Derivative liabilities amounting to US$2.7 million as of December 31, 2016 pertain to recognition of loss on mark-to-market valuation from interest rate swap at CMSA.

## Liquidity and Capital Resources

This section discusses the Group's sources and uses of funds as well as its debt and equity capital profile.

*Liquidity*

The table below shows the Group's consolidated cash flows for the years ended December 31, 2016, 2017 and 2018:

**Table 1.12a** **Consolidated Cash Flows**

| | For the Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| *(In thousands, except % change data)* | 2016 | 2017 | **2018** | % Change *2016 vs 2017* | % Change *2017 vs 2018* |
| Net cash provided by operating activities | US$466,948 | US$564,012 | **US$642,404** | 20.8 | 13.9 |
| Net cash used in investing activities | (468,466) | (432,381) | **(327,900)** | (7.7) | (24.2) |
| Net cash used in financing activities | (21,679) | (184,772) | **(132,554)** | 752.3 | (28.3) |
| Effect of exchange rate changes on cash | (6,226) | 7,509 | **(14,298)** | (220.6) | (290.4) |
| Net increase (decrease) in cash and cash equivalents | (29,423) | (45,632) | **167,652** | 55.1 | (467.4) |
| Cash and cash equivalents, beginning | 354,482 | 325,059 | **279,427** | (8.3) | (14.0) |
| Cash and cash equivalents, end | US$325,059 | US$279,427 | **US$447,079** | (14.0) | 60.0 |

Consolidated cash and cash equivalents increased by 60.0 percent to US$447.1 million as of December 31, 2018 from US$279.4 million for the same period in 2017 mainly due to the net proceeds from issuance of senior guaranteed perpetual capital securities amounting to US$392.3 million in January 2018; and strong cash inflows generated from operations, tapered by pre-termination of project finance facility at CMSA; and continuous deployment of cash to fund capital expenditures.

Net cash provided by operating activities increased by 13.9 percent to US$642.4 million for the year ended December 31, 2018 from US$564.0 million for the same period in 2017 mainly due to strong results of operations.

Net cash used in investing activities for the year ended December 31, 2018 amounted to US$327.9 million which consists mainly of capital expenditures of US$261.3 million, excluding capitalized borrowing costs; and concession rights at SPICTL and MITL. The Group finances these requirements through existing cash, cash generated from operations, external borrowings and/or equity issuances, as necessary. Net cash used in investing activities in 2017 includes settlement of lease liability at VICT capitalized to property and equipment amounting to US$122.2 million; payment of pre-termination fee at ICTSI Oregon amounting to US$11.5 million; and acquisition of the 34.83% stake in MNHPI, tapered by reimbursement of costs upon termination of sub-concession agreement at LICTSLE.

Net cash provided by financing activities for the year ended December 31, 2018 amounted to US$132.6 million which consists mainly of the US$392.3 million net proceeds from the issuance of senior guaranteed perpetual capital securities in January 2018; drawdown from the project finance facility of VICT; and loan availments at IDRC and OPC, tapered by pre-termination of project finance facility at CMSA; repayment of loan at Parent Company; payment of dividends; distributions to holders of perpetual capital securities; and increased debt servicing costs.

*Capital Resources*

The table below illustrates the Group's capital sources as of December 31, 2016, 2017 and 2018:

**Table 1.13a** **Capital Sources**

| | As of December 31 | | | | |
|---|---|---|---|---|---|
| *(In thousands, except % change data)* | 2016 | 2017 | **2018** | % Change | % Change |

| | | | | 2016 vs 2017 | 2017 vs 2018 |
|---|---|---|---|---|---|
| Loans payable | US$36,598 | US$61,187 | **US$35,718** | 67.2 | (41.6) |
| Current portion of long-term debt | 18,486 | 22,149 | **50,848** | 19.8 | 129.6 |
| Long-term debt, net of current portion | 1,326,280 | 1,410,269 | **1,220,487** | 6.3 | (13.5) |
| Total short and long-term debt | 1,381,364 | 1,493,605 | **1,307,053** | 8.1 | (12.5) |
| Equity | 1,766,080 | 1,872,568 | **2,229,200** | 6.0 | 19.0 |
| | US$3,147,444 | US$3,366,173 | **US$3,536,253** | 6.9 | 5.1 |

The Group's total debt and equity capital increased by 5.1 percent as of December 31, 2018 primarily due to increase in equity financing activities to fund expansion projects, capital expenditures and other general corporate requirements; and net income generated during the period, tapered by pre-termination of project finance facility at CMSA; and repayment of maturing loans.

*Debt Financing*

The table below provides the breakdown of the Group's outstanding loans as of December 31, 2018:

**Table 1.14 Outstanding Loans**

| *(In thousands)* | Company | Final Maturity | Interest Rate | Amount |
|---|---|---|---|---|
| **Short-Term Debt** | | | | |
| PGK Loan | SPICTL | 2019 | Fixed | US$17,868 |
| PGK Loan | MITL | 2019 | Fixed | 13,860 |
| US Dollar Loan | BCT | 2019 | Floating | 3,990 |
| | | | | 35,718 |
| **Long-Term Debt** | | | | |
| Unsecured US Dollar Bond | ITBV | 2023 – 2025 | Fixed | 757,902 |
| Secured AUD Term Loan | VICT | 2023 – 2031 | Fixed* | 250,038 |
| Unsecured US Dollar Bond** | Parent | 2020 | Fixed | 179,256 |
| Unsecured US Dollar Term Loans | OPC | 2020 | Floating | 29,500 |
| Secured US Dollar Term Loans | IDRC | 2022 | Fixed | 23,958 |
| Unsecured US Dollar Term Loans | CGSA | 2021 | Fixed* | 17,206 |
| Secured RMB Term Loan | YICT | 2023 | Floating | 7,270 |
| Secured Euro Term Loans | AGCT | 2019 – 2024 | Fixed* | 6,205 |
| | | | | 1,271,335 |
| **Total Debt** | | | | 1,307,053 |
| Less current portion and short-term | | | | 86,566 |
| **Long-term debt, net of current portion** | | | | **US$1,220,487** |

**Under interest rate swap agreement*
***US$17.2 million under Euro-US Dollar cross currency swap agreement*

As of December 31, 2018, 71.7 percent of the Group's total debt capital is held by the Parent and ITBV, which includes the US$179.3 million senior notes issued in 2010 and due in 2020; and US$757.9 million MTN issued in 2013 to 2015 and due in 2023 to 2025.

The table below is a summary of debt maturities, net of unamortized debt issuance cost, of the Group as of December 31, 2018:

**Table 115 Outstanding Debt Maturities**

| *(In thousands)* | Amount |
|---|---|
| 2019 | US$50,848 |
| 2020 | 228,261 |
| 2021 | 25,409 |
| 2022 | 17,989 |
| 2023 and onwards | 948,828 |
| Total | US$1,271,335 |

MTN Programme

On January 9, 2013, ICTSI Treasury B.V. (ICTSI Treasury), a majority-owned subsidiary through ICTSI Ltd., established the MTN Programme that would allow ICTSI Treasury from time to time to issue medium-term notes (MTN), unconditionally and irrevocably guaranteed by ICTSI and listed on the Singapore Stock Exchange. The aggregate nominal amount of the MTN outstanding will not at any time exceed US$750.0 million (or its equivalent in other currencies), subject to increase as described in the terms and conditions of the Programme Agreement. In August 2013, the maximum aggregate nominal amount of the MTN outstanding that may be issued under the Programme was increased to US$1.0 billion.

Pursuant to the MTN Programme, on January 9, 2013, ICTSI Treasury and ICTSI signed a Subscription Agreement with HSBC and UBS AG, Hong Kong Branch, for the issuance of 10-year US$300.0 million guaranteed MTN (the "Original MTN"). The Original MTN were issued on January 16, 2013 to mature on January 16, 2023 at a fixed interest rate of 4.625 percent p.a., net of applicable taxes, set at a price of 99.014 and payable semi-annually in arrears. Moreover, on January 28, 2013, an additional US$100.0 million guaranteed MTN was issued to form a single series with the original MTN.

In June 2013, ICTSI purchased a total of US$6.0 million of ICTSI Treasury's US$400.0 million MTN at US$5.7 million.

In September 2013, ICTSI Treasury further issued US$207.5 million notes from the MTN Programme at a fixed interest rate of 5.875 percent p.a. payable semi-annually and will be due in 2025 ("2025 Notes"), in exchange for US$178.9 million of ICTSI's US$450.0 million senior notes due in 2020 ("2020 Notes"). Concurrent with the exchange offer, noteholders of the 2020 Notes provided their consent to the modifications to the terms and conditions of the 2020 Notes to conform to the terms and conditions of all the notes issued under the MTN Programme. Moreover, on April 30, 2014, an additional US$75.0 million notes were issued to form a single series with the 2025 Notes.

In January 2015, an additional US$117.5 million notes were issued to form a single series with the 2025 Notes. Of this new issue, US$102.6 million was used to fund the exchange for US$91.8 million of the 2020 Notes.

The aggregate net proceeds of the issuances under the MTN Programme were used to fund new projects and capital expenditures, refinance some of ICTSI's existing debt and for other general corporate purposes.

As of December 31, 2018, carrying value of notes under the MTN Programme amounted to US$757.9 million.

US Dollar-denominated Notes

In March 2010, ICTSI signed a Subscription Agreement with HSBC and JP Morgan Securities, Ltd. for the issuance of US$250.0 million ten-year senior notes (the "Original Notes") bearing interest at a fixed rate of 7.375 percent, net of applicable taxes, payable semi-annually in arrears. In April 2010, ICTSI tapped a further US$200.0 million (the "Further Notes") of the Original Notes increasing the size to US$450.0 million. The Further Notes were issued in May 2010 bearing interest at the fixed rate of 7.375 percent, net of applicable taxes. The Original and Further Notes are collectively referred to as the "2020 Notes".

The net proceeds of the 2020 Notes amounting to US$448.1 million were used to fund ICTSI's investments in existing and new terminal construction activities, refinance some of its existing debt and for other general corporate purposes.

The 2020 Notes were not registered with the SEC. The Notes were offered in offshore transactions outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered or sold within the United States. The 2020 Notes are traded and listed in the Singapore Stock Exchange.

In 2013 and 2015, ICTSI redeemed an aggregate of US$270.7 million of the 2020 Notes in exchange for the 2025 Notes under the MTN Programme.

In March 2017, ICTSI entered into a cross currency swap that converts the US dollar bond with a coupon of 7.375 percent maturing on March 17, 2020 to a Euro liability that has a coupon of 5.05 percent with the same maturity. The EUR15.0 million cross currency swap was designated as a net investment hedge to offset the movement of the Group's Euro net investment in its subsidiary in Madagascar, MICTSL. As of December 31, 2018, the market valuation loss on the outstanding cross currency swap amounted to EUR1.2 million (US$1.1 million).

As of December 31, 2018, the carrying value of the 2020 Notes amounted to US$179.3 million.

<u>Project Finance Facilities</u>

*CMSA.* On October 21, 2015, CMSA signed a US$260.0 million Project Finance Facility with International Finance Corporation and Inter-American Development Bank (IADB). The CMSA Project (the Project) is for the development and operation of a Specialized Container terminal at the Port of Manzanillo in Manzanillo, Mexico. The financing package has a tenor of 12 years and an availability period of four years. Interest is payable semi-annually based on floating interest rate computed at 6-month LIBOR plus loan spread with a weighted average of 2.80 percent.

In January 2016, CMSA entered into interest rate swap transactions to hedge the interest rate exposure on its floating rate US$-denominated floating rate loan maturing in 2027. A total notional amount of US$181.0 million floating rate loan was swapped to fixed rate. Under the interest rate swap arrangements, CMSA pays annual fixed interest of an average 2.44 percent and receives floating rate of six-month LIBOR on the notional amount.

In May 2018, CMSA pre-terminated the project finance facility and the interest rate swap arrangements.

*VICT.* On July 15, 2016, VICT signed a syndicated project finance facilities with various international and regional banks for principal amount of US$300.0 million (AUD398.0 million) with interest rates based on Australian Bank Bill Swap Reference Rate (bid) (BBSY) plus average margin of 3.1 percent per annum and maturities until 2023, 2026 and 2031 and working capital facility of US$15.1 million (AUD20.0 million).

In 2016 and 2017, VICT entered into interest rate swap transactions to hedge the interest rate exposures on its floating rate AUD-denominated loans maturing in 2023, 2026 and 2031. A total notional amount of AUD338.3 million floating rate loan was swapped to fixed rate. Under the interest rate swap arrangements, VICT pays annual fixed interest of a range of 2.10 percent to 2.973 percent and receives floating rate of six-month Bank Bill Swap Bid Rate (BBSY) basis points on the notional amount. As of December 31, 2018, the market valuation loss on the outstanding interest rate swaps amounted to AUD1.5 million (US$1.1 million).

As of December 31, 2018, the term facilities were fully drawn and the carrying value of the loans amounted to US$250.8 million (AUD354.7 million).

<u>US dollar and Foreign Currency-denominated Term Loans and Securities</u>

*CGSA.* In October 2015, CGSA availed of a three-year unsecured term loan with BBP Bank, S.A. amounting to US$4.0 million at a fixed interest rate of 6.78 percent. On September 18, 2018, CGSA fully paid the loan.

On March 29, 2016, CGSA (as "Borrower"), Metropolitan Bank and Trust Company (as "Lender") and ICTSI (as "Surety") signed a loan agreement which consists of two tranches of loans amounting to US$32.5 million (Tranche I) and US$7.5 million (Tranche II) with floating interest rates. Tranche I has a final maturity in March 2021 while Tranche II in May 2017. On May 30, 2017, CGSA fully paid the loan under Tranche II.

In November 2016, ICTSI entered into an interest rate swap transaction to hedge the interest rate exposures of the CGSA's floating rate US$-denominated floating rate loan maturing in 2021. A total notional amount of US$32.5 million floating rate loan was swapped to fixed rate. Under the interest rate swap arrangements, ICTSI pays annual fixed interest of 3.045 percent and receives floating rate of six-month LIBOR plus 160 basis points on the notional amount. As of December 31, 2018, the market valuation gain on the outstanding interest rate swaps amounted to US$0.3 million.

As of December 31, 2018, the outstanding balance of the loans aggregated to US$17.2 million.

*YICT.* On April 26, 2017, YICT obtained a US$21.8 million (RMB150.0 million) loan from Agricultural Bank of China at an interest rate published by People's Bank of China (PBOC) less 5.00 percent of such base rate and a final maturity in November 2023 to refinance its maturing loan. As of December 31, 2018, the outstanding balance of the loan amounted to US$7.3 million (RMB 50.0 million).

*AGCT.* In 2013, AGCT signed a ten-year loan agreement for US$13.7 million (EUR10.6 million) with Raiffeisenbank Austria d.d. which carries a mark-up at the rate of 1-month EURIBOR plus 3.40 percent and is secured by AGCT's port equipment. The principal is repayable in monthly installments until April 30, 2023.

The loan is under an interest rate swap agreement in which the floating rate Euro denominated loan was swapped to fixed interest. Under the interest rate swap, AGCT pays fixed interest of 5.39 percent for US$3.5 million (EUR2.9 million) and 4.75 percent for US$2.6 million (EUR2.2 million) and receives floating rate of one-month EURIBOR plus 3.40 bps on the US$6.1 million (EUR5.1 million). As of December 31, 2018, the market valuation loss on the outstanding interest rate swap amounted to EUR0.2 million (US$0.3 million).

On April 30, 2018, AGCT obtained a loan amounting to US$0.7 million (EUR0.6 million) from Raiffeisen Bank d.d. at a fixed rate of 2.50 percent and a maturity date of October 31, 2019.

As of December 31, 2018, the outstanding balance of the loans aggregated US$6.2 million (EUR5.4 million).

*OPC.* On July 11, 2017, OPC (as "Borrower"), Metropolitan Bank and Trust Company (as "Lender") and ICTSI (as "Surety") signed a loan agreement amounting to US$77.0 million with floating interest rate and maturity date of July 2020 to finance capital expenditures. The amount of the facility was reduced to US$47.0 million on June 21, 2018 and was further reduced to US$39.5 million on September 11, 2018. As of December 31, 2018, the outstanding balance of the loan amounted to US$29.5 million.

*SPICTL and MITL.* On April 13, 2018, SPICTL and MITL obtained a loan facility with Australia and New Zealand Banking Group (PNG) Limited amounting to US$31.1 million (PGK101.0 million) and US$25.2 million (PGK82.0 million), respectively, at prevailing market rate and a maturity date of six months from first drawdown date. On October 26, 2018, the loan facilities were extended for another six months at a reduced amount of US$22.3 million (PGK75.0 million) for SPICTL and US$16.4 million (PGK55.0 million) for MITL. As of December 31, 2018, the outstanding balance of the loans amounted US$17.9 million (PGK60.2 million) for SPICTL and US$13.9 million (PGK46.7 million) for MITL.

*IDRC.* On October 9, 2018, IDRC availed of a four-year term loan with Rawbank RDC amounting to US$25.0 million at a fixed interest rate of 8.00 percent per annum. As at December 31, 2018, the outstanding balance of the loan amounted to US$24.0 million.

*ICTSI Middle East DMCC.* On January 9, 2019, ICTSI Middle East DMCC, as borrower, and ICTSI, as guarantor, signed a term loan facility agreement with Citigroup Global Markets Asia Limited and Standard Chartered Bank, the original mandated lead arrangers and bookrunners, for the principal amount of EUR260.0 million (US$297.6million) with interest rate based on EURIBOR plus an agreed margin and maturing on December 20, 2022. The term facility agreement was entered into pursuant to the Loan Facility Programme Agreement dated July 24, 2014 between ICTSI Global Finance B.V. as the borrower, ICTSI as the guarantor, and The Bank of New York Mellon, Singapore Branch as the trustee (“Loan Programme”). ICTSI Middle East DMCC acceded to the Loan Programme as an additional borrower and an additional obligor thereunder.

On January 10, 2019, ICTSI Middle East DMCC has fully drawn the EUR260.0 million from the facility.

*Loan Covenants*

The loans from local and foreign banks impose certain restrictions with respect to corporate reorganization, disposition of all or a substantial portion of ICTSI’s and subsidiaries’ assets, acquisitions of futures or stocks, and extending loans to others, except in the ordinary course of business. ICTSI is also required to comply with a specified financial ratio relating to their debt to EBITDA up to 4 times when incurring additional debt.

There was no material change in the covenants related to the Group’s long-term debts. As of December 31, 2018, ICTSI and subsidiaries were in compliance with their loan covenants except for VICT whose Debt Service Coverage Ratio requirement was not met but having been irrevocably waived by majority of the creditors, no event of default has occurred.

*Equity Financing*

<u>Perpetual Capital Securities</u>

On January 29, 2015, RCBV issued US$300.0 million 6.25 percent Senior Guaranteed Perpetual Capital Securities unconditionally and irrevocably guaranteed by ICTSI at a price of 99.551 percent or US$298.7 million. The new issue was partly used to finance the tendered US$230.0 million 8.375 percent Subordinated Guaranteed Perpetual Capital Securities (“Original Securities) at a tender price of 107.625 or US$247.5 million. The cash proceeds received by RCBV amounted to US$46.7 million, net of debt issuance cost.

On August 26, 2015, RCBV issued US$450.0 million 5.50 percent Senior Guaranteed Perpetual Capital Securities (“New Securities”) unconditionally and irrevocably guaranteed by ICTSI. The cash proceeds received by RCBV amounted to US$436.3 million, net of debt issue cost, will be used for refinancing, funding capital expenditures and general corporate purposes.

On March 10, 2016, RCBV (the “Issuer”) and ICTSI (the “Guarantor”) sent a notice to The Hong Kong and Shanghai Banking Corporation Limited (HSBC, as “Trustee” and “Agent”) for the redemption of the remaining US$108.3 million of the US$350-million Subordinated Guaranteed Perpetual Capital Securities (“Securities”) and payment of accrued distributions. The securities were eventually redeemed in May 2016.

On October 3, 2016, RCBV tendered its US$300.0 million 6.25 percent and US$450.0 million 5.50 percent Senior Guaranteed Perpetual Capital Securities for redemption at a price of 106.75 and 105.75, respectively. On October 20, 2016, RCBV redeemed a total of US$345.5 million of the tendered securities and paid the associated accrued distributions of US$9.3 million. Together with the redemption, RCBV issued US$375.0 million 4.875 percent Senior Guaranteed Perpetual Capital Securities unconditionally and irrevocably guaranteed by ICTSI at a price of 99.225 percent. The new issue was used to finance the redemption and payment of accrued distributions of the tendered securities

On January 10, 2018, the Board approved the principal terms and conditions of the US$350.0 million 5.875 percent fixed-for-life Senior Guaranteed Perpetual Capital Securities (the "New Securities"). The New Securities were unconditionally and irrevocably guaranteed by ICTSI at par. On January 11, 2018, the Board approved the issuance of additional Senior Guaranteed Perpetual Capital Securities amounting to US$50.0 million ("Additional Securities") which was consolidated and formed a single series with the New Securities initially offered on January 10, 2018. The Additional Securities were also unconditionally and irrevocɔably guaranteed by ICTSI at par. The cash proceeds received by RCBV from the issuance of the New and Additional Securities amounted to US$392.3 million, net of debt issuance costs, which shall be used for the financing of acquisitions and capital expenditures and for general corporate purposes.

**Risks**

ICTSI and its subsidiaries' geographically diverse operations expose the Group to various market risks, particularly foreign exchange risk, interest rate risk and liquidity risk, which movements may materially impact the financial results of the Group. The importance of managing these risks has significantly increased in light of the heightened volatility in both the Philippine and international financial markets.

With a view to managing these risks, the Group has incorporated a financial risk management function in its organization, particularly in the treasury operations.

*Foreign Exchange Risk*

The Group has geographically diverse operations and transacts in currencies other than its functional currency. Consequently, the Group is exposed to the risk of fluctuation of the exchange rates between the US dollar and other local currencies such as PHP, AUD, BRL, MXN and EUR that may adversely affect its results of operations and financial position. The Group attempts to match its revenues and expenses whenever possible and, from time to time, engages in hedging activities. Changes in exchange rates affect the US dollar value of the Group's revenues and costs that are denominated in foreign currencies. The Group also enters into cross currency swap agreements in order to manage its exposure to fluctuations in the net investments in its subsidiaries denominated in foreign currencies.

The Group's non-US dollar currency-linked revenues was 45.6 percent and 50.9 percent of gross revenues for the periods ended December 31, 2017 and 2018, respectively. Foreign currency-linked revenues include the following: (1) arrastre charges of MICT; and (2) non-US dollar revenues of international subsidiaries. ICTSI incurs expenses in foreign currency for the operating and start up requirements of its international subsidiaries. Concession fees payable to port authorities in certain countries are either denominated in or linked to the US dollar.

The below table provides the currency breakdown of the Group's revenue for the year ended December 31, 2018:

**Table 1.16 Revenue Currency Profile**

| Subsidiary | USD/EUR Composition | Local Currency |
|---|---|---|
| ICTSI | 42 % USD | 58 % PhP |
| SBITC/ICTSI Subic | 56 % USD | 44 % PhP |
| DIPSSCOR | | 100 % PhP |
| HIPS | | 100 % PhP |
| SCIPSI | | 100 % PhP |
| BIPI | | 100 % PhP |
| MICTSI | | 100 % PhP |
| LGICT | 30 % USD | 70 % PhP |
| BCT | 68 % USD/5 % EUR | 27 % PLN |

| Subsidiary | USD/EUR Composition | Local Currency |
|---|---|---|
| TSSA | | 100 % BRL |
| MICTSL | 100 % EUR* | |
| PTMTS | | 100 % IDR |
| YICT | | 100 % RMB |
| AGCT | 79 % EUR | 21 % HRK |
| CGSA | 100 % USD | |
| BICT | 100 % USD | |
| PICT | 76 % USD | 24 % PKR |
| OJA | 70 % USD | 30 % IDR |
| CMSA | 49 % USD | 51 % MXN |
| OPC | 100 % USD | |
| ICTSI Iraq | 84 % USD | 16 % IQD |
| IDRC | 100 % USD | |
| VICT | | 100 % AUD |
| SPICTL/MITL | | 100 % PGK |

**MGA pegged to the EURO*

*Interest Rate Risk*

The Group's exposure to market risk for changes in interest rates (cash flow interest rate risk) relates primarily to the Group's bank loans and is addressed by a periodic review of the Group's debt mix with the objective of reducing interest cost and maximizing available loan terms. The Group also enters into interest rate swap agreements in order to manage its exposure to interest rate fluctuations.

*Liquidity Risk*

The Group manages its liquidity profile to be able to finance its working capital and capital expenditure requirements through internally generated cash and proceeds from debt and/or equity. As part of the liquidity risk management, the Group maintains strict control of its cash and makes sure that excess cash held by subsidiaries are up streamed timely to the Parent Company. The Group also monitors the receivables and payables turnover to ensure that these are at optimal levels. In addition, it regularly evaluates its projected and actual cash flow information and continually assesses the conditions in the financial market to pursue fund raising initiatives. These initiatives may include accessing bank loans, project finance facilities and the debt capital markets.

ICTSI monitors and maintains a level of cash and cash equivalents and bank credit facilities deemed adequate to finance the Group's operations, ensure continuity of funding and to mitigate the effects of fluctuations in cash flows.

There are no other known trends, demands, commitments, events or uncertainties that will materially affect the company's liquidity.

**Consolidated Financial Statements**

The Group's 2018 consolidated financial statements and accompanying notes are incorporated herein by reference.

**Changes in and Disagreements with Accountants of Accounting and Financial Disclosure**

There were no changes or disagreements with ICTSI's external auditors, SyCip Gorres Velayo & Co. (a member firm of Ernst & Young Global Limited), on accounting and financial statement disclosures.

**Information on Independent Accountant**

The principal external auditor is the firm SGV & Co. The Group has engaged Mr. Arnel F. De Jesus, partner of SGV & Co., for the audit of the Group's books and accounts in 2018.

**External Audit Fees and Services**

ICTSI paid its external auditors the following fees (in thousands) for the last three years for professional services rendered:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Audit Fees | US$1,070.2 | US$1,203.9 | **US$1,283.9** |
| Audit-related Fees | 379.1 | 437.4 | – |
| Tax Fees | 72.9 | 239.9 | **288.6** |
| Other Fees | 151.1 | 92.3 | **348.9** |

Audit Fees include the audit of the Group's annual financial statements.

Audited-Related Fees include the review of interim financial statements and issuance of comfort letters for the capital market raising transactions of the Group.

Tax fees paid to SGV & Co./Ernst & Young are for tax compliance, tax advisory services and transfer-pricing studies. The increases in 2017 and 2018 were mainly due to increased number of engagements on tax advisory and on tax planning for the restructuring of the subsidiaries.

Other fees mainly include due diligence services related to business development, sustainability reporting and other various one-time engagements.

The Audit Committee makes recommendations to the Board concerning the external auditors and pre-approves audit plans, scope and frequency before the conduct of the external audit. The Audit Committee reviews the nature of the non-audit related services rendered by the external auditors and the appropriate fees paid for these services.

The reappointment of SGV & Co. as the Company's external auditors was approved by the stockholders in a meeting held on April 19, 2018.

**Directors and Executive Officers**

The following are information on the business experience of the members of the Board of Directors (the Board) and Executive Officers of ICTSI for the last five (5) years.

The members of the Board of Directors and Executive Officers of ICTSI are the following:

| Office | Name | Citizenship | Age |
|---|---|---|---|
| Chairman of the Board and President | Enrique K. Razon, Jr. | Filipino | 59 |
| Director | Cesar A. Buenaventura[1] | Filipino | 89 |
| Director | Octavio Victor R. Espiritu[2] | Filipino | 75 |
| Director | Joseph R. Higdon[3] | American | 77 |
| Director | Jose C. Ibazeta | Filipino | 76 |
| Director | Stephen A. Paradies | Filipino | 65 |
| Director | Andres Soriano III | American | 67 |
| Executive Vice President | Martin O'Neil[4] | American/Irish | 58 |
| Senior Vice President, Chief Financial Officer & Compliance Officer | Rafael D. Consing, Jr. | Filipino | 50 |
| Senior Vice President, Finance | Jose Joel M. Sebastian | Filipino | 55 |
| Vice President and Treasurer | Gigi Iluminada T. Miguel[5] | Filipino | 49 |
| Corporate Secretary | Rafael T. Durian | Filipino | 85 |
| Asst. Corporate Secretary | Silverio Benny J. Tan | Filipino | 62 |
| Asst. Corporate Secretary | Benjamin M. Gorospe III | Filipino | 51 |

[1]*Elected as Independent Director last February 12, 2019 by the remaining members of the Board to serve the unexpired term of Jon Ramon Aboitiz pursuant to Article III, Section 2 of the Amended By - Laws*
[2]*Independent Director*
[3]*Independent Director*
[4]*Retired on June 1, 2018*
[5]*Appointed on May 2, 2018*

The following are the Regional Heads and Global Corporate Officers for the ICTSI group of companies:

| Office | Name | Citizenship | Age |
|---|---|---|---|
| Senior Vice President, Regional Head – Asia Pacific | Andrew Dawes[1] | British | 46 |
| Senior Vice President, Global Corporate Head | Christian Martin R. Gonzalez[2] | Filipino | 43 |
| Senior Vice President, Regional Head – Latin America | Anders Kjeldsen | Danish | 49 |
| Senior Vice President, Regional Head-Europe & Middle East and Africa | Hans-Ole Madsen | Danish | 53 |
| Vice President, Chief Risk Officer | Sandy A. Alipio[3] | Filipino | 48 |
| Vice President, Head of Financial Planning & Budgeting | Caroline C. Causon[4] | Filipino | 41 |
| Vice President, Head of Global Corporate Human Resources | Michael Robin Cruickshanks | British | 61 |
| Vice President, Chief Information Officer | Brian Hibbert[5] | British | 51 |
| Vice President, Senior Admin Officer | Vivien F. Minana[6] | Filipino | 54 |
| Vice President, Head of Global Commercial | Tico Wieske | Dutch | 55 |

| | | | |
|---|---|---|---|
| Vice President, Head of Global Engineering – Equipment Maintenance | Johan Swart[7] | South African | 60 |
| Vice President, Head of Global Corporate Audit & Compliance | Tricianne M. Zingapan[8] | Filipino | 47 |

[1] *Appointment effective on November 1, 2018*
[2] *Appointment effective on June 1, 2018*
[3] *Appointment effective on March 6, 2019*
[4] *Appointment effective on April 1, 2018*
[5] *Appointment effective on October 1, 2018*
[6] *Transfer from ICTSI to ICTSI Ltd. ROHQ effective on December 31, 2018*
[7] *Appointment effective on March 6, 2019*
[8] *Appointmnt effective on March 6, 2019*

The following are the business experiences of ICTSI's directors and officers for the **past five years**:

*Directors*

***Enrique K. Razon, Jr****., age 59, Filipino*

Mr. Razon has been a Director of International Container Terminal Services, Inc. (ICTSI)* since December 1987 and has been its Chairman since 1995.

Concurrently, Mr. Razon is the Chairman and the President of ICTSI*, ICTSI Warehousing, Inc., ICTSI Foundation, Inc., Razon Industries, Inc., Bloomberry Resorts Corporation*, Prime Metroline Holdings, Inc., Quasar Holdings, Inc., Falcon Investco Holdings, Inc., Achillion Holdings, Inc., Collingwood Investment Company Ltd., Bravo International Port Holdings, Inc., and Provident Management Group, Inc.; the Chief Executive Officer (CEO) and the Chairman of Bloomberry Resorts and Hotels, Inc.; the Chairman of Sureste Realty Corp., Monte Oro Resources and Energy, Inc.and Pilipinas Golf Tournament Inc.; and a Director of Sureste Properties, Inc., ICTSI (Hongkong) Ltd., Australian Container Terminals, Ltd., Pentland International Holdings Ltd., CLSA Exchange Capital, and Xcell Property Ventures, Inc.

In addition, he is a member of the US-Philippines Society, the ASEAN Business Club, and Philippines, Inc.

The De La Salle University in the Philippines has conferred on Mr. Razon the degree of Doctor of Science in Logistics honoris causa.

**Publicly-listed Corporation*

***Jon Ramon M. Aboitiz****, age 70, Filipino (Deceased on November 30, 2018)*

Mr. Aboitiz was a Director of ICTSI* from *April 2008* and was appointed as a member of the ICTSI Audit Committee in April 2010 and the Chairman of the Related Party Transactions Committee in April 2017.

Mr. Aboitiz was also the Chairman of Aboitiz & Co., Inc., and Aboitiz Equity Ventures, Inc.*, a Cebu-based investment and management enterprise engaged in numerous and diverse business concerns ranging from power generation and distribution, banking and financial services, real estate development, construction, food, ship building and cement.

Mr. Aboitiz began his career with the Aboitiz Group in 1970 after graduating from the Sta. Clara University, California, with a B.S. Commerce Degree majoring in Management. He became the President of Aboitiz & Company in 1991 until 2008. He was the President and Chief Executive Officer (CEO) of Aboitiz Equity Ventures, Inc.* from 1993 - 2008.

He held various positions in the Aboitiz Group including Vice Chairman of Aboitiz Power Corporation*, Vice Chairman of Union Bank of the Philippines and Chairman of the Bank's Committees namely: Executive Committee, Risk Management Committee and Nominations Committee; Vice Chairman of Compensation and Remuneration Committee, and Corporate Governance Committee. He was also a Director of Bloomberry Resorts Corporation* and was a member of its Audit Committee. He was Chairman and CEO of the Ramon Aboitiz Foundation, a member of the Board of Advisors of the Coca-Cola Export Corporation (Philippines) and Pilipinas KAO Corporation. He was also a Board of Trustee of The Santa Clara University, California USA.

**Publicly-listed Corporation*

***Cesar A. Buenaventura, O.B.E***., *age 89, Filipino (replaced Mr. Aboitiz to serve his unexpired term)*

Mr. Buenaventura was elected an an Independent Director of ICTSI* last February 12, 2019. On March 1, 2019, he was appointed as the Chairman of the Corporate Governance Committee as well as Chairman of the Related Party Transactions Committee, and a member of the Audit Committee of ICTSI. He is the Director and Chairman of Mitsubishi Hitachi Power Systems Phils Inc. and Buenaventura Echauz and Partners, Inc., Director and Vice Chairman of DMCI Holdings, Inc.*, Director of Semirara Mining and Power Corp.*, iPeople, Inc.*, Petroenergy Resources Corp.*, Concepcion Industrial Corp.* Pilipinas Shell Petroleum Corp.*, DM Consinji Inc., and The Country Club. He is likewise a Trustee and Chairman of Pilipinas Shell Foundation Inc., and Trustee of Bloomberry Cultural Foundation and ICTSI Foundation. He was formerly a Director of Philippine American Life Insurance Co., AG&P Co. of Manila, Ayala Corporation*, First Philippine Holdings Corp.*, Philippine Airlines*, Philippine National Bank*, Benguet Corporation*, Asian Bank, Ma. Cristina Chemical Industries, Paysetter International Inc., Maibarara Geothermal Inc., and Manila International Airport Authority.

His career started with Engineer David Consunji in 1951. Mr. Buenaventura then moved to the Shell Group of Companies in 1956 where he served as the first Filipino CEO and Chairman from 1975 until his retirement in 1990. He served 2 more years in the capacity of non-executive chairman until 1992. He was appointed member of the Monetary Board of Central Bank of the Philippines representing the private sector from 1981 until 1987.

Mr. Buenaventura is the founding chairman of the Pilipinas Shell Foundation Inc., and founding member of the Board of Trustees of the Makati Business Club. He was a member of the Board of Regents of the University of the Philippines from 1987 to 1994, the Board of Trustees of the Asian Institute of Management from 1994 to 2007, and President of Benigno Aquino S. Foundation from 1985-2010.

He is a recipient of many awards, among which are – Most Distinguished Alumnus, College of Engineering, University of the Philippines in 1977, the Management Man of the year by the Management Association of the Philippines in 1985, Outstanding Professional in Engineering by the Professional Regulatory Commission in 1997, Outstanding Fulbrighter in the field of business by the Philippine Fulbright Association in 2008, recipient of Centennial Award as one of the UP's Top 100 Alumni Engineering Graduates.

In 1991, Mr. Buenaventura was made Honorary Officer of the Order of the British Empire (OBE) by Her Majesty Queen Elizabeth II.

Mr. Buenaventura received his Bachelor of Science degree in Civil Engineering from the University of the Philippines and his Master's degree in Civil Engineering majoring in Structures from Lehigh University Bethlehem, Pennsylvania in 1954, as a Fulbright scholar.

**Publicly-listed Corporation*

***Octavio Victor R. Espiritu****, age 75, Filipino*

Mr. Espiritu has been an Independent Director of ICTSI* since April 2002. On March 1, 2019, he was appointed as the Chairman of the Audit Committee and a member of the Corporate Governance Committee, Nomination Sub-Committee, Remuneration Sub-Committee, Board Risk Oversight Committee and Related Party Transactions Committee of ICTSI*. He is also a Director of Bank of the Philippine Islands, Philippine Dealing System Holdings Corp. and Subsidiaries, and Phil Stratbase Consultancy Inc.

Formerly, Mr. Espiritu was a three-term former President of the Bankers Association of the Philippines, a former President and Chief Executive Officer (CEO) of Far East Bank and Trust Company, and Chairman of the Board of Trustees of the Ateneo de Manila University for fourteen (14) years.

Mr. Espiritu received his primary, secondary, and college education from the Ateneo de Manila University, where he obtained his AB Economics degree in 1963. In 1966, he received his Master's Degree in Economics from Georgetown University in Washington DC, USA.

**Publicly-listed Corporation*

***Joseph R. Higdon****, age 77, American*

Mr. Higdon has been an Independent Director of ICTSI* since April 2007. On March 1, 2019, he was appointed as member of the Corporate Governance Committee and Board Risk Oversight Committee of ICTSI. He is also an independent director of SM Investments Corporation*, Security Bank Corporation* and The Island Institute, a non-profit organization seeking to preserve island communities along the coast of Maine and Trekkers, a community-based mentoring organization.

Formerly, Mr. Higdon was the Senior Vice President of Capital Research and Management, a Los Angeles (USA)-based international investment management firm, until June 2006. He joined Capital Research and Management in 1974 and has covered Philippine stocks from 1989 to 2006. He was the Vice President of the New World Fund, which focused on companies doing business in emerging countries and was a Director of Capital Strategy Research.

Mr. Higdon received his Bachelor of Science degree, major in Political Science, from the University of Tennessee in 1968.

**Publicly-listed Corporation*

***Jose C. Ibazeta***, age 76, Filipino

Mr. Ibazeta has been a Director of ICTSI* since December 1987. On March 1, 2019, he was appointed as Chairmanof the Nomination Sub-Committee and a former member of Audit Committee of ICTSI.

Formerly, he was named a Trustee and Vice-President of ICTSI Foundation in 2009, He also served as ICTSI's Treasurer until February 2007, and he was appointed as President and Chief Executive Officer of the Power Assets and Liabilities Management Corporation (PSALM) by the President of the Republic of the Philippines. He served as PSALM President and CEO from February 1, 2007 to March 30, 2010. In April 2010, he declined his nomination as Director of ICTSI by reason of his appointment as Acting Secretary of the Department of Energy, a position he held from April 1, 2010 until June 30, 2010. He was re-elected a Director of ICTSI* in August 2010.

In addition, Mr. Ibazeta is a Consultant to the Chairman of the Board of A Soriano Corporation*. He is a Director of A Soriano Corporation, Anscor Consolidated Corporation, AFC Agribusiness Corporation, Anscor Holdings, Inc., Minuet Realty Corporation, Phelps Dodge Philippines Energy

Products Corporation, Seven Seas Resorts and Leisure, Inc, Island Aviation, Inc, and Vicinetum Holdings, Inc. He is also the Chairman and President of Island Aviation, Inc, President of Seven Seas Resorts and Leisure, Inc, and Pamalican Resort, Inc. Mr. Ibazeta is also the founding Chairman and a Director of Philippine Stratbase Consultancy, Inc.

At AGP Group Holdings, PTE, Ltd, Mr. Ibazeta is a member of the Board, the Executive Committee and the Compliance Steering Committee as well as Chairman of the Audit Committee. He is Chairman of the AG&P Estate Management, Inc, member of the Board of Atlantic, Gulf & Pacific Company of Manila, Inc, AG&P FieldCOM, Inc, and Gas Entec Co, Ltd. He is the Treasurer and a member of the Board of AGP Philippines Holdings, Inc.

Mr. Ibazeta is a member of the Board of Trustees of Radio Veritas and St James the Great Parish Foundation. He received his Bachelor of Science in Economics degree from the Ateneo de Manila University in 1963 and his Masters Degree in Business Administration from the University of San Francisco, USA in 1968. He completed all academic requirements and passed the comprehensive exams for an MBC in Banking and Finance from the New York University in 1975.

**Publicly-listed Corporation*

***Stephen A. Paradies****, age 65, Filipino*

Mr. Paradies has been a Director of ICTSI* since December 1987. Currently, On March 1, 2019, he was was appointed as the Chairman of the Board Risk Oversight Committee and a member of Audit Committee, Nomination Sub-Committee, Remuneration Sub-Committee, and Related Party Transactions Committee of ICTSI. He is also a Director of ICTSI Warehousing, Inc. and Sociedad Puerto Industrial Aguadulce S.A. Moreover, Mr. Paradies is the Senior Vice President-Treasurer of Aboitiz & Company, Inc.; a Trustee of Bloomberry Cultural Foundation, Inc.; a Director of Union Properties, Inc., Prime Metro BMD Corp., and Chairman of NapaGapa Beverages, Inc.

Mr. Paradies received his Bachelor of Science degree, major in Business Management, from the Santa Clara University, California, USA.

**Publicly-listed Corporation*

***Andres Soriano III****, age 67, American*

Mr. Soriano has been a Director of ICTSI* since July 1992. Currently he is the Chairman of the Remuneration Sub-Committee.

In addition, Mr. Soriano is the Chairman and Chief Executive Officer (CEO) of A. Soriano Corporation*, the Chairman and President of Anscor Consolidated Corp., the Chairman of the Andres Soriano Foundation, Inc., Phelps Dodge International Philippines, Inc., Phelps Dodge Philippines Energy Products Corp., and Seven Seas Resorts and Leisure, Inc., and a Director of Anscor Property Holdings, Inc., A. Soriano Air Corporation, and the Manila Peninsula Hotel, Inc.

Formerly, Mr. Soriano was the President and Chief Operating Officer (COO) of San Miguel Corporation* and later, its Chairman and CEO. He was also the Chairman of Coca Cola (Philippines), Coca Cola Amatil (Australia) and Nestle (Philippines) and was a Director of SPI Technologies, Inc., eTelecare Global Solutions, Inc., G.E. Asian Advisory and Wharton East Asia Executive Board.

Mr. Soriano received a Bachelor of Science degree in Economics, major in Finance and International Business, from Wharton School of Finance and Commerce, University of Pennsylvania in 1972.

**Publicly-listed Corporation*

*Executive Officers*

***Martin L. O'Neil**, age 58, American / Irish*

Mr. O'Neil was the Executive Vice President of ICTSI* prior to his retirement on June 1, 2018. He has assumed the Executive Vice President role in October 2015. He previously served as the Senior Vice President and the Chief Financial Officer of ICTSI* during the periods from 2006 to 2010 and July 2013 to October 2015. He is currently a Director and the Chairman of International Container Terminal Holdings, Inc. (ICTHI); a Director of Tecon Suape S.A. (TSSA), ICTSI Georgia Corp., Sociedad Portuario Industrial Aguadulce S.A. (SPIA), Terminal Maritima de Tuxpan S.A. de C.V. (TMT), ICTSI (Hong Kong) Ltd., Tungsten RE Ltd., and Victoria International Container Terminal Limited (VICTL). From 2001 to 2003, he was the Head of the London office of Telegraph Hill Communications Partners, a San Francisco based firm advising on private equity investments and management of private equity portfolio companies. He was a Managing Director of JP Morgan & Co., where he was active in project finance, capital markets and mergers and acquisitions in New York, Hong Kong, and London. He was a Director of JP Morgan Capital Corporation, the JP Morgan's private equity investment arm, and it was during this time that he invested in and served as a Director of ICTSI International Holdings Corp. (IIHC). He joined JP Morgan & Co. in 1984.

Mr. O'Neil is a dual citizen of USA and Ireland and graduated from Harvard College in Cambridge, Massachusetts (USA), with a BA degree (cum laude) in 1983, and was also named a Harvard College Scholar. He currently serves as a member of Harvard's Committee on University Resources.

*Publicly-listed Corporation*

***Rafael D. Consing, Jr.**, age 50, Filipino*

Mr. Consing is the Senior Vice President and Chief Financial Officer of International Container Terminal Services, Inc. (ICTSI)*. He was appointed to the said position on October 5, 2015 and was subsequently appointed as the Compliance Officer on February 9, 2016. Prior to such role, he was the Vice President and Treasurer of ICTSI*. Concurrently, he is a Director and Treasurer of the following ICTSI subsidiaries: Hijo International Port Services, Inc., Subic Bay International Terminal Corp., Subic Bay International Terminal Holdings, Inc., ICTSI Subic Inc., Cordilla Properties Holdings, Inc., IW Cargo Handlers, Inc., ICTSI Warehousing, Inc., Laguna Gateway Inland Container Terminal, Inc., Intermodal Terminal Holdings, Inc., Cavite Gateway Terminal, Inc., a Director of Falconer Aircraft Management, Inc., Tecplata S.A., Contecon Manzanillo S.A., Terminal Maritima de Tuxpan, S.A. de C.V., Sociedad Puerto Industrial Aguadulce S.A., Operadora Portuaria Centroamericana S.A. de C.V., ICTSI Oregon, Inc., Global Procurement Ltd., ICTSI Honduras Ltd., Aeolina Investments Limited, Crixus Limited, ICTSI Georgia Corp., ICTSI QFC LLC, ICTSI Project Delivery Services Co. Pte. Ltd., ICTSI South Asia Pte. Ltd., ICTSI Mauritius Ltd., Consultports S.A. de C.V., Motukea International Terminal Limited, , Asiastar Consultants Limited, ICTSI Far East Pte. Ltd., and Manila North Harbour Port, Inc.; the Chairman of CGSA Transportadora S.L. and SPIA Spain S.L.; a Director and the Deputy Chairman of ICTSI Ltd. and International Container Terminal Holdings, Inc.; a Director A of ICTSI Capital B.V., Royal Capital B.V., ICON Logistiek B.V., ICTSI Americas B.V., ICTSI Cameroon B.V., Tecplata B.V., Global Container Capital B.V., CGSA B.V., SPIA Colombia B.V., CMSA B.V., TSSA B.V., ICTSI Treasury B.V., ICTSI Cooperatief U.A., ICTSI Oceania B.V., ICTSI Tuxpan B.V., ICTSI Africa B.V., ICTSI Global Cooperatief U.A., and ICTSI Global Finance B.V.; and a Commissioner of PT ICTSI Jasa Prima Tbk.

Mr. Consing started his career at the Multinational Investment Bancorporation in June 1989. From 1999 to 2007, he assumed various roles in HSBC, including Director and the Head of Debt Capital Markets for the Philippines, and subsequently for South East Asia, and later on as the Managing Director and the Head of the Financing Solutions Group, Asia Pacific. In HSBC, Mr. Consing was involved in strategic and situational financing and advisory activities, including acquisition and leveraged finance, debt capital markets, credit ratings and capital advisory. He also held positions in investment banking with Bankers Trust NY / Deutsche Bank and ING Barings. In 1993 to 1995, Mr. Consing served as the Vice President and the Treasurer of Aboitiz & Company, Inc. and Aboitiz Equity Ventures, Inc*.

Mr. Consing received his A.B. degree, major in Political Science, from the De La Salle University, Manila, in 1989. He is an alumnus of the Emerging CFO: Strategic Financial Leadership Program of the Stanford Graduate School of Business.

**Publicly-listed Corporation*

***Jose Joel M. Sebastian,*** *age 55, Filipino*

Mr. Sebastian is the Senior Vice President, Finance. He was appointed to the said position on October 5, 2015. He joined ICTSI* as the Vice President and Controller in September 2008. Concurrently, he is a Director and the President of International Container Terminal Holdings, Inc., ICTSI Ltd., and ICTSI Georgia Corp.; the Deputy Chairman of CGSA Transportadora S.L. and SPIA Spain S.L.; a Director and the President of Bauan International Ports, Inc., Davao Integrated Port & Stevedoring Services Corp.,, a Director and Treasurer ofMindanao International Container Terminal Services, Inc., South Cotabato Integrated Ports Services, Inc., Abbotsford Holdings, Inc., ICTSI Asia Pacific Business Services, Inc. and Falconer Aircraft Management, Inc.; a Director A of ICTSI Capital B.V., Royal Capital B.V., ICON Logistiek B.V., ICTSI Americas B.V., ICTSI Cameroon B.V., Tecplata B.V., Global Container Capital B.V., CGSA B.V., SPIA Colombia B.V., CMSA B.V., TSSA B.V., ICTSI Treasury B.V., ICTSI Cooperatief U.A., ICTSI Oceania B.V., ICTSI Tuxpan B.V., ICTSI Africa B.V., ICTSI Global Cooperatief U.A., and ICTSI Global Finance B.V.; and a Director of Cordilla Properties Holdings, Inc., , Tartous International Container Terminal, JSC., International Container Terminal Services Private Limited, ICTSI DR Congo S.A., PT ICTSI Jasa Prima Tbk, Global Procurement Ltd., ICTSI Honduras Ltd., Lekki International Container Terminal Services LFTZ Enterprises, Tecon Suape S.A., Contecon Guayaquil S.A., Contecon Manzanillo S.A., Terminal Maritima de Tuxpan, S.A. de C.V., Aeolina Investments Limited, Crixus Limited, ICTSI (M.E.) DMCC, ICTSI Middle East DMCC, ICTSI QFC LLC, ICTSI South Asia Pte. Ltd., ICTSI Project Delivery Services Co. Pte. Ltd., Consultports, S.A. de C.V., Motukea International Terminal Limited, South Pacific International Container Terminal Limited, Operadora Portuaria Centroamericana S.A. de C.V., Tungsten RE Ltd and Manila North Harbour Port, Inc.

Mr. Sebastian started his professional career with SGV & Co. in 1984 and was admitted to the partnership in 1999. His expertise is in financial audits of publicly-listed companies in the telecommunications, port services, shipping, real estate, retail, power generation and distribution, manufacturing, media and entertainment industries.

Mr. Sebastian is a Certified Public Accountant. He graduated from the De La Salle University, Manila, in 1983 with a degree in Bachelor of Science in Commerce major in Accounting. He also attended the Accelerated Development Programme of the University of New South Wales in 1996.

**Publicly-listed Corporation*

***Gigi Iluminada T. Miguel****, age 49, Filipino*

Ms. Miguel was appointed on May 2, 2018 as the Vice President and Treasurer of ICTSI*. Prior to such role, she was the Liability and Capital Director of ICTSI. Concurrently, she is also a Director of Pakistan International Container Terminal. Prior to joining ICTSI, she was already a seasoned banker, having been connected with China Banking Corporation.

Ms. Miguel received her Master’s Degree in Business Administration from Ateneo Graduate School of

Business, and is a graduate of BS Applied Mathematics from the University of the Philippines.

*Publicly-listed Corporation*

***Rafael T. Durian****, age 85, Filipino*

Atty. Durian has been the ICTSI*'s Corporate Secretary since 1987. He is likewise the Corporate Secretary of International Container Terminal Holdings, Inc. and ICTSI Foundation, Inc.; and the Corporate Secretary and a Director of Razon Industries, Inc., Sureste Realty Corp. and Provident Management Group, Inc.

Atty. Durian earned his Bachelor of Laws degree from San Beda College and is a member of the Integrated Bar of the Philippines. He was a Partner at Cruz Durian Alday & Cruz-Matters Law Office.

*Publicly-listed Corporation*

***Silverio Benny J. Tan****, age 62, Filipino*

Atty. Tan is a partner in and was managing partner from 2013 to 2015, in the law firm of Picazo Buyco Tan Fider & Santos. He is a director and corporate secretary of Prime Metroline Holdings, Inc., Bravo International Port Holdings Inc., Alpha International Port Holdings Inc., Eiffle House Inc., Cyland Corp., OSA Industries Philippines Inc. and Negros Perfect Circles Food Corp. He is also a director of the following companies: Mapfre Insular Insurance Corporation, Celestial Corporation, Skywide Assets Ltd., Monte Oro Minerals (SL) Ltd., and Dress Line Holdings Inc. and its subsidiaries and affiliates. He is the corporate secretary of several companies including: Apex Mining Company Inc.*, Sureste Properties, Inc., Bloomberry Resorts and Hotels Inc., Bloomberry Resorts Corporation*, Lakeland Village Holdings Inc., Devoncourt Estates Inc., Monte Oro Resources & Energy Inc., and Pilipinas Golf Tournaments, Inc. He is the assistant corporate secretary of ICTSI*, International Container Terminal Holdings, Inc and ICTSI Ltd., ICTSI Honduras Ltd. and a trustee and the auditor of the ICTSI Foundation, Inc.

Atty. Tan holds a Bachelor of Laws, cum laude, from the University of the Philippines - College of Law and a Bachelor of Arts Major in Political Science, cum laude, from the University of the Philippines College Iloilo. Atty. Tan placed third in the 1982 Philippine Bar exams.

*Publicly-listed Corporation*

***Benjamin M. Gorospe III****, age 51, Filipino*

Atty. Gorospe was appointed as the Assistant Corporate Secretary of ICTSI* on September 17, 2013. He is also the Global Head for Tax and Regional Legal Manager for the Americas of ICTSI*. Atty. Gorospe is a Director and the Corporate Secretary of Davao Integrated Port & Stevedoring Services Corp., Mindanao International Container Terminal Services, Inc., Cordilla Properties Holdings, Inc.; the Assistant Secretary of International Container Terminal Holdings, Inc., Global Procurement Ltd., ICTSI Ltd., ICTSI Honduras Ltd. and ICTSI Georgia Corp.; and a Director of ICTSI Far East Pte. Ltd., ICTSI South Asia Pte. Ltd., Tungsten RE Ltd., and Consultports S.A. de C.V.

Atty. Gorospe joined ICTSI* in 2003 as a Tax Manager. Prior to this, he worked with the Tax Department of SyCip Gorres Velayo & Co. (a member firm of Ernst & Young Global Limited) for five (5) years and with its Audit Department for one (1) year.

Atty. Gorospe completed his law degree at the University of the Philippines, Diliman. He is also a Certified Public Accountant. He graduated from Xavier University with a degree of Bachelor of Science in Commerce, major in Accounting.

**Publicly-listed Corporation*

*Regional Heads and Global Corporate Officers for the ICTSI group of companies*

***Andrew James Dawes****, age 46, British*

Mr. Dawes is the Senior Vice President, Regional Head – Asia Pacific of the ICTSI* Group.

Mr. Dawes is the Director and Chairman of Victoria International Container Terminal Limited, and Pakistan International Container Terminal Limited; the Director and President of ICTSI Subic, Inc.; and a Director of Yantai International Container Terminal Limited, ICTSI South Pacific Limited, Motukea International Terminal Limited, South Pacific International Container Terminal Limited, and Subic Bay International Container Terminal Corporation.

Prior to his current role, Mr. Dawes was Managing Director of APM Terminals Salalah in Oman.
He also held senior roles in multinational port management companies in Europe, the Middle East, Africa and the Americas. He was chief executive officer of Intels Nigeria Ltd. in Lagos, managing director and chief operations officer of various APM Terminals in both regional and concessions locations in Africa and the Middle East. He likewise held key roles in DP World, P&O Ports, and Southampton Container Terminal in the UK.

**Publicly-listed Corporation*

***Christian Martin R. Gonzalez****, age 43, Filipino*

Mr. Gonzalez is the Senior Vice President, Global Corporate Head of the ICTSI* Group. He recently served as Vice President, Regional Head – Asia Pacific.

Prior to his current role, he served as the Director General and Chief Executive Officer (CEO) of Madagascar International Container Terminal Services Ltd. (MICTSL), which operates the port in Toamasina, Madagascar, and thereafter, appointed as the Vice President and Head of Asia Pacific Region & Manila International Container Terminal.

When he first joined the ICTSI Group in 1997, he worked in various Operations departments before he was appointed as the Assistant Manager for Special Projects of ICTSI Ltd. He was named MICT Operations Manager in 2003. In 2006, he was designated as the Chief Operating Officer and later CEO of MICTSL in 2009. In 2010, he was designated as a Director of Bloomberry Resorts and Hotels, Inc. and The Country Club. In 2012, Mr. Gonzalez was appointed as the Head of ICTSI's Business Development for Asia region. He was also appointed as the President of ICTSI Foundation, Inc. on April 15, 2016. He is currently the Chairman and President of Cavite Gateway Terminal, Inc., Laguna Gateway Inland Container Terminal, Inc., President of ICTSI Asia Pacific Business Services, Inc., Chairman and President of Intermodal Terminal Holdings, Inc., President of IW Cargo Handlers, Inc., ICTSI D.R. Congo S.A. and Subic Bay International Terminal Holdings, Inc.; the Chairman of, ICTSI Subic, Inc., Cordilla Properties Holdings, Inc., and ICTSI Far East Pte. Ltd.; President Commissioner of PT ICTSI Jasa Prima Tbk.; a Director Yantai International Container Terminal Ltd., Director of Bauan International Port, Inc., Davao Integrated Port & Stevedoring Services Corp., Hijo International Port Services, Inc., Chairman of Mindanao International Container Terminal Services, Inc., Director South Cotabato Integrated Ports Services, Inc., Director of Subic Bay International Terminal Corp., Sociedad Puerto Industrial Aguadulce S.A., Contecon Guayaquil S.A., ICTSI Honduras Ltd., ICTSI Ltd., ICTSI (Hong Kong) Ltd., International Container Terminal Services Private Limited, Abbotsford Holdings, Inc., ICTSI Warehousing, Inc., ICTSI Project Delivery Services Co. Pte. Ltd., ICTSI South Asia Pte. Ltd., ICTSI South Pacific Limited, Motukea International Terminal Limited, South Pacific International Container Terminal Limited, Asiastar Consultants Limited, Tungsten RE Ltd., Manila North Harbour Port, Inc., Bloomberry Resorts Corporation*, Sureste Properties, Inc., and Prime Metroline Transit Corporation; and a Commissioner of PT Makassar Terminal Services.

Mr. Gonzalez is a graduate of Instituto de Estudios Superiores de la Empresa (IESE) Business School, the graduate school of management of the University of Navarra, in Barcelona, Spain, where he received his Bilingual Masters in Business Administration. He is also a graduate of Business Administration from Pepperdine University in California.

**Publicly-listed Corporation*

***Anders Kjeldsen,*** *age 49, Danish*

Mr. Kjeldsen is the Senior Vice President, Regional Head – Latin America of the ICTSI* Group. He is likewise a Director of Sociedad Puerto Industrial Aguadulce S.A.. Prior to joining ICTSI*, he served as Head of Latin America portfolio for APM Terminals until January 2017. Before moving to Latin America, he was appointed as portfolio Chief Operation Officer for Global Ports Investment PLC. (GPI, PLC.) in Russia for 3 years.

Prior to his role in GPI PLC., Mr. Kjeldsen headed the APM Terminals West Med where he was responsible for a total of 5 million TEU capacity, being the business units in Algeciras and Tangier. He joined the A.P. Moller-Maersk Group in 1991. During the last 28 years, he worked in most disciplines of the container terminal industry. He has been involved in terminal operations in most parts of the world such as Denmark, Germany, Netherlands, Spain, Russia and Panama.

Mr. Kjeldsen is an officer from the Danish Army and undertook several executive development programs at Wharton and IMD.

**Publicly-listed Corporation*

***Hans-Ole Madsen,*** *age 53, Danish*

Mr. Hans-Ole Madsen is the Senior Vice President, Regional Head for Europe and Middle East and Africa of the ICTSI* Group. Concurrently, he is the Chairman of ICTSI DR Congo S.A.; a Deputy Chairman of Adriatic Gate Container Terminal; and a Director of the following ICTSI subsidiaries: Pakistan International Container Terminal Limited, Baltic Container Terminal Ltd., Batumi International Container Terminal LLC; ICTSI (M.E.) DMCC, ICTSI Middle East DMCC, Lekki International Container Terminal Services LFTZ Enterprise, and Madagascar International Container Terminal Services, Ltd.

Mr. Madsen has more than 30 years of international experience within the port, shipping & logistic industry.

**Publicly-listed Corporation*

***Sandy Alipio,*** *age 48, Filipino*

Mr. Alipio, as Vice President, transitioned to Chief Risk Officer and Head of Business Strategy and Controls of ICTSI* Group last March 6, 2019. Before his current role, he was Vice President for Audit and Compliance.

Prior to his work at ICTSI*, he spent a decade working for the San Francisco-based, Elan Pharmaceuticals, holding several positions such as Internal Control, Senior Director, R&D Finance, Vice President of BioNeurology Finance and the Vice President of Internal Audit & SOX.

From 2000 to 2004, Mr. Alipio was a Senior Manager for Audits and Business Advisory at KPMG LLP in San Francisco. He was with Makati-based SGV and Co. from 1994 and was seconded in Chicago back in 1997. He was also a Manager for Assurance and Business Advisory Services in 2000.

A Certified Internal Auditor and a Certified Public Accountant, Mr. Alipio is a graduate of University of the Philippines, Diliman.

**Publicly-listed Corporation*

***Caroline C. Causon**, age 41, Filipino*

Ms. Causon is the Vice President of Financial Planning and Budgeting of the ICTSI* Group. She was appointed to the said position in April 2018. She is also currently a Director of Batumi International Container Terminal Ltd.

Prior to ICTSI, she handled various senior assurance and financial advisory roles at SGV & Co. (Ernst & Young Philippines), Manabat Sanagustin & Co. (KPMG Philippines) and the Rizal Commercial Banking Corporation.

Ms. Causon is a Certified Public Accountant. She graduated from the University of Santo Tomas with a degree in Bachelor of Science in Accountancy (Cum Laude) in 1999.

**Publicly-listed Corporation*

***Michael Robin Cruickshanks,** age 61, British*

Mr. Cruickshanks is the Vice President for Global Corporate Human Resources of the ICTSI* Group. Mr. Cruickshanks has extensive experience within the field of human resources in the industries of investment banking and logistics. Prior to ICTSI, Mr. Cruickshanks was the HR advisor to National Commercial Bank in Jeddah, Saudi Arabia. He also worked for global Swiss-based logistics company Panalpina World Transport in the role of Global Head of Compensation and Benefits, covering 16,000 plus employees in over 90 countries. Mr. Cruickshanks also held the position of Managing Director, Compensation and Benefits for the Dutch investment bank, Rabobank International. From 1993 - 1999, he was based in Madrid, Spain and New York, U.S.A. for Santander Investment to serve as Global Head of Compensation & Benefits as well as parallel generalists role supporting front line staff.

Mr. Cruickshanks holds a BSc (Honours) degree in Zoology from Newcastle University as well as Post-graduate Diploma in Business Information Technology.

**Publicly-listed Corporation*

***Brian Mark Hibbert**, Age 51, British*

Mr. Hibbert was appointed as Chief Information Officer of the ICTSI* Group on October 1, 2018 after heading operational technology within the Group for several months.

Prior to joining ICTSI, Brian served as Head of Operations Technology and Transformation Leader in a global capacity for APM Terminals. As Vice President of Product Management for web-based logistics startup International Asset Systems, Inc. in Oakland, CA. USA. Brian also served in multiple leadership roles between 1995 to 2008 as a member of the original pioneering team that grew Navis LLC, a terminal systems provider, into the market leading position it maintains today.

Brian was educated in the United Kingdom at Palmers College and later studied Product Management and Marketing at Caltech in Pasadena, California. He graduated the APM Terminals Magnum program held in conjunction with Esade of Barcelona in 2013.

**Publicly-listed Corporation*

***Vivien F. Miñana****, age 54, Filipino*

Ms. Miñana was appointed in 2006 as the Vice President and Senior Administration Officer of the ICTSI* Group and ICTSI Ltd. Prior to her appointment in 2006, she was the Vice President and Controller of ICTSI* and ICTSI Ltd. from 2000 to 2006. Currently, Ms. Miñana is the Treasurer of Container Terminals Systems Solutions Philippines, Inc.

A Certified Public Accountant, Ms. Miñana received her Master's Degree in Business Management from the Asian Institute of Management in Manila, and is a graduate of BS Accounting from the De La Salle University, Manila.

**Publicly-listed Corporation*

***Tico Wieske****, age 55, Dutch*

He is the Vice President for Global Commercial of the ICTSI* Group.

Mr. Wieske is a Director of Victoria International Container Terminal Limited and Motukea International Terminal Limited. Before joining ICTSI*, he was the Global Head of Key Client Management Asia Carriers of APM Terminals, Hongkong. Prior to this, he was the Chief Commercial Officer of APM Terminals, Asia Pacific Region. He represented APM Terminals in various boards including, ACT Aqaba Container Terminal in Jordan, APMT Port of Bahrain, SAGT South Asia Gate Way Terminals in Colombo Sri Lanka, SETV Abidjan Ivory Coast, DIT Douala Cameron and MPS in Tema, Ghana.

Mr. Wieske earned his B.A. Economics degree in J. van Zwijndregt in Hague, the Netherlands.

**Publicly-listed Corporation*

***Johan Swart****, age 60, South African*

Mr. Swart is Vice President, Head of Global Engineering – Equipment Maintenance of the ICTSI* Group effective March 6, 2019.

Prior to his current role, Mr. Swart served as Vice President for Maintenance at Global Container Terminals in Canada. From 2008 to 2015, he was Head of Engineering at APM Terminals in Ghana and Nigeria. He also spent 30 years working for Transnet Port Terminals in Cape Town, holding several positions such as Container Crane Commissioning Electrician, Technical Assistant – Electrical Engineering Container Cranes, Senior Technical Supervisor – Electrical Engineering Container Lifting Equipment and Technical Manager – Electrical and Mechanical.

Mr. Swart holds a National Technical Certificate in Electrical Engineering from Maitland Technical College South Africa and a Diploma in Electrical Engineering at Transnet Port Terminals, South Africa, among other certifications.

**Publicly-listed Corporation*

***Tricianne M. Zingapan,*** *age 47, Filipino*

Ms. Zingapan is the Vice President for Global Corporate Audit and Compliance for the ICTSI* Group effective March 6, 2019.

Prior to joining ICTSI Group, she was the Head of Internal Audit for Coca-Cola FEMSA Philippines. Ms. Zingapan spent more than 6 years with Coca-Cola FEMSA Philippines starting in 2012 where she held several leadership positions including National Key Accounts Finance Head, Financial Planning & Analysis Head, Internal Controls & Finance Transformation Head and Head of Internal Audit. Her career in Coca-Cola FEMSA included an assignment in Mexico with the Corporate Controllership group.

She spent close to a decade in Shell holding various roles and leadership positions, including Retail Finance Head, Asia-Pacific Aviation Regional Finance Head based in Singapore and thereafter, as the LPG Philippine Finance Head while playing an important role in the Philippines LPG Portfolio Project for Shell.

Early in her career, she worked in Singapore as an Associate/Consultant for AT Kearney and as an e-Procurement Account Manager for Ariba.

Ms. Zingapan received her Bachelor of Science in Business Administration and Accountancy from the University of the Philippines, Diliman (*Cum Laude*) and a Master's degree in Business Administration from the JL Kellogg Graduate School of Business, Northwestern University in the USA.

**Publicly-listed Corporation*

The Directors of the Company are elected at the Annual Stockholders' Meeting to hold office until the next succeeding annual meeting, and until their respective successors have been elected and qualified.

Except for the Chairman, Enrique K. Razon, Jr., all Directors are nominees as they do not have shareholdings sufficient to elect themselves to the Board.

**Estimated Capital Expenditures and Sources of Financing**

The Group's capital expenditures for 2019 are expected to be approximately US$380.0 million. The estimated capital expenditure budget will be utilized mainly for the ongoing expansion projects at BGT, CMSA and MICT; equipment acquisitions and upgrades; and for maintenance requirements. The Group expects to fund these capital expenditures through a combination of available cash, internally-generated funds, third party loans and other fund raising activities, if necessary.

<u>Compliance with Leading Practice on Corporate Governance</u>

(a) Evaluation System

On December 10, 2018, the Board approved the updated the internal self-rating and evaluation system to measure compliance with the Revised Manual on Corporate Governance by the Board of Directors and top-level management, as well as observe and maintain high standards by the Company for leading practices on good corporate governance.

To ensure accountability, fairness and transparent corporate governance, and the implementation of the Company's vision, mission, and strategic objectives, including the means to effectively monitor the management's performance, the Board periodically reviews the Company's Mission Visio and Values.

(b) Director's Trainings

The Directors of the Company undergoes a minimum of at least 4 hours of trainings, programs, seminars, and roundtable discussions on corporate governance with service providers or private / government institutions that are accredited by the SEC to ensure that the Company is in compliance with the adopted leading practices on good governance.

On 26 February 2019, the Company's Compliance Team provided an On-Boarding Program to the newly elected Independent Director, Cesar A. Buenaventura.

Anti – Bribery Policy and Procedure

Pursuant to the Code of Business Conduct, ICTSI rolled out its Anti-Bribery Compliance Policy and Procedure. This shall provide guidance to all ICTSI employees, suppliers, and third parties acting on its behalf. This policy sets out procedures specifically targeted at addressing corruption risks. Through this policy, ICTSI is able embed the culture of anti-corruption practices to its personnel, as evident in its intensified campaigns done during the New Employee orientation programs, and through refresher courses during employee engagement programs and fora.

ICTSI holds itself to the highest ethical standards, and is committed to acting with integrity in its business dealings and relationships, both locally and internationally. ICTSI complies with the relevant anti-corruption legislations in all the countries where it has a presence, such as the US Foreign Corrupt Practices Act and the UK Bribery Act. Local business customs and/or culture shall never be a valid reason for engaging in bribery and other corrupt practices.

ICTSI employees are prohibited from asking for, accepting or receiving bribes, or any other personal benefit that would induce the employee to breach his/her duty to act in good faith, to act impartially or in accordance with a position of trust. ICTSI also strictly implements its programs against tipping and other forms of extortion.

To promote anti-corruption and transparency in dealings with suppliers, ICTSI implemented in April 2018 the use of its e-sourcing system, as a medium to send requests for quotations and for suppliers to submit their quotations accordingly. This means that suppliers shall send quotes through this system instead of via e-mail, fax, hard copy, phone call, etc. This provides a more systematic process of submitting quotations for a single requirement and promotes transparency and fairness amongst vendors.

Employee Trainings

As employees may have some weaknesses in their workplace skills, ICTSI adheres to its objective of keeping its employees abreast of recent developments and concepts which they could use in their respective fields. ICTSI believes that training programs present crucial opportunities to expand the knowledge base of all employees which in the end will not only benefit employees individually but the company as an organization.

Acknowledging that training is crucial for organization development and success, ICTSI, in 2018, implemented the following programs:

1.) **Behavioral trainings which are initiated by the company as part of organization development**

   a. Strategic Planning and Leadership trainings
   b. Customer Service Training;
   c. Labor and Employee Relations Summit;
   d. Team Building Sessions.

2.) **Company Orientation Programs**

   a. Operations for Non-Operations;
   b. Orientation for newly hired employees;

c. Orientation re: government mandated benefits and new laws (TRAIN & Data Privacy)
d. Orientation for HMI;
e. Orientation for Retiring Employees;
f. Operations for Non-Operations;
g. Ugnayan sa Pantalan.
h. Claims for Non-Claims
i. ISO Workshop
j. Refresher on Company Policies – Tipping & Bribery

3.) **Technical training programs for skills enhancement**

a. Prime Movers, Reach Stackers, Quay Cranes, Rubber Tired Gantries, Sidelifter
b. Hatch Clerk Training
c. Management of Terminal Operations
d. MS Excel Training program – Basic & Advanced
e. PISM Purchasing & Supply Chain Trainings
f. Certified Management Accountant Program
g. Digital Communication & Branding
h. PC Assembly, Hardware & Software Troubleshooting / Repair & Data Recovery
i. IT Programming Courses
j. Fire Fighting Seminar & Drill
k. Earthquake Drill
l. Port Safety & Health Standards
m. Training Course for Pollution Officers
n. Chemical Spill Training & Drill
o. Occupational Safety & Health Seminar
p. SAP GT Training
q. Commercial Claims 101
r. First Aid with Basic Life Support
s. Business Communication

Health, Safety and Productivity of its Employees

Aside from investing in employee trainings, ICTSI also trusts that investing in well-being of employees with health and welfare benefits can help attract and retain employees. Offering convenient access to health care services will not only promote health awareness but will likewise reduce lost productivity. Moreover, proactively upkeeping and supporting the health needs of employees will reduce absenteeism, improve productivity and increase employee engagement.

In view of the above, ICTSI maintains its own medical and dental facilities for the use of its employees and their dependents. Medical Services include medical check-ups, consultations, treatments, minor surgeries, issuance of medical certificates and approval of sick leave applications. All regular employees and their immediate dependents are provided access to clinic medicines (i.e., antibiotics, maintenance medicines, over-the-counter (OTC) medicines, etc.) ICTSI likewise provides free Chest X-Ray for dependents with suspected Pulmonary Tuberculosis.

Services of duly licensed nurses are also readily available. The nurses assist the doctor in the treatment of employees and/or their dependent/s, dispense medicine to patients based on the doctor’s prescription, file medical records of employees and/or their dependents, apply first aid and/or other immediate/necessary treatment to employees especially in cases of injuries sustained in accidents or incidents occurring within the company premises in the absence of a doctor, assist in transporting employee patients to accredited hospitals in case of emergencies, and conduct home visits to absent employees upon the written request from authorized representative/officer of ICTSI.

Aside from medical services rendered by accredited doctors and nurses, free dental services are performed by duly licensed dentists whose duties include oral check-ups, oral prophylaxis, tooth filing, and tooth extraction.

ICTSI's medical and dental facilities provide round the clock services for employees and their dependents. ICTSI maintains its own ambulance to address emergency medical cases. A fire truck is always on stand-by within the terminal premises to provide immediate service and assistance in cases of fire and other catastrophes.

The introduction of a health insurance plan which provides employees access to medical insurance coverage for their Out-Patient and In-Patient (hospitalization, consultation, laboratory, etc.) medical needs is also worth noting. It is provided through an approved Health Care Provider and offers a choice of varying medical plans. Employee has the option to use his/her medical and dental reimbursement (MDR) benefit to enroll his/her dependents in any of our available Dependent Programs. This MDR benefit may also be used for the order and free delivery of medicines via MEDEXPRESS, a delivery service drugstore.

Annual Physical Exam is also conducted religiously in order to promote health awareness and early detection of illnesses. It is a routine test performed on employees to check their overall health. With the yearly physical examination, medical practitioners are able to identify the health status of the employees. Through the variety of blood tests and screenings during the exams such as Complete Blood Count (CBC), Urinalysis, Chest X-ray, Electrocardigram (ECG), Fecalysis and Visual Acuity Screening, they are able to check on employees with Hypertension, Diabetes, Tuberculosis and other illnesses. Through this, further complications and spread of infectious diseases are prevented by giving some recommendations for follow up testing as well as changes in lifestyle, exercise or diet with the overall objective to improve and maintain employees' health. By identifying the disease, proper disease management can be done thus preventing further unnecessary hospitalizations and at the same time reducing the cost of primary care.

During the APE event, partner healthcare professionals also provides Cardiometabolic Workplace Wellness program which includes Biometric Tests (Blood Sugar, Cholesterol, Blood Pressure screening, Body Mass Index/Obesity screening and Foot Doppler test) which helps the company in profiling our employees and assessing their overall cardiometabolic health status thus, helping us further to reduce rates of illnesses like Hypertension, Diabetes, Dyslipidemia, etc. Further, from the baseline workforce profiling gathered during APE, we design and provide a customized wellness program like prevention of lifestyle-related diseases and Smoking Cessation campaign among others. ICTSI also strongly upholds the importance of a safe, secure and healthful work environment. In this regard, it recognizes the need to sustain a drug and alcohol free workplace. Annual drug test for all employees during the company's scheduled APE and Random Drug Test per month for minimum of 100 employees is conscientiously conducted.

**Safety Trainings**

In 2018, ICTSI, in its flagship operations in Manila International Container Terminal (MICT), hereinafter "ICTSI-MICT," kept its momentum in implementing health and safety programs as part of its continued thrust to make its operations safer and more efficient. Last year, the terminal developed and deployed the following initiatives, which were aimed to promote Health and Safety (H&S) leadership among its line personnel, encourage workforce engagement and reduce health and safety issues for various users of the port facilities.

Demonstrating Effective H&S Leadership & Engaging the Workforce

- To help reinforce the importance of health and safety (H&S), the General Manager has modified the sequence of items normally taken up during its MANCOM meetings and made H&S as the first item to be discussed. This set-up has been replicated as well by the Operations Head in his daily meetings with his teams.

• To promote an awareness of health and safety issues and help cultivate an atmosphere of collaboration among different departments and between management and workers, Health & Safety Committee meetings are regularly conducted (at least on a monthly basis). Measures to mitigate identified hazards are typical topics of discussion during these meetings.

• Prior to the commencement of a job or work shift, toolbox meetings are facilitated by line managers / supervisors (in coordination with health and safety officers). During these pre-job safety meetings, workplace hazards and safe work practices related to the specific work activity are being discussed.

• Safety inspections and walkarounds are periodically conducted by H&S officers and line personnel to identify hazards in the terminal premises. The hazards and corresponding mitigations are promptly communicated with workers so that they are made aware of the hazards in their jobs. These regular inspections do not only demonstrate management's commitment to improving health and safety but also gives an opportunity for managers and workers to interact and jointly assess if the H&S programs are working effectively.

• Harnessing the power of audio-visual communication, safety videos (about ergonomics, safe manual handling, health and wellness) were developed and are now played / featured in TV monitors deployed in several locations around the terminal.

• Since it is critical for all employees to know the necessary steps to be taken in the event of an emergency, emergency drills are being conducted at least every quarter. Emergencies related to fire and earthquakes are the common ones and are facilitated in collaboration with emergency response experts coming from local government and regulatory agencies (i.e. MMDA, BFP and Manila Disaster Risk Reduction Management Office or MDRRMO).

HSE Management for other Port Users (Contractors and Customers):

• Whenever services of Contractors are engaged by ICTSI-MICT for its various projects, their capabilities and competencies are assessed (through an enhanced Procurement process) to help ensure that the company's health and safety standards are met. This is also because work activities performed by contractor personnel are often non-routine and involve varying degrees of risk. Regardless of the contract / scope of work, ICTSI-MICT ensures that contractors work safely and have equal priority as employees in respect to health and safety.

• Drivers of trucks entering MICT premises are subjected to a health and safety induction for them to be informed about the various safety rules and regulations, the traffic flow and the potential hazards inside the terminal. After the brief training session (which is being provided daily), a laminated document containing the necessary 'safety reminders for drivers' is then issued to them to help them conduct their transactions safely and efficiently.

• For vessel crew / personnel who wish to disembark due to shore leave or any other approved purpose, ICTSI-MICT has assigned service vehicles to shuttle them safely from the berth areas to the designated pedestrian exit gate and vice-versa. Prior to disembarking, vessel personnel undergo a Safety Induction (so that that they will be aware of the terminal's safety rules and regulations).

Other Health & Safety improvements

• A state of the art workshop for ICTSI-MICT's mobile equipment was unveiled early last year. It is equipped with sprinkler and foam-water fire protection systems that were designed and built in accordance with world-class standards (NFPA 13 and 16, respectively).

•	To help prevent workplace illnesses and injuries, ICTSI-MICT purchased various WEM (workplace environment measurement) equipment to monitor the levels of ventilation, noise and illumination in its various work areas. The results of the work environment measurement exercises are being used as basis not only for compliance to health and safety regulations but also for continuous workplace facilities improvement.

•	During the 4th quarter of 2018, studies were performed to explore the feasibility of two traffic management improvement projects to be implemented in 2019. The first project, which is the establishment of safety zones, is aimed to reduce pedestrian traffic inside the terminal. The designated safety zones are planned to be the only areas where drivers will be allowed to disembark from their trucks, minimizing the risks of pedestrian and vehicle collisions. The second project, which is the establishment of a unitary traffic flow for the terminal, is not only aimed to reduce the collisions of trucks and mobile equipment and other property damage accidents but also introduce efficiency improvements by reducing truck turn around time and RTG idle time.

(c) Revised Manual of Corporate Governance

The Group adopted a Manual on Corporate Governance in January 2003. Its latest Revised Manual on Corporate Governance ("CG Manual"), pursuant to SEC Memorandum Circular 19-2016, was submitted to the Philippine SEC on May 31, 2017 and is available in the Company website. Last January 29, 2018, the Company, through its Compliance Officer, submitted a Certificate attesting to its full compliance with the objectives set forth in the CG Manual. The Company has not deviated from its CG Manual and further commits itself to principles and best practices of governance in the attainment of corporate goals.

Presently, the Compliance Officer is Rafael D. Consing, Jr. The Compliance Officer coordinates with the Philippine SEC with respect to compliance requirements; monitors compliance with the CG Manual; and reports any governance-related issues to the Board.

For the annual report on corporate governance, the SEC has recently implemented the use of the Integrated Annual Corporate Governance Report ("I-ACGR") by virtue of SEC Memorandum Circular 15-2017. Accordingly, the Company submitted its 2017 I-ACGR last May 30, 2018. For the 2018 I-ACGR, the Company is set to submit the same on or before the mandated deadline, which is May 30, 2019.

(d) Continuing Improvements for Corporate Governance

The Company continues to improve its systems and processes to enhance adherence to and strengthen practices of good corporate governance. In compliance with the latest mandates of the SEC such as those provided under SEC Memorandum Circular 19-2016 and incorporated in the CG Manual, the Company has implemented significant developments. Among others, the Board has established the Corporate Governance Committee, Board Risk Oversight Committee and Related Party Transactions Committee in addition with the Audit Committee, Nomination Subcommittee and Remuneration Subcommittee. To achieve an appropriate mix of competence and expertise, the composition of the Board is checked against prevailing requirements. To ensure diversity and allow a healthy balance of ideas, wisdom and experience on the management and business of ICTSI, the Board is made to be a majority of Non-Executive Directors. The competence of the Board is followed through by the Company by the conduct of annual continuing training for all directors and orientation program for first-time directors.

The Company also prioritizes healthy external relations. Through the Investor's Relations Office, the Company effectively communicates and relates with all its stockholders as well as all stakeholders.

These improvements are being updated and documented by the Company through the I-ACGR submitted annually to the SEC.

In the previous years, ICTSI's Independent Directors constitute at least 20% of the membership of the Board, or two seats in the ICTSI Board, in accordance with prevailing laws. To further promote best practices in good corporate governance, the Board has elected its third Independent Director last February 2019.

Recognition and Awards in 2018

**2018**

December: **Platinum Award**
For the fifth year in a row, ICTSI was honored by **The Asset Corporate Awards** as being in the in Platinum category. ICTSI is recognized as one of the elite companies in Asia which has shown All-Round Excellence in Financial Performance, Management, Corporate Governance, Social Responsibility, Environmental Responsibility and Investor Relations. The award was given at a gala dinner held on December 10, 2018 in Hong Kong, SAR. ICTSI also won two special awards for Best Initiative on Innovation (i.e. MICT Gate Automation System) and Best Initiative on Social Responsibility (i.e. Water Supply for Aeta Communities in Tarlac).

November: ICTSI was awarded as Winner for the Priority Integrated Sector - Logistics Category in the **ASEAN Business Awards (ABA)** 2018. The award was given at the ABA gala dinner held on November 12, 2018.

June: ICTSI was awarded by **Corporate Governance Asia** as one of the Best Investor Relations Companies in the Philippines during the 8$^{th}$ Asian Excellence Recognition Awards 2018. ICTSI's CFO, Mr. Rafael D. Consing, Jr., was recognized as one of Asia´s Best CFO, while Mr. Arthur R. Tabuena was recognized as one of the Best Investor Relations Professional in the Philippines.

**Business of Issuer**

**Overview**

ICTSI is an international operator of common user container terminals serving the global container shipping industry whose principal business includes the operation, management, development and acquisition of container terminals focusing on facilities with total annual throughputs ranging from 50,000 TEUs to 3,000,000 TEUs. The primary mechanism for the operation of these terminals is long-term concession agreements with local port authorities and governments through ICTSI and its subsidiaries. As at March 5, 2019, the Group is involved in 32 terminal concessions and port development projects in 19 countries worldwide. There are 30 operating terminals in nine key ports, including the acquisition of shares of stock in Manila North Harbour Port, Inc. (MNHPI) in 2018, a barge terminal and an inland container terminal in the Philippines, two each in Indonesia and in Papua New Guinea (PNG), one each in China, Ecuador, Brazil, Poland, Georgia, Madagascar, Croatia, Pakistan, Mexico, Honduras, Iraq, Argentina, Colombia, Democratic Republic (DR) of Congo, and Australia; an existing concession to construct and operate a port in Tuxpan, Mexico; and the recently signed concession in Sudan. In 2016, 2017 and 2018, the Group handled consolidated throughput of 8,689,363 TEUs, 9,153,458 TEUs, and 9,736,621 TEUs, respectively.

The Group provides different services in each of the port operated based on the nature of business and industry of the country of operations and the general needs of customers including shipping lines, cargo owners and port users. The Group primarily handles international containerized cargoes, which include cargoes shipped in containers for international import or export. The Group's customer base mainly includes shipping lines and cargo owners. The Group also provides a number of ancillary services such as storage, container stripping and stuffing, inspection, weighing and services for refrigerated containers or reefers, as well as roll-on/roll-off and anchorage services to non-containerized cargoes or general cargoes on a limited basis.

These services fall into three general categories:

*On-vessel*. This refers to all work performed on board a ship. This includes the loading and unloading of cargoes, rigging gears, opening and closing hatches, securing cargo stored on board and shifting cargo to and from vessels;

*Off-vessel*. This refers to the services involved in moving containers from container yards to the gate. This includes the receiving, handling, checking and delivery of containers over piers, wharves, transit sheds, warehouses and open storage areas and the transfer of containers from the tail of a consignee's transportation unit; and

*Other Services*. At some terminals, maintenance services to ships that are docked in the harbor for which the port operator receives berthing and harbor fees from shipping lines are provided. ICTSI also offers ancillary services relating to its core services, such as container and truck weighing, use of reefer outlets to provide power to refrigerated containers and extended storage.

The fee structure for the Group's services varies across the terminals it operates based upon local regulations and practices. In some terminals, such as MICT, the Company charges shipping lines fees for on-vessel charges and charges cargo owners separately for off-vessel services. The Philippine Port Authority (PPA) sets different tariffs for on-vessel and off-vessel services. In other jurisdictions, the Group charges only the shipping lines or the cargo owners who have separate arrangements among themselves. ICTSI mostly charges cargo owners on a cash-on-delivery basis. Containers are not allowed to leave the port facility until actual cash payment has been made and confirmed received. Shipping lines may be granted credit lines of up to 30 days.

For the three years ended December 31, 2016, 2017 and 2018, the percentage contribution of foreign operations or operations outside the Republic of the Philippines to revenues from cargo handling services and net income attributable to equity holders of the parent are as follows:

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Gross revenues | 60.6% | 64.1% | 63.2% |
| Net income attributable to equity holders of the parent* | 44.8% | 42.6% | 65.4% |

* 2016 amount includes loss on pre-termination of lease agreement in IOI of US$23.4 million.

## Competition

The Group's primary competitors are other international port operators, including financial investors, shipping lines and domestic concerns that operate terminals or that provide alternate routes for shipping lines that would otherwise utilize the Group's terminals.

### *Asia*

Currently, South Harbor is MICT's only competitor in the international marine container service market in Manila. The PPA authorized Asian Terminals, Inc. (ATI) to provide fully integrated cargo handling services at the South Harbor from March 1992 to May 2013. It was granted a 25-year extension from May 2013. The PPA's tariffs are applied uniformly to both MICT and the South Harbor. MICT has an estimated market share of 67% of the container traffic in Manila. Other Philippine terminals either dominate the market or do not have any direct competitor in their immediate area of operations.

After the Company's acquisition of 51% of YICT and divestment of its holdings in YRDICTL in July 2014, higher yielding international container cargo in the Port of Yantai has been handled exclusively by YICT. Domestic cargo has been handled exclusively by YRDICTL.

The Port of Karachi is one of South Asia's largest and busiest deep-water seaports, handling approximately 65% of Pakistan's container traffic. The port currently has three terminals: ICTSI's PICT, Karachi International Container Terminal (KICT) and South Asia Pakistan Terminals (SAPT), of which both KICT and SAPT are operated by Hutchison Port Holdings. Also on the other side of the city of Karachi is Qasim International Container Terminal (QICT), operated by Dubai Ports World at Port Qasim, which handles approximately 36% of the country's container traffic. The Company believes that PICT captured approximately 19% in 2018, with QICT, KICT and SAPT handling 36%, 23% and 22%, respectively of container traffic.

VICT, being the new player in the Melbourne container market, is facing competition from established terminal operators, DP World and Patrick Terminals. VICT is continuing to ramp up volume as they continue to negotiate for new shipping line services contracts. VICT captured 10% of the container volume in Melbourne in 2018.

MITL and SPICTL, the two terminals in PNG, do not have competitors in Motukea and Lae.

***Americas***

The Group has seven terminals in the Americas: Tecon Suape, SA (TSSA); Contecon Guayaquil, SA (CGSA); Tecplata, SA (Tecplata); Sociedad Puerto Industrial Aguadulce, S.A. (SPIA); Contecon Manzanillo, SA (CMSA); Operadora Portuaria Centroamericana, SA (OPC) and Terminal Maritima de Tuxpan, S.A de C.V (TMT). All of the terminals in the Americas are operational except for TMT as management is currently working on its development plan. Tecplata is ready to operate and is yet to service its first international shipping line.

OPC, on the other hand, dominates the Honduras market and a good portion of the El Salvador, Nicaragua and Guatemala markets. OPC faces limited competition from Puerto Castilla due to the competitor's small capacity. OPC has captured 82% of the container market in 2018.

The Manzanillo market, where CMSA operates, is currently dominated by SSA de Mexico, S.A. de C.V with 53% market share. CMSA's entry in the market is designed to address the congestion at the competing terminals and the competitor's inability to further expand their capacity to absorb the growing demand. CMSA has an estimated 31% market share in 2018.

CGSA operates the port of Guayaquil, which serves as Ecuador's main international trading gateway. The port is connected to the main terrestrial highways of Ecuador and has good access to other principal cities in the country. The Port of Guayaquil is currently experiencing higher level of competition with capacity expansion of Terminal Portuario Guayaquil (TPG), operated by the Chilean company SAAM. CGSA's market share in 2018 was 43% of the traffic at the port.

TSSA faces limited local competition operating the Port of Suape as the nearest local ports are at least 800 kilometers away following the cessation of regular container handling activities of the port at Recife in 2004. TSSA has a market share of 100% and 40% of the container traffic at Pernambuco and Northeast region of Brazil, respectively.

***Europe, Middle East and Africa (EMEA)***

The Group has six operating terminals in the EMEA region: Baltic Container Terminal (BCT); Madagascar International Container Terminal, Ltd. (MICTSL); Batumi International Container Terminal (BICTL); Adriatic Gateway Container Terminal (AGCT); ICTSI Iraq; and IDRC. Compared with other operating terminals in the region, BCT, BICTL and AGCT face stiffer competition. The stiff competition faced by BCT comes from Deepwater Container Terminal (DCT) in Gdansk, which has made efforts in 2011 to strengthen its efficiency by adding new equipment and has already commissioned the second berth in December 2016. BCT's market share in 2018 is estimated to be at 15% of the container traffic in Poland. BICTL is facing competition from its main competitor, Poti Sea Port. BICTL captured 20% of the market in 2018. AGCT is experiencing stiff competition as well from the ports of Koper and Trieste. In 2018, AGCT captured 12% of the market. In contrast, MICTSL is dominating the Madagascar container market and practically has no competition. ICTSI Iraq has established itself as Iraq's leading terminal by capturing 40% of the container volume in 2018 after just four years of operations. IDRC handled 63% of the container volume in the Democratic Republic of Congo in 2018.

**Key Competitive Strengths**

Despite the presence of competition where ICTSI and subsidiaries operate, the Group has identified the following as its key competitive strengths:

*Globally diversified revenue base*

ICTSI owns or operates ports in 19 countries across three geographic regions namely: Asia, the Americas, and EMEA. This geographical scoping reduces the concentration of ICTSI's business in any particular country, region or industry. In 2018, Asia accounted for 53.8% of throughput and 50.1% of consolidated gross revenues from port operations, the Americas accounted for 30.1% of throughput and 29.4% of consolidated gross revenues from port operations, and EMEA accounted for 16.1% of throughput and 20.5% of consolidated gross revenues from port operations. Moreover, port facilities in various terminals serve a number of different shipping lines, which reduces reliance on any one particular customer. There is no single dominating customer, and no customer has contributed to more than 10% of the Group's consolidated gross revenues in 2016, 2017 and 2018.

*Leading market positions in key targeted markets*

The Group's major terminals enjoy leading positions in their respective geographic markets. In addition, most of its major terminals are strategically located in emerging markets with strong growth and profit potentials, including Asia, EMEA and Americas. The Company's terminals mainly serve as end-destination ports for discrete markets and cargo cachement areas. The Company believes that its strong market position in the regions where it operates allows it to enhance operating efficiencies and maximize throughput, which increases profitability. The Company owns or operates the largest container terminals in terms of volume throughput and capacity in the Philippines, Ecuador, the Brazilian state of Pernambuco, Madagascar, Yantai in China, Honduras, Iraq, DR Congo and more recently, in Papua New Guinea. At these terminals, there are limited opportunities for competition from other port operators, other ports or other terminals within the same ports due to high barriers to entry. Some of these barriers include the limited number of port sites, government controls and high terminal construction costs. This means that there are few substitutes for the Company's services, which allows it to maintain significant pricing power contributing to strong margins. The Company has targeted its acquisitions at port concessions that are privatized from government control. Many of these ports are in emerging markets, which generally exhibit stronger growth than developed markets; thus the Company believes that its leading position in these markets will allow it to directly capture organic growth in line with the economic growth of these markets. Furthermore, all of the Company's concession agreements are long-term agreements that ensure continued benefits from long-term GDP growth trends.

*Experienced and dynamic management team*

The Group's management team has extensive experience in the container terminal and container shipping sectors. Management structure is decentralized with extensive authority delegated to the regional operating units where management teams are closest to their customers and have the most comprehensive knowledge for the regulatory, labor and other key operating conditions prevailing in their respective jurisdictions. The decentralized structure also allows a lean and flat management team, which reduces administrative costs. Meanwhile, senior management at the corporate level focuses on providing overall strategy, direction and oversight as well as managing key global functions such as information technology, engineering and finance. The Group has strong financial controls over each operating entity through standardized monthly reporting, annual budget process, regular financial and operating audits, control over external sourcing of funds and capital, insurance coverage and risk management.

*Established track record of improving operational efficiency and performance*

The Group has also made substantial investments in terminal facilities to enhance handling capacity and operating efficiency, modernizing information technology systems and expanding and rehabilitating civil works. The Group also provides its know-how through enhanced training and improved work processes to streamline labor practices, and rationalize commercial strategies to boost yield per TEU. The Group has received commendations and recognitions for its success in improving cargo handling and assisting in the development of private sector. The Group has been cited by the World Bank for its success in public-private partnerships in South America, Africa and Europe.

*Strong and stable cash flows and strong capital structure*

The Group believes that its major terminals provide stable cash flows because of its globally diversified operations and long-term concession agreements, which have a capacity-weighted average remaining term of approximately 18 years. In addition, the Group's terminals focus on end-destination cargo, which accounts for substantially all of the Group's consolidated throughput volume. The Group believes that its focus on end-destination cargo limits concentration risk to individual container shipping lines in that if a shipping line that calls at one of its terminals ceases to operate, the cargo intended for that particular destination will simply transfer to another shipping line that is still calling in that terminal. As of December 31, 2018, the Company's total indebtedness was US$1,307.1 million and its total indebtedness to total equity ratio (interest-bearing debt over total equity, as shown in the consolidated balance sheet) was 0.59 times, providing head room for future financial leverage. The Company believes that its cash flows and debt structure will provide it with a solid platform to pursue investment opportunities, supported by its active balance sheet management strategies and liability management initiatives which have helped streamline its debt maturity profile and interest payment schedules significantly.

*Demonstrated ability to control operating costs*

Lastly, the Group has continuously demonstrated its ability to control operating costs effectively, which allows the Group to generate profitable margins in both weak and strong economic environments. Cost containment measures are continuously enforced all throughout the Group. These programmes may include cost reductions, equipment upgrades, and projects to improve labour efficiencies and processes. As an example, the Company recently implemented its Terminal Appointment Booking System (TABS), which helps to improve capacity and operational efficiency in its terminals. Improvements to the labor pool also come from knowledge and experience sharing across ports. The Company also plans to expand the handling capacity of its ports as needed, such as the construction of new yard facilities at the MICT.

**Principal Suppliers**

The Group is neither dependent on a single nor a few suppliers, of which the loss of any or more would have a material adverse effect on its operations, nor has existing major supply contracts.

**Customers**

Consistent with the high degree of concentration in the global shipping industry, major container shipping lines contribute significantly to the Group's business and revenues. However, ICTSI's business, primarily serving domestic markets as oppose to transshipment business, is as such not dependent on a single or a few customers, of which the loss of any or more would have a material adverse effect on the Group's operations taken as a whole (In a the domestic market the departure of a specific shipping line or consortium will not automatically result in loss of volumes to the Gate-way terminal operator since cargo volumes then shift to another shipping line or consortium). Although the Group provides services to many of its customers at two or more of its terminals, each entity negotiates contracts independently at each port and generally does not entertain any bulk rebates. The Group conducts selected marketing and sales activities with its shipping line customers in each terminal and has established a global commercial department to support the business units and regions, ensuring that the Group can take advantage of a shipping line's global presence. The Group maintains Terminal Service as well as Service Level Agreements with a number of shipping lines specifying service and performance standards. The Company will continue to maintain high-level relationships with a number of its clients, as it believes that this engagement is necessary to anticipate changes in a dynamic shipping industry and in turn to ensure alignment with ICTSI's service delivery. On the other hand, its business or profitability is not materially dependent on any relationship with any individual customer. As also seen in the previous years, ICTSI's customer base remains very broad. There is no single dominating customer, and no customer has contributed to more than 10% of the Group's consolidated revenues in 2016, 2017 and 2018.

**Related Parties**

Related party transactions are discussed in Part IV, Item 12 of this report, and in Note 22, *Related Party Transactions*, to the 2018 Annual Audited Consolidated Financial Statements.

**Intellectual Property, Licenses, Contracts and Agreements**

The "ICTSI" name and logo are registered trademarks in the Philippines. The Company also possesses copyrights for certain proprietary software systems, whose remaining useful lives range from one to five years. The Group sees to it that its rights for the design, source codes and use of these software systems are secured at all times to ensure continued use and support from vendors.

Please refer also to Note 24, *Significant Contracts and Agreements*, to the Annual Audited Consolidated Financial Statements for detailed discussion of the Group's contracts and agreements to operate, manage and develop the terminals.

**Government Regulations and Licenses**

The Group's operations are subject to a variety of laws and regulations promulgated by the national and local government of each jurisdiction in which it operates. Rights and obligations under the concession agreements are discussed in Note 24, *Significant Contracts and Agreements*, to the Annual Audited Consolidated Financial Statements. The Group believes that it is in compliance, in all material aspects, with applicable government regulations in each jurisdiction in which it operates. The Group is not aware of any governmental proceedings or investigations to which it might become a party and which may have a material adverse effect on the Group's properties and operations.

Various governmental and quasi-governmental agencies and regulatory bodies require the holding of certain licenses, concessions and permits with respect to port and port-related operations. For example, the PPA regulates all port operations in the Philippines, except for ports in Misamis Oriental and Subic, which are regulated by PHIVIDEC Industrial Authority and Subic Bay Metropolitan Authority (SBMA), respectively. Services and fees being offered to the port users may be controlled and approved by the respective regulatory agency. Overseas operations are conducted under valid licenses, concessions, permits or certificates granted by the applicable regulatory body in that jurisdiction.

In addition, the fee structure for the Group's services varies across the terminals it operates based on local regulations and practices. In some terminals, the operator charges shipping lines fees for on-vessel services and charges cargo owners separately for off-vessel services. The port authority sets different tariffs for on-vessel and off-vessel services. In other jurisdictions, the operator charges only the shipping lines or the cargo owners who have separate arrangement among themselves. ICTSI charges cargo owners mostly on a cash-on-delivery basis. Containers are not allowed to leave the port facility until actual cash payment has been made and confirmed received. Shipping lines may be granted credit lines up to 30 days. Yet in some jurisdictions, release order of cargoes should come from the port authority.

The Group maintains regular dialogue with local government and regulatory authorities through its management teams or representatives in each jurisdiction, to ensure compliance with the requirements and conditions for obtaining and maintaining the aforementioned licenses, concessions, permits or certificates.

As of December 31, 2018, there are no pending requests for government approval for any of the Group's principal activities, except those arising from new or ongoing bids to operate, manage, or develop ports, which the Group's Business Development Offices undertake.

**Development Activities Expenses**

Amount spent during the last three years on business development activities pursuing future port acquisitions are as follows (amounts in millions):

| | Amounts | % of Revenues |
|---|---|---|
| 2016 | US$6.2 | 0.55% |
| 2017 | 4.0 | 0.32% |
| 2018 | 6.2 | 0.45% |

**Insurance**

The Company has established a world-class comprehensive insurance program that maintains insurance policies that cover its physical assets as well as its employees. The Company's main insurance programs are its Global Port All Risk Property Policy, which covers handling equipment and terminal infrastructure from damage and loss due to, among others, natural catastrophe perils such as earthquake, seaquake, flood, named windstorm, tsunami, volcanic eruption and tornado, physical damage, and coverage for strikes, riots, labour disturbances and civil commotion; Terminal Operator's Liability Program, which embodies the standard terms of insurance coverage for port properties and terminal operators' liability for all its operations globally which coverage includes, but is not limited to, liabilities for cargo damage, uncollected cargo, unintended and unexpected pollution and disposal costs, third party property damage and third party liability; and Employee Benefits programs which covers among others the health care needs of its employees in the countries in which it operates and other insurance programs as reasonably needed by its terminals. The Company believes that its insurance coverage is more than adequate to cover all normal risks associated with the operation of its business and is consistent with industry standards.

**Safety, Quality, Maintenance and Compliance with Environmental Laws**

*Equipment Inspection and Maintenance*

To help ensure equipment reliability and support operational efficiency, the Group provides regular inspection and maintenance of its equipment and facilities. It has established formal procedures for periodic maintenance and inspection of equipment in line with international guidelines and manufacturers' recommendations. Formal corporate policies are issued to address maintenance of the critical components such as the structure, hoisting mechanisms, twist locks, safety devices interlocks and load path crane components. On a regular basis, the Group commissions structural professional consultants to provide testing of equipment, such as crane structures. Purchase of wire ropes is always accompanied with load test certificates. Wire ropes installed on different container handling equipment are monitored and tested for defects through visual and mechanical inspection and discarded from usage based on established discard criteria. All these activities are recorded and maintained as part of Group's Asset Management System.

*Quality, Health and Safety, Environmental Management Systems and Compliance with Environmental Laws*

Preventing incidents and safeguarding the health and safety of the workforce is the Group's top priority. The Group is committed to carry out business operations in a safe, efficient, and environmentally responsible manner and to care for the well-being of all those on sites and who may be impacted by the Group's activities. Aside from ensuring that all applicable laws are complied with, part of this commitment is to provide a safe and healthy workplace for employees and contractors by implementing and maintaining Health & Safety and Environmental (HSE) management systems that prevent risk in the business activities. To demonstrate this commitment, the Group's terminals worldwide have maintained the following management system certifications:

| Terminal | Certifications |
|---|---|
| MICT | International Ship and Port Facility Security Code<br>ISO 9001:2008 Quality Management System<br>ISO 14001:2004 Environmental Management System |
| BIPI | International Ship and Port Facility Security Code |
| DIPSSCOR | International Ship and Port Facility Security Code<br>ISO 9001:2015 Quality Management System |
| MICTSI | International Ship and Port Facility Security Code |
| MTS | International Ship and Port Facility Security Code<br>ISO 9001:2008 Quality Management System |
| PT OJA | International Ship and Port Facility Security Code |
| PICT | International Ship and Port Facility Security Code<br>ISO 9001:2008 Quality Management System<br>ISO 14001:2004 Environmental Management System<br>OHSAS 18001:2007 Occupational Health and Safety Management System |
| SBITC | International Ship and Port Facility Security Code<br>ISO 9001:2008 Quality Management System |
| SCIPSI | International Ship and Port Facility Security Code<br>ISO 9001:2008 Quality Management System<br>ISO 14001:2004 Environmental Management System<br>OHSAS 18001:2007 Occupational Health and Safety Management System |
| VICT | International Ship and Port Facility Security Code |
| YICT | International Ship and Port Facility Security Code<br>ISO 9001:2015 Quality Management System<br>ISO 14001:2015 Environmental Management System<br>OHSAS 18001:2007 Occupational Health and Safety Management System |
| AGCT | International Ship and Port Facility Security Code |
| BCT | International Ship and Port Facility Security Code<br>ISO 9001:2008 Quality Management System<br>ISO 14001:2004 Environmental Management System<br>ISO 22000:2005 Food Safety Management System |

| Terminal | Certifications |
|---|---|
| | ISO 5001:2011 Energy Management System |
| BGT | International Ship and Port Facility Security Code |
| BICT | International Ship and Port Facility Security Code |
| IDRC | International Ship and Port Facility Security Code |
| MICTSL | International Ship and Port Facility Security Code<br>ISO 9001:2015 Quality Management System<br>ISO 14001:2015 Environmental Management System<br>ISO 28000:2007 Supply Chain Security Management System |
| CGSA | International Ship and Port Facility Security Code<br>ISO 9001:2008 Quality Management System<br>ISO 14001:2004 Environmental Management System<br>OHSAS 18001:2007 Occupational Health and Safety Management System<br>ISO 28000:2007 Supply Chain Security Management System<br>BASC for Safe and Secure International Trade |
| CMSA | International Ship and Port Facility Security Code<br>ISO 9001:2015 Quality Management System<br>ISO 14001:2015 Environmental Management System<br>OHSAS 18001:2007 Occupational Health and Safety Management System<br>ISO 28000:2007 Supply Chain Security Management System |
| OPC | International Ship and Port Facility Security Code<br>ISO 9001:2015 Quality Management System<br>ISO 14001:2015 Environmental Management System<br>OHSAS 18001:2007 Occupational Health and Safety Management System |
| SPIA | International Ship and Port Facility Security Code |
| TSSA | International Ship and Port Facility Security Code<br>ISO 9001:2008 Quality Management System<br>ISO 14001:2004 Environmental Management System |

The Group continuously strives to promote a robust health and safety and environmentally-friendly culture across its business operations. Every employee who works for the Company is expected to demonstrate positive health, safety and environmental behaviors and report and mitigate potential risks. Managers are held accountable for attaining HSE goals, defining clear roles and responsibilities, providing appropriate resources and measuring, reviewing and continuously improving the Group's HSE performance.

Costs incurred by the Group to implement its Health, Safety and Environmental programs and initiatives amounted to US$0.2 million in 2016 and US$0.3 million both in 2017 and in 2018.

### Employees

The Group has a total of 8,009, 7,628 and 7,870 permanent employees as of December 31, 2016, 2017 and 2018 respectively. The Group generally does not hire contractual employees as the Group believes that it can achieve greater efficiency with a dedicated staff of employees who are familiar with the Group's internal systems. The following table shows the number of employees by activity and location:

| | As of December 31 | | |
|---|---|---|---|
| | 2016 | 2017 | 2018 |
| **Employees by Activity** | | | |
| Operations | 5,129 | 4,997 | 5,208 |
| Engineering | 1,058 | 1,139 | 1,136 |
| Finance and administration | 1,148 | 1,194 | 1,233 |
| Corporate offices | 164 | 162 | 157 |

| | | | |
|---|---|---|---|
| Others | 510 | 136 | 136 |
| Total | 8,009 | 7,628 | 7,870 |
| **Employees by Geographic Region** | | | |
| Asia | 3,792 | 3,701 | 3,953 |
| Americas | 2,947 | 2,596 | 2,468 |
| EMEA | 1,270 | 1,331 | 1,449 |
| Total | 8,009 | 7,628 | 7,870 |

The number of employees decreased in 2017 as a result of termination of lease agreement in ICTSI Oregon effective March 31, 2017, pre-termination of agreement in NMCTS with the Government of Brunei Darussalam effective February 21, 2017 and in CGSA due to cost optimization and rationalization programs implemented as a response to reduction in vessel calls. The number of employees increased in 2018 mainly due to new terminals in PNG at the Port of Lae and Port of Motukea that started operations in February 2018 and May 2018, respectively. The Group does not anticipate any major change or increase in its labor force in the ensuing 12 months from its existing operating terminals. There are no current or known threats from employees to engage in any work stoppage across all terminals.

Majority or a large portion of these employees are union members. As of December 31, 2016, 2017 and 2018, approximately 65.29 percent, 61.21 percent and 57.88 percent respectively, of the labor force are unionized. The Group has collective bargaining agreements (CBA) in many of the ports in which it operates.

***Asia***

*MICT*. On April 25, 2014, ICTSI and the Nagkakaisang Manggagawa sa Pantalan ng ICTSI – National Federation of Labor Unions (NMPI-NAFLU), the bargaining unit for MICT workers, renewed its CBA for another five years effective up to April 24, 2019.

A five-year CBA between ICTSI and Anchorage Labor Union-ICTSI-NAFLU (ALU-ICTSI-NAFLU), the bargaining unit for the MICT Anchorage Division, was also signed on February 27, 2014, effective until February 26, 2019. As of March 5, 2019, the negotiation for the renewal of the CBA is on-going.

Both CBAs contain provisions on employee benefits to union members such as: wage increases; rice and meal allowances; paid leaves; medical, dental and hospitalization benefits; life insurance; profit - sharing; retirements; uniforms; welfare, education, access to a calamity fund; and union leave with pay. The CBAs also provide a venue for settling grievances.

On April 29, 2009, MICT was given the Outstanding Achievement on Industrial Peace and Harmony Award by the Employers Confederation of the Philippines, which indicates that the relationship between the union and MICT has developed into a partnership.

*MICTSI.* On March 20, 2015, a CBA was signed between MICTSI and Mindanao International Container Terminal Services, Inc. Labor Union - Federation of Democratic Labor Union Organization (MICTSILU-FDLO) with a term of five years ending on March 20, 2020. One of the provisions in the CBA is to agree on the renegotiation solely on the wage increase on the 4th and 5th year upon the expiration of the 3rd year of this agreement.

Other salient provisions of the CBA include wage increases, leaves, hours of work, medical and hospitalization benefits, retirement, education fund contribution, group life insurance, plant uniform, rice subsidy, production incentive bonus, Christmas package and signing bonus. Other matters relative to the union are periodically discussed in the Labor Management Council, consisting of representatives from the management of MICTSI and MICTSILU-FDLO, which meets once every month.

*DIPPSCOR.* On September 15, 2016, DIPSSCOR and DIPSSCOR Employees and Workers Union -

Association of Trade Unions-TUCP (DEWU-ATU/TUCP), being the sole bargaining unit, signed a new five-year CBA. The CBA came into effect on June 1, 2016 and will expire on May 31, 2021.

The CBA contains provision on employee benefits to union members such as: wage increase, productivity incentives, rice subsidy, meal allowances, paid leaves, medical, dental and hospitalization benefits, life insurance, retirement benefits, death aids, uniforms, access to personal cash advances, union leave with pay and grievance machinery. The economic provisions of the CBA will be renegotiated on the 3rd year of the effectivity of the CBA.

On March 4, 2016, DIPSSCOR received a Certificate of Compliance on Labor Relations from the Department of Labor and Employment (DOLE) for having been compliant with Labor Relations upon evaluation of the aforementioned CBA.

*SCIPSI.* On November 5, 2012, the management of SCIPSI and the PRO-LABOR Champ Movement in Makar (PCM-M) entered into a CBA for a term of five years or until November 05, 2017.

60 days before the expiration of the said CBA, petition for election was filed by two intervenors, SCIPSI Employees Union-Southern Philippines Federation of Labor (SCIPSI EU-SPFL) and Makar Port Labor Organization (MPLO) at the DOLE. On March 9, 2018, a certification election was held and the labor union PCM-M was re-elected.

On January 9, 2019, negotiation on renewal of CBA between PCM-M and the management of SCIPSI was started.

In November 2009, the DOLE cited SCIPSI for Best Labor Management Cooperation (LMC) in Region XII in the Philippines given by the National Conciliation and Mediation Board (NCMB) in Mindanao and awarded as National Finalist in Outstanding LMC for Industrial Peace in the Philippines in November 2015. It is important to note that the Company's LMC is an important vehicle in disseminating its corporate values and ensuring industrial peace.

*MTS.* On April 15, 2016, MTS and Serikat Pekrja Mandiri PT Makassar Terminal Services (SPM MTS), the labor union, signed a CBA that is effective for two years from April 15, 2016 to April 14, 2018. The CBA was approved by the Pemerintah Kota Makassar, Suku Dinas Tenaga Kerja (the Department of Labor in the City of Makassar) on April 29, 2016. As at March 5, 2019, the renewal of CBA is on-going.

The CBA contains provisions on benefits for all employees such as: wage increases, box share allowance, meal allowance, transport allowance, government and religious mandated leaves and leaves for important reasons like worker's marriage, paternity leaves, child baptism, marriage of worker's children, death of immediate worker's family member, among others.

*OJA.* There is no labor union in OJA.

*YICT.* The right to unionize is guaranteed for the employees of YICT. All employees are unionized by law. Unionism is not a big issue in China since unions are considered as partners in a stable work force.

*PICT.* The Democratic Employees Union (PICT-DEU) was formed on April 23, 2014 as the bargaining unit for PICT workers. The CBA was renewed on January 1, 2019 and will be effective for a period of two years.

*VICT.* VICT signed an Enterprise Agreement with the Australian Maritime Officers Union that was endorsed by the Fair Work Commission on October 19, 2016. It has an initial term of four years and will expire on October 19, 2020. The Agreement primarily covers rates of pay, working hours and leave entitlements. The Agreement covers the operational staff at VICT.

*MITL and SPICTL*. MITL and SPICTL assumed, through implementation agreement, the CBA entered into between the Employers Federation of Papua New Guinea and the PNG Maritime and Transport Workers Union called the Papua New Guinea National Stevedoring and Handling Workers' Union Industrial Agreement. The CBA was signed on November 26, 2016 and is effective until November 25, 2019. The Agreement regulates employment contracts, normal and overtime hours, remuneration conditions including timing and rates of increases, employment groups such as guaranteed wage earners, permanent and casual workers, vacation and shift schedules, health and safety requirements, retirement and conditions for termination of employment contracts.

There are no labor unions in SBITC, ICTSI Subic, BIPI and LGICT.

***Americas***

*CGSA*. There is a unionized Works Council since October 2008 and a CBA signed initially on July 16, 2009. The CBA was renewed in January 2019 and will be effective for the next two years. Besides the benefits that any worker is entitled by law, CBA secures for the employees some additional benefits: in-out transportation, food service and uniform. There have been no cases of strikes or walkouts since CGSA took over operations in 2007.

*TSSA*. The administrative and maintenance employees in TSSA are represented by the Sindicato dos Auxiliares de Administracao de Aramazens Gerais do Estado de Pernambuco (SINDAGE). The CBA with SINDAGE is renewed every two years and was last signed in June 2017. TSSA and the union have a good relationship and there had not been any major labor disturbances, such as strikes, slowdown, boycott or mass absences in years. The employees receive benefits such as dental and health insurance, local restaurant privileges, support for professional development, leaves and transportation services. The CBA will expire on June 30, 2019. Occasional workers at the customs inspections area and all other operations personnel, both represented by occasional labor unions, have entered into a CBA with TSSA. The CBA relating to customs inspections area workers expired in February 2019 and negotiations on renewal of CBA is on-going as at March 5, 2019. Meanwhile, the CBA relating to all other operations personnel will expire in June 2019.

*CMSA*. CMSA has a Collective Work Contract (CWC) signed in November 2010 with Union de Estibadores y Jornaleros del Pacifico, which is part of Confederacion Regional Obrero Mexicana (CROM). CROM has not had a strike since it was founded 95 years ago. The CWC is effective until year 2044 and extendible based on any extension on the concession agreement with Administracion Portuaria Integral de Manzanillo, S.A., de C.V. There is an annual review of the salaries and every two years there is a salaries and benefits comprehensive review. CMSA is committed to give benefits in addition to those required by the Mexican Labor Law i.e., 5% savings fund, transportation, uniforms, scholarships, contributions in the case of death of workers, sports support and life insurance. There is an additional fee of 16.23% of salary paid to the union to support the administration expenses and retirement fund of the workers.

*OPC*. OPC has an existing collective agreement signed with all employees. The collective agreement stipulates employees' benefits like pension, medical and life insurance, trainings, employee engagement, vacation bonus, meal subsidy, special leaves, salary loans, among others.

*Tecplata*. As of March 5, 2019, there is no labor union in Tecplata.

***EMEA***

*BCT*. On March 20, 2008, the labor union at the terminal of BCT in Gdynia, Poland declared a strike because of a deadlock in the 2008 salary negotiations. The strike lasted until April 1, 2008. An agreement on salary regulations was signed between the Strike Committee and BCT Management Board.

Renegotiation on the CBA also began in 2009, but was suspended at the insistence of the union. The union has not approached BCT's management to resume negotiations. The new Remuneration and Work Regulations address the outstanding issues of the CBA and remain in place pending completion of the negotiations.

*MICTSL.* MICTSL assumed the CBA entered into by the previous port operator. The agreement sets out the obligations of the port operator with respect to matters such as medical care, housing allowances and holidays. A salary grid is produced from time to time under the agreement that sets forth applicable wages. Under the CBA and applicable employment regulations, union representatives may only be dismissed after the employer has successfully petitioned the Labor Inspectorate to do so. The CBA stipulates that there should be no diminution of benefits

The right to strike is protected, provided that at least 48 hours' notice is given to management. In 2009, there was a two-day temporary operational disruption due to political unrest wherein the then President of Madagascar was ousted. The disruption did not produce any adverse effect on MICTSL. In 2010, MICTSL experienced two strikes attributed to the politicization of the concession agreement and privatization of port operations. The CBA was renewed on October 1, 2015 for a period of five years, and can be subject to review three years after effectivity date upon the request of either of the parties.

*AGCT.* AGCT's CBA was signed on June 28, 2016 and is effective until end of 2019. The CBA regulates employment contracts, overtimes, add-ons, vacations, salary increases or decreases, other benefits, health and safety requirements and conditions for termination of employment contracts. There have been no cases of strikes or walkouts since AGCT took over operations in 2011.

*IDRC.* There is no labor union in IDRC but there is a framework in place for communication and grievances with elected labor representatives.

*ICTSI Iraq and BICT.* There are no labor unions in ICTSI Iraq, and BICT.

**Risks Relating to the Group's Business**

*The Group's business is highly dependent on regional and global economic trends.*

The volume of containers the Company handles and the usage of other port-related services are influenced by the performance and growth of regional and international trading economies. The Company has a substantial port operations business within the Philippines as well as an international portfolio of terminals. Its core business consists of the management, operation and development of container terminals and the provision of cargo handling and other port-related services. Such services are required by the Company's shipping line customers for the transportation of containerized goods by sea within the global and regional marketplace. As a result, there is a correlation between the condition of global and regional economies and the volume of container throughput the Company handles. Because the Company tends to operate small- to medium-sized end-destination terminals, the Company's results of operations are highly influenced by specific conditions in the local markets where it operates. Furthermore, the global markets have experienced, and may continue to experience, economic downturn and political instability in several areas of the world, which may result in increased fuel prices, lower trade volumes, interruptions of the continuity of operations, decreases in imports and exports or reduced trading partners, which may adversely affect the Group's business and results of operations.

*The Group operates in a number of emerging markets that have experienced economic and political instability.*

The Group operates mainly in emerging markets, many of which have experienced political and economic instability in the past and may be continuing up to the present. Many of the countries where the Group operates or may operate in the future continue to face significant budget deficits, limited foreign currency reserves, volatile exchange rates, and highly regulated and less sophisticated banking sectors. Furthermore, many of ICTSI's subsidiaries, including the Philippines, have experienced frequent changes in governments, political scandals, terrorist attacks and civil strife. There is no assurance that the future political environment in these countries will become stable or that current or future governments will be able to adopt economic policies that will sustain economic growth.

*The Group is dependent on concessions and other key contracts to conduct its business.*

The conduct of the Group's business is restricted within the terms of the concession and other key contracts that put a limit to its operational and strategic options. ICTSI and subsidiaries usually only obtain the right, subject to certain conditions, to operate, manage and develop terminals for a set period of time. These contracts contain provisions that allow the relevant port authority to suspend, cancel or terminate the contract on specified grounds, including noncompliance with the terms of the contract and, in certain instances, the occurrence of a "change in control" of ICTSI without the consent of the relevant port authority or if the relevant port authority determines that the public interest may be better served by the cancellation of the contract in accordance with its regulations. Hence, there can be no assurance that further challenges in the Group's operations will not be raised or that its concessions will not be terminated for public policy reason. Also, these concessions and key contracts may limit the ability of the Group to raise tariffs that it charges to customers. The Group's major contracts and agreements are disclosed in Note 24, *Significant Contracts and Agreements*, to the Annual Audited Consolidated Financial Statements.

*The Group is limited in its ability to raise the tariffs billable to customers in most terminals.*

The aforementioned contracts and agreements may prescribe maximum tariffs that the Group can charge or bill shipping lines and customers and either prohibit any changes in those tariffs without prior approval of the relevant port authority or subject the tariffs to an automatic adjustment mechanism. At certain terminals, tariff increases have recently been implemented in phases causing timing differences when the Company petitioned for an increase and the actual increase in tariff. In countries in which tariffs are not prescribed, such as Poland, Brazil, Australia and DR Congo, the Group is still limited in its ability to raise tariffs by market norms, competition and local demand.

*The Group faces competition at its domestic and international terminals on factors such as location, facilities, supporting infrastructure, service and price.*

Competition is heightened at domestic and international terminals on factors such as location, facilities, supporting infrastructure, service and price. The Group's competitors may offer lower tariffs than what its own terminal offers in a certain location; or have greater financial resources with which to develop the ports that they operate to provide better access and improved facilities, structure and services. One of the strategies that the Group employs is to acquire terminals in emerging markets, then improve operations and grow volume organically. If trading volume increase, competitors may begin to target these same markets. Increased competition from existing and future competitors may result in a reduction in the Group's market share in locations where it operates, a decrease in volume of containers it handles, or increased price competition which could result in possible declines in the Group's cash flows, operating margins and profitability.

*The Group's failure to effectively manage its existing container terminal operations and growth as a result of rapid expansion and development may adversely impact the Group's business.*

The Group is rapidly expanding its container terminal operations, in particular, those located overseas. This rapid expansion into new markets diminishes the Group's management resources to effectively govern its existing container terminal operations and more ambitious growth. It has presented, and will continue to present significant challenges for the Group's management, operational and administrative systems and its ability to maintain effective systems of internal controls. The Group may not successfully integrate new acquisitions to meets its efficiency and performance standards, nor keep existing facilities up to those same standards. The Group needs to constantly develop and adjust management and administrative responsibilities to match market conditions and its growth and expansion strategies. The Group's continued development into a global terminal operator requires it to identify new qualified personnel with widespread knowledge of its industry and the countries in which it operates. Failure to identify suitable personnel for these management and administrative positions may adversely affect the Group's ability to manage its growth and continue to pursue its growth strategy and eventually impact its business, results of operations and financial condition.

*The Group's results of operations and financial condition may be adversely affected by exchange rate fluctuations.*

Because of the geographic diversity of the Group's business, it receives revenue and incurs expenses in a variety of currencies. Its revenues are primarily in U.S. dollars, Philippine pesos, Brazilian real, Mexican Pesos and Euros while its expenses are generally in local currencies. The Group attempts to operationally hedge its foreign exchange exposure by matching its revenues and expenses whenever possible and, from to time, engages in hedging activities to mitigate residual foreign exchange cash flow exposures. The Company is subject to translation risks whereby changes in exchange rates impact its reported revenues in U.S. dollar terms. Because the Company reports its financial statements in U.S. dollars, increases in the value of the U.S. dollar against the currencies in which it receives revenues in its international operations, such as Philippine pesos, Brazilian real, Mexican Pesos and Euros, could restrict its revenue growth in U.S. dollar terms and vice versa. Continued fluctuations in the value of the U.S. dollar against its other subsidiaries' functional currencies could cause the Company's revenues to decrease in U.S. dollar terms and distort comparisons of its results of operations and financial condition across periods.

*The Group's business has high dependence upon key personnel with special skills that are not readily available in the market.*

In order for the Group to maintain its operating and performance standards, it highly leverages on the continued service of key personnel. The Group has a relatively small management team which makes it more dependent on senior personnel than some of its larger competitors. With the rapid growth of the container terminal industry, competition for skilled senior employees becomes intense and there are limited numbers of qualified candidates. The Group's business and results of operations may be adversely affected if any of the existing key personnel leaves their position and the Group fails to find a similarly competent replacement.

*The Group is subject to the risk of system failures.*

The Group's business is highly reliant on complex information technology and automated systems to handle its terminal operations for high productivity and efficient handling of containers. Any systems failure may result in delayed or hindered terminal operations. These events may adversely affect the achievement of the Group's planned business growth and results of operations.

*The Group's facilities could be exposed to unforeseen catastrophic events over which it has little or no control.*

The Group's facilities could be exposed to effects of natural disasters and other potentially catastrophic events, such as major accidents, acts of God, terrorist attacks, armed conflicts and hostilities. To cite, the Philippines is vulnerable to typhoons, earthquakes and other major natural disasters, which could suspend MICT's operations temporarily or damage or destroy key equipment. Since operations at MICT have historically provided the majority of the Group's revenues from port operations, occurrence of a catastrophic event affecting the Philippines could have a material adverse effect on the Group's business, results of operations and financial condition.

*The Group is subject to regulations that govern operational, environmental and safety standards.*

Lastly, the Group's terminal services are conducted under licenses, concessions, permits or certificates granted by applicable regulatory body in the countries in which it operates. Various environmental and safety standards may also be enforced by each jurisdiction in which the Group operates. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against the Group, including revocation or suspension of the Group's concessions or licenses, which may adversely impact results of operations and financial condition.

Henceforth, the Group has established an Enterprise Risk Management program to assess and ensure that the potential impact and likelihood of any of these risks are minimized and will not adversely impact the Group's business as a whole through an established risk assessment, communication, mitigation and monitoring process. These business risks, however, might result to financial statement risks for which the Group identifies and includes as part of its financial risk management objectives and policies. These risk factors are further discussed in Part III, Item 6 of this report and in Note 27, *Financial Risk Management Objectives and Policies*, to the Annual Audited Consolidated Financial Statements.

**Properties**

**Principal Facilities**

***Asia***

*Philippines - MICT*. MICT provides a full range of container cargo handling services to shipping lines transporting international containerized cargo to and from the Port of Manila with an estimated handling capacity of 3,000,000 TEUs per year. MICT occupies a total land area of 105 hectares, of which 94 hectares have been developed, and includes six berths. MICT also has a 1,750-meter long wharf which can accommodate six to seven ships, depending on the ships' sizes. In 2012, ICTSI completed the development of Berth 6, which was a condition for the extension of the MICT Contract and to accommodate increasing volume. Adjacent to the MICT wharf is a container yard, with a total stacking capacity of 62,625 TEUs, 1,534 TEUs of which are refrigeration-ready with reefer plugs. MICT also has three one hectare container freight stations (warehouses): two for imports; and one for exports. The facility also has a truck holding area, with 400 truck parking bays. MICT has three gates: two with six lanes; and one with seven lanes.

The terminal is fully equipped with security features recommended by the United States Homeland Security Agency, including gamma ray scanning devices and a closed-circuit television surveillance system.

On May 14, 2008, the Board of Investments (BOI) of the Philippines approved ICTSI's registration of the construction of Berth 6 of MICT with Pioneer status under the Omnibus Investments Code of 1987, which entitles Berth 6 to an income tax holiday for a six-year period from November 2011, among others. Berth 6 was completed and inaugurated in July 2012, and increased the terminal capacity to 2,500,000 TEUs per year. The Berth 6 features additional 14 hectares of container space, three additional quay cranes for offloading ships and ten RTGs. On July 2, 2015, the BOI approved the registration of ICTSI's construction of Berth 7 of MICT on a Non-Pioneer status under the Omnibus Investment Code of 1987. Berth 7 is entitled to an income tax holiday of three years starting from July 2017.

As of December 31, 2018, ICTSI has a total of 16 quay cranes complemented by seven reach stackers, 12 empty container handlers, 22 forklifts, 48 rubber-tired gantries (RTGs), and a huge fleet of transportation equipment.

*Philippines - New Container Terminal 1*. Subic Bay International Terminal Corporation (SBITC) originally developed, managed and operated the NSD Waterfront Area in Subic, Philippines. However, in April 2008, the NSD Waterfront Area was replaced by the New Container Terminal (NCT-1). NCT 1 is a 14-hectare terminal with a 280-meter berth and controlling depth of 13 meters, making it possible to handle post-Panamax vessels. The estimated handling capacity of NCT-1 is 300,000 TEUs per year. As of December 31, 2018, SBITC has two post-Panamax cranes, four reach stackers, two empty container handlers, three forklifts, 22 prime movers and 30 chassis.

*Philippines - New Container Terminal 2*. On July 27, 2011, SBMA and ICTSI signed the contract for the operation and management of NCT-2 for a period of 25 years. ICTSI subsequently assigned said contract to ICTSI Subic, Inc. (ISI) and SBMA approved the assignment through a resolution dated August 19, 2011. NCT-2 is a 14-hectare terminal, which includes a 280-meter berth with 13 meters depth. As of December 31, 2018, ISI has two post-Panamax quay cranes, three reach stackers and two forklifts. The new terminal has an annual throughput capacity of 300,000 TEUs.

*Philippines - Bauan Terminal*. Bauan International Ports, Inc. (BIPI) owns a 20-hectare facility, of which four hectares remain undeveloped, situated along the protected waters of Batangas Bay in Bauan, Batangas. The facility is a multi-purpose, multi-user terminal with a 240-meter berth with two berthing positions. The facility also contains a storage area and a car terminal facility, and is supported with various heavy lift cranes and two ten-ton forklifts. The car terminal facility can handle 254,696 completely built units per year.

*Philippines - Mindanao Container Terminal (MCT)*. Mindanao International Container Terminal Services, Inc. or MICTSI operates the MCT located at Phividec Industrial Estate, Misamis Oriental. MICTSI has a 24-hectare terminal area for infrastructures, equipment and support facilities and handles containerized and non-containerized cargo. The terminal also has a 300-meter berth with a controlling depth of 13 meters that can service two vessels at once. The terminal is also supported by an 11-hectare yard area inclusive of container yard road networks, with a storage capacity of 6,816 TEUs. The terminal is also equipped with 262 reefer plugs at 440 volts. The estimated handling capacity of MCT is 300,000 TEUs per year. As of December 31, 2018, MICTSI has two quay cranes, a reach stacker, two empty container handlers and four RTGs.

*Philippines - Sasa Wharf*. DIPSSCOR is a cargo handler at the Sasa International Port in Davao City, Philippines and the facilities are not for the exclusive use of DIPSSCOR. The terminal covers an area of 16.75 hectares with 10 berthing positions of 10.6 meters in depth and occupying a total length of 1,093 meters. The total throughput capacity of the terminal is 500,000 TEUs per year. As of December 31, 2018, DIPSSCOR has three RTGs, six reach stackers, an empty container handler and 12 forklifts.

*Philippines - Makar Wharf*. SCIPSI is a stevedoring and cargo handling service provider at the Makar Wharf, Port of General Santos, General Santos City, Southern Mindanao. The Makar Wharf is a general purpose wharf handling domestic and international containerized, general and roll-on/roll-off cargo as well as domestic passenger traffic. The terminal surface area is 14 hectares that includes nine berths at 850 meters in length with 8-12 meters depth. The terminal is also equipped with 204 reefer plugs and has a total capacity of 250,000 TEUs per year. As of December 31, 2018, SCIPSI has four reach stackers, 22 chassis, 20 prime movers and 16 operating forklifts.

*Philippines - Hijo Port.* In 2012, ICTSI, through its wholly owned subsidiary, Abbotsford, together with Hijo Resources Corp., a diversified group involved in leisure and tourism, agribusiness, property development and port operations, invested in HIPS for the construction, development and operation of Hijo Port. Hijo Port is a private commercial port owned by HIPS located in Barangay Madaum, Tagum, Davao del Norte in the Gulf of Davao. The existing port sits within a reclaimed land of about 10.3 hectares. It has two berths at 120 meters and 150 meters long, and various terminal support facilities. HIPS currently has a container handling capacity of 300,000 TEUs per annum. HIPS is currently handling break bulk cargo. As of December 31, 2018, HIPS has one mobile harbor crane, an empty container handler and three forklifts.

*Philippines – Calamba, Laguna.* On March 2, 2015, LGICT commenced operation of its one-stop inland container terminal located in Calamba City, Laguna. LGICT is 60%-owned by IW Cargo

Handlers, Inc., a wholly-owned subsidiary of the Company, and 40% owned by Nippon Container Terminals Co. Ltd., Transnational Diversified Corporation and NYK Fil-Japan Shipping Corp. LGICT primarily operates as an extension of the seaport operations of MICT and is intended to function as a regional logistics hub, which will service and support the operations of exporters and importers. LGICT is situated on a 21-hectare property that is 58 kilometers from Metro Manila, located near various economic export zones and adjacent to a railroad. As of December 31 2018, LGICT has two reach stackers and three side lifters.

*Philippines – Tanza, Cavite.* On April 21, 2017, ICTSI, through its wholly-owned subsidiary, CGT, in partnership with the Philippine Department of Transportation, project launched the country's soon-to-be first container roll-on roll-off barge terminal in Tanza, Cavite. CGT will facilitate off-the-roads seaborn transport of containers between Port of Manila and Cavite and service industrial locators in Cavite area. CGT's barge terminal will have an annual capacity of 115,000 TEUs, which is equivalent to 140,000 fewer truck trips on city roads each year. The terminal was formally inaugurated on November 22, 2018. As of December 31 2018, CGT has an empty container handler and two forklifts.

*Philippines - Manila North Harbor*. On September 21, 2017, ICTSI signed a Share Purchase Agreement (SPA) with Petron Corporation for the acquisition of 34.83% of the total issued and outstanding shares of MNHPI. The SPA was finalized on October 30, 2017 upon the fulfillment of certain conditions, one of which was the approval of the acquisition by the Philippine Ports Authority (PPA) which was obtained on October 20, 2017. MNHPI has a concession contract with the PPA for the development, management, operation and maintenance of Manila North Harbor. MNHPI commenced operations on April 12, 2010. MNHPI is committed to modernize and develop Manila North Harbor to transform it to a premier maritime hub. MNHPI provides cargo handling services for containerized and break-bulk cargoes to shipping lines and tramp vessel operators plying the domestic routes. Overall, the port facility can accommodate up to 2,200,000 TEUs of containerized cargoes, 2,000,000 metric tons of break-bulk cargoes and 2,500,000 passengers per year.

The 63.5 hectare land area is divided into three terminals namely, Container Terminal, Multi-Purpose Terminal, and Ro-Ro Terminal. These terminals work in synergy to optimize the port operations. At present, the total quay length is 5,758 meters equivalent to 41 berthing positions. MNHPI handles an average of about 4,000 vessel calls per year.

In 2017, MNHPI completed its Phase 1 Development Program which provided modern port facilities including a modern Container Terminal, Ro-Ro Terminal, a modern Passenger Terminal Complex, and One-Stop Processing Centers, all allowing efficient processing of transactions between shipping lines, MNHPI, PPA and other government agencies.

MNHPI also has a fleet of modern cargo handling equipment which include eight quay container cranes, 27 RTGs, 21 reach stackers, six empty container handlers and 33 heavy fork lifts, among others. Ancillary facilities were also built such as six weighbridges, the power center equipped with two 2.5 megawatt generator sets for back-up power, and the reefer facility with 144 plugs.

*China - Port of Yantai*. YICT's terminal covers an area of 76.6 hectares with four berthing positions of 14 to 17 meters in depth and occupying a total length of 1,300 meters. The estimated handling capacity of YICT is 1,300,000 TEUs per year. As of December 31, 2018, YICT has seven quay cranes, which handle loading and unloading of cargoes with the support from one empty container handler, three RTGs, five reach stackers, 15 prime movers, 20 forklifts, 20 RMGs and 33 chassis.

*Indonesia - Makassar Container Terminal*. Makassar Terminal Services (MTS) supplies and operates equipment for PT Pelabuhan Indonesia IV (Pelindo IV), the Indonesian government agency which operates the Port of Makassar. MTS covers an area of 12.4 hectares with 850-meter berth length and seven berthing positions with 12 meters of depth. The total port terminal capacity is 650,000 TEUs with the estimated handling capacity of MTS at 250,000 TEUs per year. As of December 31, 2018, MTS has two quay cranes, three RTGs, 9 prime movers and 9 chassis.

*Indonesia - Port of Tanjung Priok*. In July 2012, ICTSI acquired 100% of the equity interest of OJA through its indirect majority owned subsidiary, JASA. OJA is an Indonesian limited liability company engaged in the loading and unloading of general goods and containers at the Port of Tanjung Priok, Jakarta, Indonesia. OJA has existing cooperation agreements with PT. Pelabuhan Indonesia II (Pelindo) under a profit sharing scheme. The scheme covers the terminal operations for berths 300, 301, 302 and 303, which are operated by Pelindo and located in Terminal III of Tanjung Priok Port. These cooperation agreements have terms of two years that can be extended by the parties. On June 5, 2013, OJA signed a 15-year Cooperation Agreement with Pelindo, Tanjung Priok Branch for international container stevedoring services under a profit sharing scheme. The terminal has a capacity of 400,000 TEUs per year, berth length of 600 meters with two berthing positions of 11.5 meters in depth and 5.86 hectares container yard. As of December 31, 2018, the terminal has seven quay cranes, seven reach stackers, five rail mounted gantries, a forklift, two RTGs, 30 prime movers and 31 chassis.

*Pakistan - Karachi Port*. In October 2012, ICTSI, through its wholly owned subsidiary ICTSI Mauritius, completed the acquisition of a majority shareholding in PICT. PICT has a contract with Karachi Port Trust for the construction, development, operations and management of a common user container terminal at Karachi Port for a period of 21 years commencing on June 18, 2002. The terminal has a capacity of 750,000 TEUs per year and a berth length of 600 meters with a depth of 13.5 meters. As of December 31, 2018, PICT has six quay cranes supplemented by three empty container handlers, 12 reach stackers, 15 forklifts, 20 RTGs and a large fleet of transportation equipment handling the existing operations at Karachi Port.

*Australia – Port of Melbourne*. On May 2, 2014, ICTSI, through its subsidiary in Australia, VICT, signed a contract with the Port of Melbourne Corporation for the design, construction, commissioning, maintenance, operation and financing of Melbourne's Webb Dock new international container terminal and empty container park. The contract grants a lease concession until 2040. Phase 1 of the terminal comprised of a berth of 330 meters fitted with three neo-Panamax ship-to-shore cranes, 23.8 hectares of yard with fully automated operations from gate to quayside, delivering an estimated capacity of 350,000 TEUs. The terminal itself can handle vessels with a capacity in excess of 8,000 TEUs, and also features a 10-hectare empty container park with a working capacity of around 250,000 TEUs. Phase 2 of the terminal comprised of a 330-meter berth fitted with additional two neo-Panamax ship-to-shore cranes and 11.5 hectares of yard increasing the capacity of the terminal to 1,000,000 TEUs.

Phase 1 and Phase 2 of the project commenced commercial operations in the second quarter of 2017 and first quarter of 2018, respectively.

As of December 31, 2018, VICT has five quay cranes, one reach stacker, 20 automated stacking cranes, 11 automated container carriers, 3 forklifts and 2 prime movers.

*Papua New Guinea - Port of Lae and Port of Motukea*. In September 2017, ICTSI received a notification from PNGPCL, a PNG state-owned enterprise, of the confirmation by the Independent Consumer and Competition Commission in PNG with respect to the two 25-year agreements signed by ICTSI's PNG subsidiaries, MITL and SPICTL, with PNGPCL for the operation, management and development of the two international ports in Motukea and Lae in PNG.

SPICTL and MITL were allowed by PNGPCL to take over the port facilities and begin operations at the Port of Lae in February 2018 and at the Port of Motukea in May 2018, respectively. The terminal operating agreements and other related contracts took effect on June 1, 2018 after all the parties have complied with the agreed conditions precedent.

The Port of Lae is the largest container handling facility in PNG. Lae is the capital of Morobe Province and is the second largest city in PNG. The estimated annual capacity of the Lae Tidal Basin is 250,000 TEUs. The total developed land area is 11.4 hectares and quay length is 250 meters. As of December 31, 2018, SPICTL has four reach stackers, two empty container handlers, seven prime movers, three forklifts and 11 chassis.

The Port of Motukea is the only terminal in Port Moresby, the largest city in Papua New Guinea, that is permitted to handle international containers. The estimated annual capacity of the Motukea port is 250,000 TEUs. Total developed land area is 9.7 hectares and quay length is 240 meters. As of December 31, 2018, MITL has two reach stackers, an empty container handler, three prime movers, three forklifts and six chassis.

***Americas***

*Ecuador - Guayaquil Container and Multipurpose Terminal*. CGSA is the exclusive operator of a container and multipurpose terminal in the Port of Guayaquil, Ecuador. The total land area of the terminal is 133.52 hectares, of which 92.5 hectares is developed. The total berth length is 1,717.5 meters with 10 berthing positions including tugboat berth with 10.5 meters of depth. The estimated handling capacity of CGSA is 1,400,000 TEUs per year with 3,819 reefer plugs to accommodate the demand for the containerization of bananas.

In 2008, CGSA completed upgrades to its inventory and maintenance processes and IT services. CGSA had also made physical improvements of the terminal including container and multipurpose yard improvements, construction of a new berth as a reinforcement of an existing one, construction of an electric substation, and acquisitions of cranes and RTGs. New reefer stations and plugs were also added to accommodate the shift from bananas as break bulk cargo to containers. As of December 31, 2018, CGSA has six quay cranes and three mobile harbor cranes that are supported by 23 RTGs, 14 reach stackers, 8 empty container handler, 42 forklifts, 63 prime movers, 64 chassis.

*Brazil - Suape Container Terminal*. TSSA is the exclusive operator of the container terminal in the port in Suape, Brazil until the earlier of (a) throughput of 250,000 boxes (approx. 400,000 TEUs) for three consecutive years or (b) after the first 15 years of the concession. The terminal covers a developed area of 39.4 hectares and undeveloped area of 2.5 hectares. TSSA has a 660-meter long two-berth wharf, a 30-hectare container yard, 576 reefer plugs, and a 4,900-square meter CFS and a truck weighing scale. The estimated handling capacity of TSSA is 700,000 TEUs per year.

TSSA has completed the build-out of the infrastructure of the Suape Container Terminal, including the acquisition of equipment and the development of civil works, such as yard expansions. As of December 31, 2018, TSSA has six quay cranes, six reach stackers, four empty container handlers, 13 forklifts, 14 RTGs, 38 prime movers and 48 chassis that complement the servicing of all movements of containerized cargoes inside the terminal.

*Colombia - Port of Buenaventura*. SPIA owns 225 hectares of land in the Aguadulce Peninsula in Buenaventura. SPIA was granted a 30-year concession by the Colombian National Institute of Concessions to develop, construct and operate a container handling facility in Aguadulce. The Aguadulce Peninsula is across the channel from the existing Port of Buenaventura. Buenaventura is located on the west coast of Colombia. It is the biggest port in the country and the only Colombian port on the Pacific coast. SPIA started initial operations in the fourth quarter of 2016. The terminal has a total area of 128 hectares and berth length of 600 meters with a depth of 14.5 meters, 11.3-hectare container yard and 640 reefer plugs. Estimated annual capacity of SPIA is 550,000 TEUs. The terminal can be accessed through a 20.7-kilometre road that circumvents the urban parts of Buenaventura. It also has 140 hectares along this access road for logistics development. As of December 31, 2018, SPIA has four quay cranes, three empty container handlers, three reach stackers, 10 RTGs, 32 prime movers and 34 chassis.

*Argentina - La Plata Port*. In October 2008, Tecplata was granted a 30-year concession to build and operate an all-purpose port terminal in the Port of La Plata, Argentina, by the *Consorcio de Gestion del*

*Puerto La Plata*, which would expire in 2038. The port development project covers 41.2 hectares, 29.6 hectares of which is from the concession agreement and 11.6 hectares is from *Compania Fluvial del Sud S.A.* via a Usufruct Agreement for a term of 20 years renewable at Tecplata's option for another 20 years. The terminal has an estimated handling capacity of 450,000 TEUs with a 600-meter berth having four berthing positions and 11 meters of quay side depth. As of December 31, 2018, Tecplata has four quay cranes, two reach stackers, three empty container handlers, 9 RTGs, seven forklifts, 18 prime movers and 20 chassis. As at March 5, 2019, Tecplata is ready to operate.

*Mexico - Port of Manzanillo*. In June 2010, ICTSI signed a 34-year concession for the development and operation of the Second Specialized Container Terminal (TEC-II) at the Port of Manzanillo in Mexico. ICTSI established CMSA to operate the Port of Manzanillo. The port development project covers about 77 hectares with 1,080 meters of seafront. The development of the container terminal will be done in three phases. Construction of Phase 1A development, which started in November 2011, was completed and CMSA formally commenced commercial operations in November 2013. Phase 1A has a berth length of 720 meters with two berthing positions with a depth of 16 meters, yard capacity of 710,000 TEUs and a handling capacity of 900,000 TEUs. Phase 1B was completed in May 2017 and started commercial operations thereafter. Phase 1B involved the construction of a yard that increased CMSA's yard capacity to 967,000 TEUs.

Phase 2A development started in December 2017 and it consists of three stages. Stage 1 Phase 2A was completed in the third quarter of 2018, Stage 2 Phase 2A is expected to be completed in the second quarter of 2019 and shall be operational thereafter, while the additional yard in Stage 3 Phase 2A is expected to be completed in December 2019. The Stage 3 Phase 2A shall also involve the construction of 180 meters of berth and is expected to start development in June 2019 and be completed in June 2020.

Stage 1 Phase 2A is expected to increase yard capacity by 380,000 TEUs, Stage 2 Phase 2A by 137,000 TEUs and Stage 3 Phase 2A by 73,000 TEUs for an expected total yard capacity of 1.5 million TEUs after the completion of Phase 2A. The expansion of the berth in Stage 3 of Phase 2A shall bring additional berthing position. Two quay cranes and five RTGs are expected to be put to operations in 2019.

As at December 31, 2018, the estimated handling capacity of CMSA is 1,000,000 TEUs with six quay cranes supported by six reach stackers, seven empty container handlers, 15 RTGs, 26 forklifts, 40 prime movers and 40 chassis.

*Honduras - Puerto Cortés*. On February 1, 2013, ICTSI won and was awarded the Contract for the Design, Financing, Construction, Maintenance, Operation and Exploitation of the Specialized Container and General Cargo Terminal of Puerto Cortés in the Republic of Honduras for a period of 29 years through a public hearing held in Tegucigalpa, Honduras. OPC started its commercial operations in December 2013. The terminal has a 1,150-meter pier with four berthing positions and depth from 11 to 14 meters, 21.7-hectare container yard, 1,744 reefer plugs, a 7,600-square meter CFS and has an estimated annual capacity of 1,000,000 TEUs. As of December 31, 2018, OPC has three quay cranes, four mobile harbor cranes, two empty container handlers, 19 reach stackers, 21 forklifts, 47 terminal tractors and 61 chassis.

*Mexico - Port of Tuxpan.* On 27 May 2015, the Company acquired 100.0% of TMT from Grupo TMM, S.A.B. and Inmobiliaria TMM, S.A. de C.V. TMT is a Mexican company with a concession to construct and operate a maritime container terminal in the Port of Tuxpan, Mexico and is the owner of land with an area of 29.1 hectares where the maritime container terminal will be constructed.

***EMEA***

*Poland – Port of Gdynia*. BCT has a lease contract to operate the Container Terminal in Gdynia, Poland. The terminal covers an area of 57 hectares and its facilities include a 790-meter long wharf with five berths (four of which are for container loading and unloading operations and one of which is equipped with a hydraulic ramp for roll-on roll-off operations), a container stacking yard, a cargo handling zone, two warehouses and a rail facility with three rail tracks. The estimated handling capacity of BCT is 1,200,000 TEUs per year. As of December 31, 2018, BCT has six quay cranes, two mobile harbor cranes, two rail-mounted gantries, three reach stackers, 18 RTGs, 22 forklifts, 2 straddle carriers, 33 chassis, 34 prime movers and a large fleet of transportation equipment that handle loading and unloading of containerized cargo at the terminal.

*Madagascar - Port of Toamasina*. MICTSL manages, operates and develops the Port of Toamasina, Madagascar. The terminal covers an area of 19 hectares and its facilities include two berths with a combined length of 307 meters and a depth in excess of up to 12 meters. The estimated handling capacity of MICTSL is 400,000 TEUs per year. As of December 31, 2018, MICTSL has three empty container handlers, four mobile harbor cranes, four forklifts, three reach stackers, nine RTGs, 22 prime movers and 24 chassis.

*Georgia - Port of Batumi*. BICTL operates a container terminal and a ferry and dry bulk handling facility in the Port of Batumi, in Georgia. BICTL covers an area of 13.6 hectares, has two berths with combined length of 465 meters and depth between 8 and 11.3 meters. The estimated handling capacity of BICTL is 150,000 TEUs per year. As of December 31, 2018, BICTL has two mobile harbor cranes, two empty container handler, four reach stackers, seven prime movers and eight forklifts.

*Croatia - Brajdica Container Terminal*. In March 2011, ICTSI, through its wholly owned subsidiary, ICBV, entered into a Share Purchase Agreement with Luka Rijeka D.D., a Croatian company to acquire a 51% interest in AGCT. AGCT operates the Brajdica Container Terminal in Rijeka, Croatia with a concession period of 30 years until 2041. The port includes a 17 hectare yard, with a combined 790-meter quay and depth of 10.5 to 14.8 meters. The current capacity is 600,000 TEUs per year with 252 reefer plugs. As of December 31, 2018, AGCT has four quay cranes, six RTGs, two rail-mounted gantries, four reach stackers, four forklifts, 14 prime movers and 21 chassis to support its operations.

*Iraq – Port of Umm Qasr*. On April 8, 2014, ICTSI, through its wholly owned subsidiary ICTSI Dubai, and General Company for Ports of Iraq (GCPI) signed the Contract for the Construction and Operation of Three New Quays and Management and Operation of Quay No. 20 (“Contract”) in the Port of Umm Qasr (“Port”) in Iraq. The Contract grants ICTSI the rights to: (a) manage and operate the existing container facility at Berth 20 of the Port for a period of 10 years, (b) build, under a build-operate-transfer (BOT) scheme, a new container and general cargo terminal in the Port for a concession period of 26 years, and (c) provide container and general cargo terminal services in both components. On March 1, 2016, an addendum to the Contract (“Addendum”) was signed by the parties granting ICTSI, through ICTSI Dubai, the right to manage and operate an additional existing Quay No. 19 for a total of 13 years, with the first three years for the completion of rehabilitation works. Also, the Addendum extended the original term for the management and operation of Quay No. 20 from 10 to 13 years. On March 26, 2017, a second addendum to the Contract (“Second Addendum”) was signed by the parties granting ICTSI, through ICTSI Dubai, the right to manage and operate Quay No. 21 co-terminus with the Contact and the First Addendum. The Second Addendum extended the term for the management and operation of Quay No. 19 and 20 from 13 to 21 years. ICTSI commenced trial operations at Berth 20 in September 2014 and full-fledged commercial operations in November 2014. ICTSI commenced commercial operations of Berth 19 in June 2016. The rehabilitation works for Berth 21 have been completed and started commercial operations in the third quarter of 2018. Phase 1 of the expansion project (Berrh 27) under the BOT scheme has 250 meters of berth with an estimated capacity of 300,000 TEUs. When fully developed, the facility will have 600 meters of quay with an estimated capacity of 900,000 TEUs. Berth 27 was completed and fully operational in the first quarter of 2017.

On October 22, 2017, ICTSI signed an agreement with GCPI for the Phase 2 of expansion development of the Port. The Phase 2 expansion project will involve development of two new berths, Berths 25 and 26, including a 20-hectare yard area. This expansion will increase the Port’s container handling capacity by 600,000 to 1,200,000 TEUs and its capability to handle large container vessels of up to 10,000 TEUs.

The development of this phase of the expansion project is on-going and is expected to be completed in the third quarter of 2019.

The Port covers an area of 78.2 hectares, 35.2 hectares of which is still undeveloped. The Port has two berths with length of 400 meters and depth of 12.5 meters. The estimated current handling capacity of the Port is 600,000 TEUs per year. As of December 31, 2018, the terminal has four quay cranes, two mobile harbor cranes, six empty container handlers, three RTGs, 20 forklifts, 14 reach stackers, 24 chassis and 24 prime movers.

*Congo - River Port in Matadi, Democratic Republic of Congo*. On January 23, 2014, ICTSI, through its subsidiary, ICTSI Cooperatief, forged a business partnership with SIMOBILE for the establishment and formation of a joint venture company, ICTSI DR Congo (IDRC). IDRC will build a new terminal along the river bank of the Congo River in Matadi and manage, develop and operate the same as a container terminal, as well as provide exclusive container handling services and general cargo services therein. SIMOBILE is a concessionaire of a parcel of land along the Congo river in the district of Mbengu, Township of Matadi in the Democratic Republic of Congo, intended for port use. Phase 1 of the facility consists of two berths that can handle 175,000 TEUs. The capacity and berth length can, subject to demand, be doubled in Phase 2. The first phase comprised of two berths with total length of 350 meters, which service shipping lines, importers and exporters. Phase 1 was completed in the fourth quarter of 2016. Initial operations started in the third quarter of 2016 while commercial operations started in January 2017. As of December 31, 2018, IDRC has two mobile harbor cranes, an empty container handler, two forklifts, three reach stackers, six prime movers and seven chassis.

### Other Properties Owned by ICTSI and Subsidiaries

| Location | Descriptions/Owner | Encumbrance |
|---|---|---|
| Cabuyao, Laguna, Philippines | 20-hectare property that was original site of the inland container depot project/ IWI Container Terminal Holdings, Inc. (IWI CTHI, formerly ICTSI Warehousing, Inc.)[1] | None |
| Calamba, Laguna, Philippines | 25-hectare property which is the site of LGICT's one-stop inland container terminal/ICTSI | None |
| Bauan, Batangas, Philippines | 20-hectare (approximately) property in Batangas acquired from AG&P in December 1997/BIPI[2] | None |
| Tanza, Cavite, Philippines | 6-hectare property located in Tanza, Cavite acquired by Cavite Gateway Terminal, Inc.[1] (CGT) from Capital Resources Corporation and the Heirs of Francisco Joaquin for use in the gateway terminal business of CGT. | A small portion of the property was mortgaged by the sellers to Asia Pacific Lending Corporation (APLC)[3]. |
| Gdynia, Poland | 3.5 hectares of lot with a building owned by BCT was acquired from local real estate company. These properties are being leased to third parties. | None |

*[1] 100% owned by ICTSI*
*[2] 60% owned by IWI CTHI*
*[3] The sellers have represented that the mortgages in favor APLC have already been discharged or terminated, although the annotation of the mortgages on the titles to the property could not be cancelled due to the dissolution of APLC.*

### Market for Issuer's Common Equity and Related Stockholder Matters

Principal Market where Company's common equity is traded**:** Philippine Stock Exchange

Principal Market for the Company's common equity: Philippine Stock Exchange

As of the latest practicable trading date on March 5, 2019, the share prices of ICTSI were:

| | | *In US Dollar* | *In Philippine Peso* |
|---|---|---|---|
| Opening | : | US$2.25 | ₱117.50 |
| High | : | | |
| Low | : | 2.16 | 112.80 |
| Closing | : | 2.16 | 112.80 |

* *Amounts expressed in Philippine peso have been translated to USD using the closing exchange rate quoted from the Bankers Association of the Philippines as at the end of March 5, 2019.*

The high and low share prices for each quarter within the last two years are:

| Calendar Period | Price/Common Share* High | | Low | |
|---|---|---|---|---|
| | *In US Dollar* | *In Philippine Peso* | *In US Dollar* | *In Philippine Peso* |
| 2017 | | | | |
| Quarter 1 | US$1.792 | ₱89.90 | US$1.415 | ₱71.00 |
| Quarter 2 | 2.100 | 106.00 | 1.742 | 87.90 |
| Quarter 3 | 2.143 | 108.90 | 1.906 | 96.85 |
| Quarter 4 | 2.145 | 107.10 | 2.019 | 100.80 |
| 2018 | | | | |
| Quarter 1 | US$2.176 | ₱113.50 | US$1.917 | ₱100.00 |
| Quarter 2 | 1.875 | 100.00 | 1.447 | 77.20 |
| Quarter 3 | 1.761 | 95.15 | 1.431 | 77.30 |
| Quarter 4 | 1.959 | 103.00 | 1.712 | 90.00 |

* *Amounts expressed in Philippine peso have been translated to USD using the closing exchange rates quoted from the Philippine Dealing System as at the end of each quarter in 2017 and 2018.*

## Holder

The number of stockholders of record as of the latest practicable date on February 28, 2019 was 1,378. Common shares issued and outstanding as of the same date were 2,045,177,671 shares (including 33,604,228 treasury shares). While Preferred A and B shares outstanding as of the same date were 3,800,000 shares and 700,000,000 shares, respectively.

As of February 28, 2019, the public ownership level of the Company is at 50.64% based only on common shares. The public ownership level of the Company is at 37.57% if both common and Preferred B voting shares are considered.

The following are the Company's top 20 registered common stockholders as of February 28, 2019:

| | Name | No. of Shares Held | % of Total* |
|---|---|---|---|
| 1 | PCD Nominee Corporation (Non-Filipino) | 795,046,049 | 29.28% |
| 2 | PCD Nominee Corporation (Filipino) | 789,941,837 | 29.09% |
| 3 | Bravo International Port Holdings, Inc. | 279,675,000 | 10.30% |
| 4 | Achillion Holdings, Inc. | 80,000,000 | 2.95% |
| 5 | Sureste Realty Corporation | 23,016,176 | 0.85% |
| 6 | A. Soriano Corporation | 22,064,102 | 0.81% |

| | | | |
|---|---|---|---|
| 7 | Enrique Razon | 18,143,687 | 0.67% |
| 8 | Enrique K. Razon Jr. as voting trustee | 15,936,201 | 0.59% |
| 9 | Stephen Paradies | 4,087,473 | 0.15% |
| 10 | Razon Industries, Inc. | 3,758,133 | 0.14% |
| 11 | Felicia S. Razon | 868,725 | 0.03% |
| 12 | Cosme Maria De Aboitiz | 527,343 | 0.02% |
| 13 | Ma. Consuela R. Medrano &/or Victorino S. Medrano Jr | 250,000 | 0.01% |
| 14 | Jose Sy Ching | 220,000 | 0.01% |
| 15 | Ong Tiong | 213,360 | 0.01% |
| 16 | Silverio J. Tan | 200,000 | 0.01% |
| 17 | Ma. Socorro S. Gatmaitan | 196,000 | 0.01% |
| 18 | Alberto Mendoza &/or Lawrence Mendoza | 192,457 | 0.01% |
| 19 | CBNA MLA OBO AC 6011800001 | 170,870 | 0.01% |
| 20 | Ma. Henrietta R. Santos | 155,053 | 0.01% |

As of February 28, 2019, 700,000,000 Preferred B shares (25.78%)* are held by Achillion Holdings, Inc. and 3,800,000 Preferred A shares (0.14%)* are held by International Container Terminal Holdings, Inc.

*Percentage ownerships were computed using total number of issued and outstanding common shares, preferred B voting shares and preferred A non-voting shares of *2,715,373,443* (which excludes treasury shares) as of February 28, 2019.

## Security Ownership of Certain Beneficial Owners and Management

Beneficial Owners

The following are known to the registrant to be, directly or indirectly the record or beneficial owner of more than five (5) percent of registrant's voting securities as of February 28, 2019:

| Title of Class | Name, Address of Record Owner and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percentage* |
|---|---|---|---|---|---|
| Common | PCD Nominee Corporation (Non-Filipino) Makati Stock Exchange Bldg.,Ayala Avenue, Makati City 1200 | The Hongkong & Shanghai Banking Corp. Ltd. – Clients' Acct. - 4/F HSBC Centre 3058 Fifth Avenue West Bonifacio Global City Taguig, 1634<br><br>Represented by Maris Flores, Senior Vice President and Head, HSBC Securities Services and Kathy Dela Torre, Senior Vice President Client Services, only holds a legal title as custodian, and is not the beneficial owner of the lodged shares. | Foreign | 303,455,296 (Lodged with PCD) Indirect | 11.18% |
| Common | PCD Nominee Corporation (Non-Filipino) Makati Stock Exchange Bldg.,Ayala Avenue, Makati City 1200 | Deutsche Bank Manila - Clients' Acct. - 23/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, 1226 Makati City<br><br>Represented by Carlos Dela Torre, Head of Securities and Custody Operations, only holds legal title as custodian in favor of various clients, and is not the beneficial owner of the lodged shares. | Foreign | 261,007,859 (Lodged with PCD) Indirect | 9.61% |

| | | | | | |
|---|---|---|---|---|---|
| Common | PCD Nominee Corporation (Filipino) Makati Stock Exchange Bldg.,Ayala Avenue, Makati City 1200 | AB Capital Securities, Inc., Units 1401-1403, 14th Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1200<br><br>Represented by Victor L. Vital, President; Ericsson C. Wee, First Vice President; and Lamberto M. Santos, Jr., Senior Advisor, only holds a legal title as custodian and is not the beneficial owner of the lodged shares | Filipino | 513,349,844 (Lodged with PCD) Indirect | 18.91% |
| Common | Bravo International Port Holdings, Inc. 104 H.V. dela Costa St., 17-19 Floors Liberty Center Salcedo Village, Makati City 1200<br><br>Bravo International Port Holdings, Inc. is a stockholder of ICTSI. | Bravo International Port Holdings, Inc. represented by Enrique K. Razon, Jr., its President | Filipino | 279,675,000 | 10.30% |
| Preferred B | Achillion Holdings, Inc. 104 H.V. dela Costa St., 17-19 Floors Liberty Center Salcedo Village, Makati City 1200<br><br>Achillion Holdings, Inc. is a stockholder of ICTSI. | Achillion Holdings, Inc. represented by Enrique K. Razon, Jr., its President | Filipino | 700,000,000 | 25.78% |

** Percentage ownerships were computed using total number of issued and outstanding common shares, preferred B voting shares and preferred A non-voting shares of 2,715,373,443 (which excludes treasury shares) as of February 28, 2019.*

## Dividends and Dividend Policy

The details of ICTSI's declaration of cash dividends are as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Date of Board approval | April 21, 2016 | April 20, 2017 | **April 19, 2018** |
| Cash dividends per share | US$0.020 (₱0.91) | US$0.050 (₱2.47) | **US$0.050 (₱2.50)** |
| Record date | May 5, 2016 | May 5, 2017 | **May 4, 2018** |
| Payment date | May 18, 2016 | May 17, 2017 | **May 11, 2018** |

Dividends may be declared only out of the unrestricted retained earnings. A board resolution is required for declaration of dividends. In addition, approval of stockholders representing at least two-thirds of the outstanding capital stock is required for the payment of stock dividends. Dividends are payable to all common stockholders, on the basis of outstanding shares held by them, each share being entitled to the same unit of dividend as any other share. Dividends are payable to stockholders whose names are recorded in the stock and transfer book as of the record date fixed by the Board. Preferred A shareholders are entitled to dividends at rates to be fixed by the Board. As of December 31, 2018, the Board has not set the dividend rate for Preferred A shares. On the other hand, Preferred B shareholders shall earn no dividends.

Moreover, retained earnings were reduced by distributions paid out by Royal Capital B.V., a subsidiary of ICTSI, to holders of Securities aggregating US$34.2 million in 2016, US$41.6 million 2017 and

US$60.3 million in 2018. Please refer also to Note 14, *Equity*, to the 2018 Audited Annual Consolidated Financial Statements.

Of the total retained earnings of US$779.4 million, US$819.7 million and US$882.8 million, as of December 31, 2016, 2017 and 2018, respectively, undistributed cumulative earnings of subsidiaries in retained earnings position amounting to US$832.9 million, US$1,056.7 million and US$1,211.1 million, as of December 31, 2016, 2017 and 2018, respectively, are not available for dividend distribution. As at December 31, 2018, the retained earnings is restricted for dividend declaration to the extent of the cost of treasury shares held amounting to US$58.1 million.

On April 21, 2016, the Board of the Parent Company approved the release of US$90.0 million from appropriated retained earnings. On December 29, 2017, the Board of the Parent Company appropriated US$25.0 million for additional working capital requirements of its continuing domestic and foreign expansion projects in 2018. On March 6, 2018, the Board of the Parent Company approved the release of US$150.0 million from the appropriated retained earnings back to unappropriated retained earnings due to completion of the project in VICT in Australia. The remaining appropriated retained earnings of the Parent Company as of March 6, 2018 amounting to US$212.1 million was intended for capital expenditures for new and existing projects in MICT in Manila, OPC in Honduras, ICTSI Iraq in Iraq and CMSA in Mexico.

As at December 31, 2016, 2017 and 2018, total appropriated retained earnings of the Parent Company amounted to US$337.1 million, US$362.1 million and US$212.1 million, respectively.

The unappropriated retained earnings of the Parent Company that is available for dividend declaration as of December 31, 2018 amounted to US$74.6 million.

**Recent Sale of Unregistered Securities**

On May 15, 2013, ICTSI issued 53,110,811 new common shares to Mr. Enrique K. Razon, Jr. for a subscription price of Php91.00 per share. This is an exempt transaction under SRC Rule 10.1(e) (The sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale of such capital stock.)

**Description of Registrant's Securities**

ICTSI's capital stock comprised of common and preferred shares. Common shares are listed and traded in the Philippine Stock Exchange. Preferred shares comprising of preferred A and B shares are not traded. Details and movement in the shares of stock of ICTSI are disclosed in Note 14, *Equity*, to the 2018 Audited Annual Consolidated Financial Statements.

The stockholders of ICTSI, in a special stockholders meeting held on August 11, 2010, approved the creation of a class of voting low par value preferred shares. The stockholders representing at least 2/3 of the outstanding capital stock of ICTSI approved the amendment of the articles of incorporation of ICTSI to reclassify the existing 1,000,000,000 authorized Preferred Shares with a par value of US$0.048 (₱1.00) per share into: (a) 993,000,000 Preferred A Shares with a par value of US$0.048 (₱1.00) per share, inclusive of the outstanding Preferred Shares, and (b) 7,000,000 Preferred shares which were further reclassified into 700,000,000 Preferred B Shares with a par value of US$0.0002 (₱0.01). The creation of a class of low par value voting preferred shares was authorized by the Board on June 18, 2010.

The Preferred A shares, which were subscribed to by International Container Terminal Holdings, Inc., are non-voting, entitled to dividend at rates to be fixed by the Board, non-cumulative, convertible to common shares under such terms to be provided by the Board, redeemable at such price and terms determined by the Board and have preference over common shares in the distribution of the assets of the Parent Company (see Note 14.3 to the 2018 Audited Annual Consolidated Financial Statements).

As at March 5, 2019, the Board has not fixed the dividend rate and terms of conversion of Preferred A shares.

The Preferred B shares were issued to Achillion Holdings, Inc. (Achillion). As at March 5, 2019, Preferred B shares have the following features: voting; issued only to Philippine Nationals; not convertible into common shares; earn no dividend and redeemable at the option of the Board.

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **OCTAVIO VICTOR R. ESPIRITU**, Filipino, of legal age and a resident of 203 Dingalan Street, Ayala Alabang Village, Muntinlupa City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of **International Container Terminal Services, Inc.** (the "Company"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at ICTSI Administration Building, Manila International container Terminal, South Access Road, 1012 Manila City, Philippines, and have been its Independent Director since April 2002.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

| COMPANY/ ORGANIZATION | POSITION/ RELATIONSHIP | PERIOD OF SERVICE |
|---|---|---|
| Bank of the Philippine Islands | Independent Director | April 7, 2000 to Present |
| Philippine Dealing System Holdings Corp. and Subsidiaries | Independent Director | May 10, 2013 to Present |
| Phil Stratbase Consultancy, Inc. | Director | September 1, 2004 to Present |
| Pueblo de Oro Golf and Country Club, Inc. | Independent Director | October 19, 1988 to Present |
| The Country Club, Inc. | Independent Director | July 23, 2015 to Present |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Company, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any director/officer/substantial shareholder of the Company and its subsidiaries and affiliates, other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

| NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER | COMPANY | NATURE OF RELATIONSHIP |
|---|---|---|
| Not applicable | Not applicable | Not applicable |

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding:

| OFFENSE CHARGED/ INVESTIGATED | TRIBUNAL OR AGENCY INVOLVED | STATUS |
|---|---|---|
| Not applicable | Not applicable | Not applicable |

6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of the Company of any changes in the abovementioned information within five days from its occurrence.

**IN WITNESS WHEREOF,** I have hereunto set my hands this FEB __ day of 2019 2019 at Manila City.

**OCTAVIO VICTOR R. ESPIRITU**
*Affiant*

SUBSCRIBED AND SWORN TO before me this ___ day of ______ 2019 at Manila City, affiant exhibiting to me his Passport, with No. at DFA NCR South.

Doc. No.: 396
Page No.: 80
Book No.: XXIII
Series of 2019.

ATTY. GARY C... TAN AURE
NOTARY PUBLIC ... L NO. 60777
Office Address: Room ... Bldg. Escoda Corner San Marcelino St. Ermita, Manila
TIN No. 719-033-727-000

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JOSEPH R. HIGDON**, American, of legal age and a resident of 128 States Point Road, Tenants Harbor, ME 04860, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of **International Container Terminal Services, Inc.** (the "Company"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at ICTSI Administration Building, Manila International container Terminal, South Access Road, 1012 Manila City, Philippines, and have been its Independent Director since April 2007.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

| COMPANY/ ORGANIZATION | POSITION/ RELATIONSHIP | PERIOD OF SERVICE |
|---|---|---|
| SM Investments Corporation | Independent Director | 2010 to Present |
| Security Bank Corporation | Independent Director | 2010 to Present |
| Philippine Equity Partners | Independent Director | 2015 to Present |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Company, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any director/officer/substantial shareholder of the Company and its subsidiaries and affiliates, other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

| NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER | COMPANY | NATURE OF RELATIONSHIP |
|---|---|---|
| Not applicable | Not applicable | Not applicable |

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding:

| OFFENSE CHARGED/INVESTIGATED | TRIBUNAL OR AGENCY INVOLVED | STATUS |
|---|---|---|
| Not applicable | Not applicable | Not applicable |

6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of the Company of any changes in the abovementioned information within five days from its occurrence.

19 FEB 2019

**IN WITNESS WHEREOF,** I have hereunto set my hands this __th day of _________ 2019 at Manila City.

[redacted]

**JOSEPH R. HIGDON**
*Affiant*

19 FEB 2019

SUBSCRIBED AND SWORN TO before me this __ day of _______ 2019 at Manila City, affiant exhibiting to me his Passport, with , issued on 2 December 2013 by the United States Department of State.

Doc. No.: 483;
Page No.: 97;
Book No.: U;
Series of 2019.

ATTY. DY R. BARENG
Notary Pu ntil Dec. 31, 2019
Notarial Co ssion NO. 2018-024
PTR NO. 0042, 01/03/2019
MCLE NO. V - 0022658, Until April 14, 2019
ROLL NO. 47692, IBP MANILA III, 017530, 11/22/2017
916-I URC Bldg., Blumentritt St., Sampaloc, Manila

**CERTIFICATION OF INDEPENDENT DIRECTOR**

I, **CESAR A. BUENAVENTURA, O.B.E.,** Filipino, of legal age and a resident of #27 Kasiyahan Homes, 58 McKinley Road, Makati City after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of **International Container Terminal Services, Inc.** (the "Company"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at ICTSI Administration Building, Manila International container Terminal, South Access Road, 1012 Manila City, Philippines, and have been its Independent Director since February 12, 2019.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

| COMPANY/ ORGANIZATION | POSITION/ RELATIONSHIP | PERIOD OF SERVICE |
|---|---|---|
| Mitsubishi Hitachi Power Systems Phils Inc. | Director and Chairman | 1997 to Present |
| Buenaventura Echauz and Partners, Inc. | Director and Chairman | 2001 to Present |
| DMCI Holdings, Inc. | Director and Vice Chairman | 1995 to Present |
| Semirara Mining and Power Corp. | Director | 1997 to Present |
| iPeople, Inc. | Director | 2002 to Present |
| Petroenergy Resources Corp. | Director | 2012 to Present |
| Concepcion Industrial Corp. | Director | 2014 to Present |
| Pilipinas Shell Petroleum Corp. | Director | 2012 to Present |
| DM Consinji Inc. | Director | 1995 to Present |
| The Country Club | Director | 2015 to Present |
| Pilipinas Shell Foundation Inc. | Trustee and Chairman | 1982 to Present |
| Bloomberry Cultural Foundation | Trustee | 2015 to Present |

| | | |
|---|---|---|
| ICTSI Foundation | Trustee | 2015 to Present |

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of the Company, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any director/officer/substantial shareholder of the Company and its subsidiaries and affiliates, other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.

| NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER | COMPANY | NATURE OF RELATIONSHIP |
|---|---|---|
| Not applicable | Not applicable | Not applicable |

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding:

| OFFENSE CHARGED/INVESTIG ATED | TRIBUNAL OR AGENCY INVOLVED | STATUS |
|---|---|---|
| Not applicable | Not applicable | Not applicable |

6. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of the Company of any changes in the abovementioned information within five days from its occurrence.

**IN WITNESS WHEREOF,** I have hereunto set my hands this 27 FEB 2019 day of ____________ 2019 at Manila City.

[redacted]

**CESAR A. BUENAVENTURA, O.B.E**
*Affiant*

SUBSCRIBED AND SWORN TO before me this 27 FEB 2019 day of ________ 2019 at Manila City, affiant exhibiting to me his Passport, with [redacted] by DFA Manila

ATTY. RANDY [redacted] BARENG
Notary Public Ur[redacted] Dec. 31, 2019
Notarial Commis[redacted] No. 2018-024
PTR NO. 8010[redacted], 01/03/2019
MCLE NO. V-00226[redacted] Until April 14, 2019
ROLL NO. 47692, IBP MANILA III, 017530, 11/22/2017
916-I URC Bldg., Blumentritt St., Sampaloc, Manila

Doc. No.: 6;
Page No.: 3;
Book No.: II;
Series of 2019.

International Container Terminal Services, Inc.

REPUBLIC OF THE PHILIPPINES )
CITY OF MANILA ) S.S.

## SECRETARY'S CERTIFICATE

I, **BENJAMIN M. GOROSPE III**, of legal age, Filipino and with office address at 3rd Floor, ICTSI Administration Building, Manila International Container Terminal, South Access Road, Manila 1012, Philippines, after having been duly sworn to in accordance with law, hereby certify that:

1. I am the duly appointed Assistant Corporate Secretary of International Container Terminal Services, Inc. (the "Company"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines with office address at ICTSI Administration Building, Manila International Container Terminal, South Access Road, Manila 1012, Philippines.

2. I hereby certify that none of the Board of Directors or Independent Directors of Company are connected or employed in the Philippine government or any of the government agencies or instrumentalities in the Philippines.

3. The foregoing resolutions are in force and effect and have not been revoked, revised or otherwise amended.

07 MAR 2019

**IN WITNESS WHEREOF,** I have hereunto set my hand this __ day of March 2019 in Manila City, Philippines.

**BENJAMIN M. GOROSPE III**
*Assistant Corporate Secretary*

07 MAR 2019

**SUBSCRIBED AND SWORN** to before me this __ day of March 2019 in Manila City, Philippines, affiant exhibiting to me his Passport, with [redacted]

Doc. No. 157;
Page No. 31;
Book No. II;
Series of 2019.

ATTY. RANDY BARENG
Notary Public Un Dec. 31, 2019
Notarial Commiss No. 2018-024
PTR NO. 80100 01/03/2019
MCLE NO. V-002265 ntil April 14, 2019
ROLL NO. 47692, IBP MAN III, 017530, 11/22/2017
916-I URC Bldg., Blumentritt St., Sampaloc, Manila

# C O V E R S H E E T

for

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

1 4 7 2 1 2

**COMPANY NAME**

INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES

**PRINCIPAL OFFICE** *( No. / Street / Barangay / City / Town / Province )*

ICTSI ADMINISTRATION BUILDING, MANILA INTERNATIONAL CONTAINER TERMINAL SOUTH ACCESS ROAD, MANILA

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 17-A | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| ictsi.ir@ictsi.com | 245-4101 | 09285031362 |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 1,383 | 04/11 | 12/31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Jose Joel M. Sebastian | jsebastian@ictsi.com | 247-8053 | 09209744633 |

**CONTACT PERSON's ADDRESS**

**3F ICTSI Administration Building, Manila International Container Terminal South Access Road, Manila**

***NOTE 1 :*** *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2 :*** *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT**

The Stockholders and the Board of Directors
International Container Terminal Services, Inc.
ICTSI Administration Building
MICT South Access Road, Manila

**Opinion**

We have audited the consolidated financial statements of International Container Terminal Services, Inc. (ICTSI) and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2016, 2017 and 2018, 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 then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, 2017 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

**Basis for Opinion**

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

**Key Audit Matters**

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

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

***Impairment Assessment of Goodwill and Finite Life Intangible Assets and Property and Equipment***

Under PFRS, the Group is required to perform an impairment test on goodwill and intangible assets not yet available for use annually and on finite life intangible assets and property and equipment when impairment indicators exist. These impairment tests are significant to our audit because the balance of goodwill and finite life intangible assets and property and equipment of certain subsidiaries aggregating US$426.0 million as of December 31, 2018, is material to the consolidated financial statements. In addition, management's assessment process is highly judgmental and involves significant estimation based on assumptions, specifically the forecasted revenue growth, earnings before interest, tax, depreciation and amortization (EBITDA) margins, capital expenditures and weighted average cost of capital, which are affected by expected future market or economic conditions, in the country where the cash generating unit operates.

The Group's disclosure about the impairment testing of goodwill, intangible assets not yet available for use, finite life intangible assets and property and equipment are included in Note 10 to the consolidated financial statements.

*Audit Response*

We involved our internal specialist to assist us in evaluating the assumptions and methodologies used by the Group in its value-in-use calculation. These assumptions include the forecasted revenue growth, EBITDA margins, capital expenditures and weighted average cost of capital. We reviewed the basis and assumptions for estimates of free cash flows, in particular those relating to the forecasted revenue growth and EBITDA margins, which we compared against historical performance of the cash-generating unit, available comparable market data in the country where it is situated, regionally and worldwide or with the other subsidiaries of the Group in the region. We tested the parameters used in the determination of the discount rate against market data. We also focused on the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of the goodwill, intangible assets not yet available for use and finite life non-financial assets.

***Recognition of Deferred Income Taxes***

The Group operates port terminals in nineteen (19) countries and holds a significant number of domestic and foreign legal entities with varying income tax laws, regulations and incentives worldwide. Due to the inherent complexity related to the different income tax laws, management's assessment process for recognition of deferred tax assets and liabilities involves significant judgments. As of December 31, 2018, the Group recognized deferred tax assets amounting to US$158.3 million and deferred tax liabilities amounting to US$104.3 million. In addition, deferred tax liabilities has not been recognized for undistributed cumulative earnings amounting to US$1,211.1 million as of December 31, 2018 because the Parent Company has control over these earnings.

The Group's disclosure about deferred tax assets and liabilities are included in Note 21 to the consolidated financial statements.

*Audit Response*

We involved our internal specialists in different countries to review the deferred tax computation made by management. We tested the significant consolidation adjustments related to deferred taxes arising from capitalization of borrowing costs at the consolidated level and fair value adjustments arising from business combination, among others. We also reviewed the basis for non-recognition of deferred tax liabilities on undistributed cumulative earnings by reviewing the historical and forecasted dividend declaration made by the entities with undistributed cumulative earnings.

***Adoption of PFRS 15, Revenue from Contracts with Customers***

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under the modified retrospective approach. The adoption of PFRS 15 is significant to our audit because this involves the application of significant management judgment in the identification of the contract for the rendering of port services that would meet the requirements of PFRS 15; determination whether or not the port services included in the contract are separate performance obligations; determination whether the transaction price for the port services performed includes any variable consideration or is allocable to each of the port services; and determination of the timing of recognition of revenue from the rendering of port services.

The disclosures related to the adoption of PFRS 15 are included in Note 3 to the consolidated financial statements.

*Audit Response*

We obtained an understanding of the Group's process in implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption documentation and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis. For significant revenue streams, we obtained sample contracts and reviewed whether the accounting policies appropriately considered the five-step model of PFRS 15. In addition, we checked whether all services within the contracts have been identified; and whether management has identified all components of the transaction price. We also tested the standalone selling price for each of the services included within the sample of contracts. Further, we reviewed and checked whether the Group's timing of revenue recognition is based on when the services have been rendered.

**Other Information**

Management is responsible for the other information. The other information comprises the SEC Form 17 A for the year ended December 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20 IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2018, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Arnel F. De Jesus.

SYCIP GORRES VELAYO & CO.

Arnel F. De Jesus
Partner
CPA Certificate No. 43285
SEC Accreditation No. 0075-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019

BIR Accreditation No. 08-001998-15-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 7332542, January 3, 2019, Makati City

March 5, 2019

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
International Container Terminal Services, Inc. and Subsidiaries
ICTSI Administration Building
MICT South Access Road, Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of International Container Terminal Services, Inc. (the Company) and Subsidiaries as at December 31, 2016, 2017 and 2018 and for each of the three years in the period then ended, included in this Form 17-A and have issued our report thereon dated March 5, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

[redacted]

Ar
Partner
CPA Certificate No. 43285
SEC Accreditation No. 0075-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019

BIR Accreditation No. 08-001998-15-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 7332542, January 3, 2019, Makati City

March 5, 2019

# INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES

# CONSOLIDATED BALANCE SHEETS

| | December 31, 2016 | December 31, 2017 | **December 31, 2018** |
|---|---|---|---|
| **ASSETS** | | | |
| **Noncurrent Assets** | | | |
| Intangibles (Notes 1, 5, 15, 20 and 24) | US$1,788,737,047 | US$1,815,712,424 | **US$1,965,646,951** |
| Property and equipment (Notes 1, 6, 15, 20 and 24) | 1,381,483,081 | 1,456,191,640 | **1,378,048,546** |
| Investment properties (Notes 7 and 20) | 6,255,304 | 8,011,137 | **7,438,718** |
| Investments in and advances to joint ventures and associates (Notes 1, 8 and 22) | 293,638,405 | 382,227,852 | **381,187,990** |
| Deferred tax assets (Notes 3, 4 and 21) | 90,571,814 | 111,104,364 | **158,286,864** |
| Other noncurrent assets (Notes 1, 8, 9, 15, 20, 23, 24, 25 and 26) | 106,307,159 | 98,363,669 | **138,883,890** |
| Total Noncurrent Assets | 3,666,992,810 | 3,871,611,086 | **4,029,492,959** |
| **Current Assets** | | | |
| Cash and cash equivalents (Notes 1, 11 and 27) | 325,058,592 | 279,427,071 | **447,079,325** |
| Receivables (Notes 3, 12 and 27) | 102,930,437 | 112,891,114 | **120,423,777** |
| Spare parts and supplies (Notes 1 and 3) | 33,525,428 | 35,669,801 | **34,045,427** |
| Prepaid expenses and other current assets (Note 13) | 54,379,920 | 70,778,705 | **71,464,364** |
| Derivative assets (Notes 9 and 26) | 65,756 | 308,834 | **426,415** |
| Total Current Assets | 515,960,133 | 499,075,525 | **673,439,308** |
| | US$4,182,952,943 | US$4,370,686,611 | **US$4,702,932,267** |

| | December 31, 2016 | December 31, 2017 | **December 31, 2018** |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity Attributable to Equity Holders of the Parent** | | | |
| Capital stock: | | | |
| Preferred stock (Note 14) | US$236,222 | US$236,222 | **US$236,222** |
| Common stock (Note 14) | 67,330,188 | 67,330,188 | **67,330,188** |
| Additional paid-in capital (Notes 14 and 19) | 536,216,117 | 547,852,934 | **549,381,676** |
| Cost of shares held by subsidiaries (Note 14) | (74,261,595) | (74,261,595) | **(74,261,595)** |
| Treasury shares (Notes 14 and 19) | (17,904,401) | (15,059,524) | **(58,112,070)** |
| Excess of acquisition cost over the carrying value of non-controlling interests (Notes 1 and 14) | (142,555,041) | (142,555,041) | **(142,555,041)** |
| Retained earnings (Note 14) | 779,439,375 | 819,667,903 | **882,814,174** |
| Perpetual capital securities (Note 14) | 761,341,287 | 761,341,287 | **1,153,615,197** |
| Other comprehensive loss - net (Notes 3, 8, 9, 14, 16, 23 and 26) | (285,445,364) | (256,622,429) | **(314,752,823)** |
| Total equity attributable to equity holders of the parent | 1,624,396,788 | 1,707,929,945 | **2,063,695,928** |
| **Equity Attributable to Non-controlling Interests** (Note 14) | 141,683,210 | 164,638,013 | **165,503,658** |
| Total Equity | 1,766,079,998 | 1,872,567,958 | **2,229,199,586** |
| **Noncurrent Liabilities** | | | |
| Long-term debt - net of current portion (Notes 5, 6, 9, 15, 20 and 26) | 1,326,280,115 | 1,410,268,488 | **1,220,486,951** |
| Concession rights payable - net of current portion (Notes 1, 5, 20, 24 and 26) | 481,700,775 | 470,238,945 | **530,665,958** |
| Deferred tax liabilities (Notes 4 and 21) | 71,376,805 | 80,486,462 | **104,345,534** |
| Other noncurrent liabilities (Notes 16, 23 and 26) | 90,968,127 | 135,805,108 | **179,521,811** |
| Total Noncurrent Liabilities | 1,970,325,822 | 2,096,799,003 | **2,035,020,254** |
| **Current Liabilities** | | | |
| Loans payable (Notes 17 and 26) | 36,598,275 | 61,187,102 | **35,718,397** |
| Accounts payable and other current liabilities (Notes 18, 20, 22 and 25) | 347,709,086 | 276,566,419 | **309,320,049** |
| Current portion of long-term debt (Notes 5, 6, 15, 20 and 26) | 18,485,813 | 22,149,388 | **50,848,341** |
| Current portion of concession rights payable (Notes 1, 5, 24 and 26) | 8,760,661 | 9,942,171 | **10,603,454** |
| Income tax payable (Notes 4 and 21) | 32,314,007 | 29,541,111 | **31,606,706** |
| Derivative liabilities (Notes 16 and 26) | 2,679,281 | 1,933,459 | **615,480** |
| Total Current Liabilities | 446,547,123 | 401,319,650 | **438,712,427** |
| Total Liabilities | 2,416,872,945 | 2,498,118,653 | **2,473,732,681** |
| | US$4,182,952,943 | US$4,370,686,611 | **US$4,702,932,267** |

*See accompanying Notes to Consolidated Financial Statements.*

# INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2017 | **2018** |
| **INCOME** | | | |
| Gross revenues from port operations (Notes 4 and 24) | US$1,128,394,951 | US$1,244,438,207 | **US$1,385,784,747** |
| Interest income (Notes 11 and 22) | 17,651,096 | 21,853,348 | **24,088,787** |
| Foreign exchange gain (Note 27) | 4,658,987 | 5,047,602 | **3,577,036** |
| Other income (Notes 1, 6, 7, 16, 20 and 26) | 13,393,566 | 23,605,865 | **28,291,483** |
| | 1,164,098,600 | 1,294,945,022 | **1,441,742,053** |
| **EXPENSES** | | | |
| Port authorities' share in gross revenues (Notes 1, 20, 22 and 24) | 183,702,136 | 190,526,773 | **203,105,428** |
| Manpower costs (Notes 19, 22 and 23) | 192,536,167 | 207,583,461 | **217,153,639** |
| Equipment and facilities-related expenses (Notes 22 and 24) | 119,877,144 | 157,207,337 | **198,970,816** |
| Administrative and other operating expenses (Note 22) | 107,201,160 | 111,109,079 | **124,334,237** |
| Depreciation and amortization (Notes 5, 6 and 7) | 147,830,235 | 173,464,668 | **195,711,716** |
| Interest expense and financing charges on borrowings (Notes 9, 15 and 17) | 75,050,456 | 100,413,422 | **101,309,642** |
| Interest expense on concession rights payable (Note 5) | 34,049,611 | 33,106,078 | **37,545,440** |
| Equity in net loss of joint ventures and an associate - net (Note 8) | 5,571,997 | 36,337,377 | **22,268,260** |
| Foreign exchange loss (Notes 26 and 27) | 4,886,956 | 4,885,231 | **5,216,111** |
| Impairment loss on goodwill (Notes 5 and 10) | – | – | **5,786,047** |
| Other expenses (Notes 1, 6, 9, 15, 20, 21, 22, and 26) | 36,351,260 | 32,047,974 | **21,486,067** |
| | 907,057,122 | 1,046,681,400 | **1,132,887,403** |
| **CONSTRUCTION REVENUE (EXPENSE)** (Note 24) | | | |
| Construction revenue | 55,946,602 | 105,610,854 | **104,799,461** |
| Construction expense | (55,946,602) | (105,610,854) | **(104,799,461)** |
| | – | – | **–** |
| **INCOME BEFORE INCOME TAX** | 257,041,478 | 248,263,622 | **308,854,650** |
| **PROVISION FOR INCOME TAX** (Note 21) | | | |
| Current | 69,631,408 | 55,719,117 | **75,418,424** |
| Deferred | (6,060,308) | (15,172,294) | **(16,386,621)** |
| | 63,571,100 | 40,546,823 | **59,031,803** |
| **NET INCOME** | US$193,470,378 | US$207,716,799 | **US$249,822,847** |
| **Attributable To** | | | |
| Equity holders of the parent | US$180,015,587 | US$182,141,250 | **US$221,493,804** |
| Non-controlling interests | 13,454,791 | 25,575,549 | **28,329,043** |
| | US$193,470,378 | US$207,716,799 | **US$249,822,847** |
| **Earnings Per Share** (Note 28) | | | |
| Basic | US$0.066 | US$0.069 | **US$0.078** |
| Diluted | 0.065 | 0.069 | **0.077** |

*See accompanying Notes to Consolidated Financial Statements.*

## INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2017 | **2018** |
| **NET INCOME FOR THE YEAR** | US$193,470,378 | US$207,716,799 | **US$249,822,847** |
| **OTHER COMPREHENSIVE GAIN (LOSS)** | | | |
| *Items to be reclassified to profit or loss in subsequent periods* | | | |
| Exchange differences on translation of foreign operations' financial statements (Note 14) | (39,958,651) | 41,198,460 | **(67,213,068)** |
| Net change in unrealized mark-to-market values of derivatives (Note 26) | 6,133,973 | (4,534,403) | **(2,955,996)** |
| Net unrealized gain on derivatives removed from equity and capitalized as construction in-progress (Note 26) | (345,538) | – | **–** |
| Net unrealized mark-to-market gain (loss) on available-for-sale investments (Notes 9 and 14) | (173,874) | (365,234) | **393,072** |
| Share of other comprehensive gain (loss) of an associate (Notes 8 and 14) | – | 1,043,169 | **(2,083,048)** |
| Income tax relating to components of other comprehensive income (loss) (Note 26) | (1,611,411) | 1,099,025 | **1,174,531** |
| | (35,955,501) | 38,441,017 | **(70,684,509)** |
| *Items not to be reclassified to profit or loss in subsequent periods* | | | |
| Share of other comprehensive gain (loss) of an associate (Notes 8 and 14) | – | (54,681) | **193,807** |
| Actuarial losses on defined benefit plans - net of tax (Note 23) | (245,391) | (109,651) | **(159,390)** |
| | (245,391) | (164,332) | **34,417** |
| | (36,200,892) | 38,276,685 | **(70,650,092)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | US$157,269,486 | US$245,993,484 | **US$179,172,755** |
| **Attributable To** | | | |
| Equity holders of the parent | US$153,206,643 | US$210,964,185 | **US$163,363,410** |
| Non-controlling interests | 4,062,843 | 35,029,299 | **15,809,345** |
| | US$157,269,486 | US$245,993,484 | **US$179,172,755** |

*See accompanying Notes to Consolidated Financial Statements.*

# INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

| | Attributable to Equity Holders of the Parent (Note 14) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | Common Stock | Additional Paid-in Capital | Preferred Shares Held by a Subsidiary | Common Shares Held by a Subsidiary | Treasury Shares | Excess of Acquisition Cost over the Carrying Value of Non-controlling Interests | Retained Earnings | Perpetual Capital Securities | Other Comprehensive Loss - net | Total | Attributable to Non-controlling Interests (Note 14) | Total Equity |
| Balance at December 31, 2015 | US$236,222 | US$67,330,188 | US$534,808,153 | (US$72,492,481) | (US$1,769,114) | (US$7,547,826) | (US$142,555,041) | US$723,158,999 | US$831,910,439 | (US$258,636,420) | US$1,674,443,119 | US$151,604,756 | US$1,826,047,875 |
| Net income for the year | – | – | – | – | – | – | – | 180,015,587 | – | – | 180,015,587 | 13,454,791 | 193,470,378 |
| Other comprehensive loss (Note 14) | – | – | – | – | – | – | – | – | – | (26,808,944) | (26,808,944) | (9,391,948) | (36,200,892) |
| Total comprehensive income for the year (Note 14) | – | – | – | – | – | – | – | 180,015,587 | – | (26,808,944) | 153,206,643 | 4,062,843 | 157,269,486 |
| Cash dividends (Note 14) | – | – | – | – | – | – | – | (39,893,190) | – | – | (39,893,190) | (13,984,389) | (53,877,579) |
| Distributions on perpetual capital securities (Note 14) | – | – | – | – | – | – | – | (34,160,584) | – | – | (34,160,584) | – | (34,160,584) |
| Share-based payments (Note 19) | – | – | 2,641,929 | – | – | – | – | – | – | – | 2,641,929 | – | 2,641,929 |
| Issuance of treasury shares for share-based payments (Notes 14 and 19) | – | – | (1,233,965) | – | – | 1,233,965 | – | – | – | – | – | – | – |
| Acquisition of ICTSI common shares (Note 14) | – | – | – | – | – | (11,590,540) | – | – | – | – | (11,590,540) | – | (11,590,540) |
| Issuance and exchange of perpetual capital securities (Note 14) | – | – | – | – | – | – | – | (49,681,437) | (70,569,152) | – | (120,250,589) | – | (120,250,589) |
| Balance at December 31, 2016 | US$236,222 | US$67,330,188 | US$536,216,117 | (US$72,492,481) | (US$1,769,114) | (US$17,904,401) | (US$142,555,041) | US$779,439,375 | US$761,341,287 | (US$285,445,364) | US$1,624,396,788 | US$141,683,210 | US$1,766,079,998 |

| | **Attributable to Equity Holders of the Parent** (Note 14) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Preferred Stock** | **Common Stock** | **Additional Paid-in Capital** | **Preferred Shares Held by a Subsidiary** | **Common Shares Held by a Subsidiary** | **Treasury Shares** | **Excess of Acquisition Cost over the Carrying Value of Non-controlling Interests** | **Retained Earnings** | **Perpetual Capital Securities** | **Other Comprehensive Loss - net** | **Total** | **Attributable to Non-controlling Interests** (Note 14) | **Total Equity** |
| Balance at December 31, 2016 | US$236,222 | US$67,330,188 | US$536,216,117 | (US$72,492,481) | (US$1,769,114) | (US$17,904,401) | (US$142,555,041) | US$779,439,375 | US$761,341,287 | (US$285,445,364) | US$1,624,396,788 | US$141,683,210 | US$1,766,079,998 |
| Net income for the year | – | – | – | – | – | – | – | 182,141,250 | – | – | 182,141,250 | 25,575,549 | 207,716,799 |
| Other comprehensive loss (Note 14) | – | – | – | – | – | – | – | – | – | 28,822,935 | 28,822,935 | 9,453,750 | 38,276,685 |
| Total comprehensive income for the year (Note 14) | – | – | – | – | – | – | – | 182,141,250 | – | 28,822,935 | 210,964,185 | 35,029,299 | 245,993,484 |
| Cash dividends (Note 14) | – | – | – | – | – | – | – | (100,333,742) | – | – | (100,333,742) | (12,074,496) | (112,408,238) |
| Distributions on perpetual capital securities (Note 14) | – | – | – | – | – | – | – | (41,578,980) | – | – | (41,578,980) | – | (41,578,980) |
| Share-based payments (Note 19) | – | – | 3,620,110 | – | – | – | – | – | – | – | 3,620,110 | – | 3,620,110 |
| Issuance of treasury shares for share-based payments (Notes 14 and 19) | – | – | (1,342,692) | – | – | 1,342,692 | – | – | – | – | – | – | – |
| Sale of treasury shares (Note 14) | – | – | 9,359,399 | – | – | 11,069,183 | – | – | – | – | 20,428,582 | – | 20,428,582 |
| Acquisition of ICTSI common shares (Note 14) | – | – | – | – | – | (9,566,998) | – | – | – | – | (9,566,998) | – | (9,566,998) |
| Balance at December 31, 2017 | US$236,222 | US$67,330,188 | US$547,852,934 | (US$72,492,481) | (US$1,769,114) | (US$15,059,524) | (US$142,555,041) | US$819,667,903 | US$761,341,287 | (US$256,622,429) | US$1,707,929,945 | US$164,638,013 | US$1,872,567,958 |
| | | | | | | | | | | | | | |
| Balance at December 31, 2017 | **US$236,222** | **US$67,330,188** | **US$547,852,934** | **(US$72,492,481)** | **(US$1,769,114)** | **(US$15,059,524)** | **(US$142,555,041)** | **US$819,667,903** | **US$761,341,287** | **(US$256,622,429)** | **US$1,707,929,945** | **US$164,638,013** | **US$1,872,567,958** |
| Effect of PFRS 9 (Notes 3 and 12) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(449,581)** | **–** | **–** | **(449,581)** | **–** | **(449,581)** |
| Balance at January 1, 2018, as restated | **236,222** | **67,330,188** | **547,852,934** | **(72,492,481)** | **(1,769,114)** | **(15,059,524)** | **(142,555,041)** | **819,218,322** | **761,341,287** | **(256,622,429)** | **1,707,480,364** | **164,638,013** | **1,872,118,377** |
| Net income for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **221,493,804** | **–** | **–** | **221,493,804** | **28,329,043** | **249,822,847** |
| Other comprehensive loss (Note 14) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(58,130,394)** | **(58,130,394)** | **(12,519,698)** | **(70,650,092)** |
| Total comprehensive income for the year (Note 14) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **221,493,804** | **–** | **(58,130,394)** | **163,363,410** | **15,809,345** | **179,172,755** |
| Issuance of perpetual capital securities (Note 14) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **392,273,910** | **–** | **392,273,910** | **–** | **392,273,910** |
| Cash dividends (Note 14) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(97,584,250)** | **–** | **–** | **(97,584,250)** | **(14,943,700)** | **(112,527,950)** |
| Distributions on perpetual capital securities (Note 14) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(60,313,702)** | **–** | **–** | **(60,313,702)** | **–** | **(60,313,702)** |
| Acquisition of ICTSI common shares (Note 14) | **–** | **–** | **–** | **–** | **–** | **(45,329,627)** | **–** | **–** | **–** | **–** | **(45,329,627)** | **–** | **(45,329,627)** |
| Share-based payments (Note 19) | **–** | **–** | **3,805,823** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **3,805,823** | **–** | **3,805,823** |
| Issuance of treasury shares for share-based payments (Notes 14 and 19) | **–** | **–** | **(2,277,081)** | **–** | **–** | **2,277,081** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Balance at December 31, 2018 | **US$236,222** | **US$67,330,188** | **US$549,381,676** | **(US$72,492,481)** | **(US$1,769,114)** | **(US$58,112,070)** | **(US$142,555,041)** | **US$882,814,174** | **US$1,153,615,197** | **(US$314,752,823)** | **US$2,063,695,928** | **US$165,503,658** | **US$2,229,199,586** |

*See accompanying Notes to Consolidated Financial Statements.*

# INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2017 | **2018** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | US$257,041,478 | US$248,263,622 | **US$308,854,650** |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 5, 6 and 7) | 147,830,235 | 173,464,668 | **195,711,716** |
| Interest expense on: | | | |
| Borrowings (Notes 9, 15 and 17) | 75,050,456 | 100,413,422 | **101,309,642** |
| Concession rights payable (Note 5) | 34,049,611 | 33,106,078 | **37,545,440** |
| Loss (gain) on: | | | |
| Write-off of debt issuance costs and costs of securing a revolving credit facility due to cancellation (Notes 15 and 20) | – | 3,042,918 | **7,034,590** |
| Disposal of property and equipment - net (Note 20) | (1,501,293) | 342,344 | **333,685** |
| Pre-termination of lease agreement (Notes 1 and 20) | 23,432,184 | – | **–** |
| Accrual of port lease (see Notes 16 and 18) | – | 34,181,603 | **60,044,036** |
| Equity in net loss of joint ventures and an associate - net (Note 8) | 5,571,997 | 36,337,377 | **22,268,260** |
| Impairment loss on goodwill (Notes 5 and 10) | – | – | **5,786,047** |
| Share-based payments (Notes 14 and 19) | 2,882,755 | 3,332,323 | **3,905,795** |
| Unrealized foreign exchange loss | 1,104,768 | 281,773 | **226,052** |
| Interest income (Notes 11 and 22) | (17,651,096) | (21,853,348) | **(24,088,787)** |
| Dividend income (Note 20) | (198,706) | (198,456) | **(179,163)** |
| Unrealized mark-to-market loss on derivatives - net (Notes 20 and 26) | 408,960 | – | **–** |
| Operating income before changes in working capital | 528,021,349 | 610,714,324 | **718,751,963** |
| Increase in: | | | |
| Receivables | (17,586,640) | (4,304,192) | **(12,054,160)** |
| Prepaid expenses and other current assets | (9,243,104) | (17,047,419) | **(7,794,919)** |
| Spare parts and supplies | (2,882,808) | (3,513,995) | **(230,603)** |
| Increase in: | | | |
| Accounts payable and other current liabilities | 28,246,083 | 32,096,389 | **16,107,996** |
| Pension liabilities | 1,215,591 | 2,050,136 | **549,752** |
| Cash generated from operations | 527,770,471 | 619,995,243 | **715,330,029** |
| Income taxes paid | (60,822,253) | (55,983,622) | **(72,926,146)** |
| Net cash flows provided by operating activities | 466,948,218 | 564,011,621 | **642,403,883** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Intangible assets (Notes 5 and 24) | (105,775,868) | (96,594,666) | **(171,939,604)** |
| Property and equipment (Note 6) | (275,203,651) | (213,028,926) | **(72,953,124)** |
| Additional shares in joint ventures and an associate (Notes 1 and 8) | – | (81,191,619) | **(2,338,207)** |
| Proceeds from: | | | |
| Disposal of property and equipment (Notes 6 and 20) | 9,018,966 | 901,825 | **6,478,250** |
| Return of amount paid to Concessionaire (Note 1) | – | 12,500,000 | **–** |
| Interest received | 3,133,709 | 4,102,297 | **5,638,814** |
| Dividends received | 198,706 | 198,456 | **179,163** |
| Payments for concession rights | (12,705,362) | (13,481,693) | **(45,106,484)** |
| Increase in: | | | |
| Other noncurrent assets | (34,767,221) | (9,340,496) | **(45,520,033)** |
| Advances to a joint venture | (52,365,327) | (24,995,718) | **(2,338,682)** |
| Payment for pre-termination of lease agreement (Note 1) | – | (11,450,000) | **–** |
| Net cash flows used in investing activities | (468,466,048) | (432,380,540) | **(327,899,907)** |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2017 | **2018** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from: | | | |
| Issuance of perpetual capital securities (Note 14) | US$1,874,063 | US$– | **US$392,273,910** |
| Long-term borrowings (Note 15) | 473,106,139 | 111,106,280 | **61,637,183** |
| Short-term borrowings (Note 17) | 71,233,855 | 66,119,186 | **41,807,933** |
| Sale of treasury shares (Note 14) | – | 20,428,582 | **–** |
| Payments of: | | | |
| Long-term borrowings (Note 15) | (207,128,087) | (47,667,209) | **(208,758,152)** |
| Interest on borrowings and concession rights payable | (99,397,410) | (126,201,898) | **(132,749,685)** |
| Dividends (Note 14) | (53,669,360) | (112,503,197) | **(114,731,592)** |
| Short-term borrowings (Note 17) | (35,697,231) | (44,244,615) | **(64,419,585)** |
| Distributions on perpetual capital securities (Note 14) | (34,160,584) | (41,578,980) | **(60,313,702)** |
| Acquisition of perpetual capital securities (Note 14) | (122,124,651) | – | **–** |
| Acquisition of ICTSI common shares (Note 14) | (11,590,540) | (9,566,998) | **(45,329,627)** |
| Decrease in other noncurrent liabilities | (4,124,707) | (663,258) | **(1,970,908)** |
| Net cash flows used in financing activities | (21,678,513) | (184,772,107) | **(132,554,225)** |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | (6,226,878) | 7,509,505 | **(14,297,497)** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (29,423,221) | (45,631,521) | **167,652,254** |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 354,481,813 | 325,058,592 | **279,427,071** |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 11) | US$325,058,592 | US$279,427,071 | **US$447,079,325** |

*See accompanying Notes to Consolidated Financial Statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

### 1.1 General

International Container Terminal Services, Inc. (ICTSI or the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 24, 1987. The registered office address of the Parent Company is ICTSI Administration Building, Manila International Container Terminal South Access Road, Manila. ICTSI's common shares are publicly traded in the Philippine Stock Exchange (PSE).

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors (the Board) on March 5, 2019.

### 1.2 Port Operations

ICTSI and subsidiaries (collectively referred to as "the Group") entered into various concessions of port operations which include development, management, and operation of container terminals and related facilities around the world. As at March 5, 2019, the Group is involved in 32 terminal concessions and port development projects in 19 countries worldwide. There are 30 operating terminals in nine key ports, including the acquisition of shares of stock in Manila North Harbour Port, Inc. (MNHPI) in 2018, a barge terminal and an inland container terminal in the Philippines, two each in Indonesia and in Papua New Guinea (PNG), one each in China, Ecuador, Brazil, Poland, Georgia, Madagascar, Croatia, Pakistan, Mexico, Honduras, Iraq, Argentina, Colombia, Democratic Republic (DR) of Congo, and Australia; an existing concession to construct and operate a port in Tuxpan, Mexico; and the recently signed concession in Sudan.

Concessions for port operations entered into, acquired and terminated by ICTSI and subsidiaries for the last three years are summarized below:

*River Port, Matadi, Democratic Republic of Congo.* On January 23, 2014, ICTSI, through its subsidiary, ICTSI Cooperatief U.A. (ICTSI Cooperatief), forged a business partnership with La Societe de Gestion Immobiliere Lengo (SIMOBILE) for the establishment and formation of a joint venture company, ICTSI DR Congo S.A. (IDRC). IDRC, which is initially 60%-owned by ICTSI Cooperatief, will build a new terminal along the river bank of the Congo River in Matadi and manage, develop and operate the same as a container terminal, as well as provide exclusive container handling services and general cargo services therein. On May 19, 2015, ICTSI, through its subsidiary, ICTSI Cooperatief, and its joint venture partner, SIMOBILE, transferred their respective 8% and 2% ownership interest in IDRC to Societe Commerciale Des Transports Et Des Ports S.A. (SCTP SA). SIMOBILE transferred to its subsidiary, La Societe d'Investissement et de Placement (SIP) Sprl, its 10% ownership in IDRC. Thereafter, IDRC is owned 52% by ICTSI, 28% by SIMOBILE, 10% by SIP Sprl and 10% by SCTP SA.

Phase 1 of the facility consists of two berths that can handle 175,000 twenty-foot equivalent units (TEUs) and 350,000 metric tons. The capacity and berth length can, subject to demand, be doubled in Phase 2. Phase 1 was completed in the fourth quarter of 2016. Initial operations started in the third quarter of 2016 while commercial operations started in January 2017.

*Umm Qasr, Iraq.* ICTSI, through its wholly owned subsidiary, ICTSI (M.E.) DMCC [formerly ICTSI (M.E.) JLT] (ICTSI Dubai), and General Company for Ports of Iraq (GCPI) signed on April 10, 2014 the Contract for the Construction and Operation of Three New Quays and Management and Operation of Quay No. 20 ("Contract") in the Port of Umm Qasr ("Port") in Iraq. The Contract grants ICTSI the rights to: (a) manage and operate the existing container facility at Berth 20 of the Port for a period of 10 years, (b) build in three phases, under a build-operate-transfer (BOT) scheme, a new container and general cargo terminal in the Port for a concession period of 26 years, and (c) provide container and general cargo terminal services in both components. On March 1, 2016, an addendum to the Contract ("First Addendum") was signed by the parties granting ICTSI, through ICTSI Dubai, the right to manage and operate an additional existing Quay No. 19 for a total of 13 years, with the first three years for the completion of rehabilitation works. Also, the First Addendum extended the original term for the management and operation of Quay No. 20 from 10 to 13 years. On March 26, 2017, a second addendum to the Contract ("Second Addendum") was signed by the parties granting ICTSI, through ICTSI Dubai, the right to manage and operate Quay No. 21 co-terminus with the Contract and the First Addendum. The Second Addendum extended the term for the management and operation of Quay No. 19 and 20 from 13 to 21 years.

ICTSI commenced trial operations at Berth 20 in September 2014 and full-fledged commercial operations in November 2014. ICTSI commenced commercial operations of Berth 19 in June 2016. The rehabilitation works for Berth 21 are on-going and it has started operations in the third quarter of 2018.

Phase 1 of the expansion project (Berth 27) under the BOT scheme has 250 meters of berth with an estimated capacity of 300,000 TEUs. The facility will have 600 meters of quay with an estimated capacity of 900,000 TEUs. Berth 27 was completed and fully operational in the first quarter of 2017.

On October 22, 2017, ICTSI signed an agreement with GCPI for the Phase 2 of expansion development of the Port. The Phase 2 expansion project will involve development of two new berths, Berths 25 and 26, including a 20-hectare yard area. This expansion will increase the Port's container handling capacity by 600,000 TEUs to 1,200,000 TEUs and its capability to handle large container vessels of up to 10,000 TEUs. The development of this phase of the expansion project is on-going and is expected to be completed in the third quarter of 2019.

*Port of Melbourne, Australia.* On May 2, 2014, ICTSI, through its subsidiary in Australia, Victoria International Container Terminal Ltd. (VICT), signed a contract in Melbourne with Port of Melbourne Corporation ("POMC") for the design, construction, commissioning, operation, maintaining and financing of the Webb Dock Container Terminal (Terminal) and Empty Container Park (ECP) at Webb Dock East (WDE) in the Port of Melbourne. The Contract grants VICT the rights to: (a) design, build and commission the new Terminal at berths WDE 4 and WDE 5, (b) design, build and commission the new ECP at WDE, and (c) operate the Terminal and ECP until June 30, 2040. Initially, VICT was 90% owned by ICTSI through ICTSI Far East Pte. Ltd. (IFEL), a wholly owned subsidiary, and 10% by Anglo Ports Pty Limited ("Anglo Ports"). On February 4, 2015, IFEL acquired the 10% non-controlling interest from Anglo Ports and became 100% owner of VICT. On January 7, 2016, IFEL's ownership interest in VICT was transferred to another subsidiary, ICTSI Oceania B.V. (IOBV), making IOBV the new 100% owner of VICT.

Phase 1 of the Terminal and the ECP with capacities of 350,000 TEUs and 250,000 TEUs, respectively, commenced commercial operations in the second quarter of 2017. Phase 2 of the Terminal commenced commercial operations in the first quarter of 2018 and has increased the capacity to 1,000,000 TEUs.

*Laguna Gateway Inland Container Terminal, Philippines.* On March 2, 2015, Laguna Gateway Inland Container Terminal, Inc. (LGICT) started operating the first one-stop inland container terminal (ICT) located in Barangays Banlic and San Cristobal, Calamba City, Laguna. LGICT is 60%-owned by IW Cargo Handlers, Inc. (IW Cargo) and 40%-owned by Nippon Container Terminals Co. Ltd., Transnational Diversified Corporation and NYK - Fil-Japan Shipping Corp. The ICT primarily operates as an extension of the seaport operations of the Parent Company. In particular, the said ICT is intended to function as a regional logistics hub, which will service and support the operations of exporters and importers, both within and outside the economic zones in the LABARZON area. Only fifty-eight (58) kilometers from Metro Manila, the ICT is situated on a twenty-one (21)-hectare property, strategically located near various economic export zones with an already existing adjacent railroad. Of the said twenty-one (21) hectares, twelve (12) hectares have already been developed and now being used for operations. Envisioned to be the first of its kind in magnitude and operations, the ICT is being developed as a 24/7 state-of-the-art facility with cutting edge terminal systems and equipment.

*Tuxpan, Mexico.* On May 27, 2015, ICTSI, through its subsidiary, ICTSI Tuxpan B.V., acquired from Grupo TMM S.A.B and Immobiliaria TMM S.A. de C.V 100% of the capital stock of Terminal Maritima de Tuxpan, S.A de C.V (TMT) for US$54.5 million. TMT is a company duly incorporated in accordance with the laws of Mexico with a concession to construct and operate a maritime container terminal in the Port of Tuxpan, Mexico and is the owner of the real estate where the maritime container terminal will be constructed. The concession agreement is valid until May 25, 2021, subject to extension for another 20 years. The concession covers an area of 29,109.68 square meters, which is adjacent to the 43 hectares of land owned by TMT. Under the concession agreement, TMT is liable and committed to: (1) pay fixed fee of MXN23.24 plus value added tax (VAT), per square meter of assigned area, in twelve equal monthly installments; and (2) pay minimum guaranteed fee starting January 2018 ranging from MXN145.33 (US$9.51) per TEU to MXN340.60 (US$22.29) per TEU for containerized cargo and MXN3.37 (US$0.22) per TEU to MXN5.62 (US$0.37) per ton for general cargo, based on agreed minimum volume. As of March 5, 2019, management is currently working on a development plan on TMT.

*Brunei, Darussalam.* On May 21, 2009, ICTSI, through New Muara Container Terminal Services Sdn Bhd (NMCTS), entered into an Agreement with the government of Brunei Darussalam (“Government”) for the operation and maintenance of the Muara Container Terminal in Brunei Darussalam. The Agreement was valid for a period of four years from commencement date or May 22, 2009. The term was extendible for a period of one year at a time, for a maximum of two years subject to the mutual agreement of the parties. Since 2012, the Agreement had been extended yearly for a period of one year or until May 20, 2017 as an interim operator. The Agreement with the Government was no longer renewed and ended effective February 21, 2017.

*Davao, Philippines.* On April 21, 2006, the Philippine Ports Authority (PPA) granted Davao Integrated Port and Stevedoring Services Corporation (DIPSSCOR) a ten-year contract for cargo handling services at Sasa Wharf, Port of Davao in the Philippines that expired on April 20, 2016. Thereafter, the PPA granted DIPSSCOR a series of hold-over authority on a temporary basis over the cargo handling services at Sasa Wharf, Port of Davao. On February 22, 2018, the PPA issued Administrative order (AO) No. 04-2018 directing all Port Managers of the PPA to grant hold-over authorities to cargo handling service providers with contracts due to expire in 2018, for six months, unless earlier terminated by the PPA or upon award of a new terminal management contract in accordance with PPA AO No. 03-2016 entitled “Port Terminal Management Regulatory Framework”. On June 11, 2018, the hold-over authority was issued by the PPA with a validity of six months starting February 26, 2018 until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. On November 12, 2018, the hold-over authority was issued by the PPA with a validity of six months starting August 26, 2018 or until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. As of March 5, 2019, DIPSSCOR has not received a new hold-over authority.

*South Cotabato, Philippines.* On February 20, 2006, the PPA granted South Cotabato Integrated Port Services, Inc. (SCIPSI) a ten-year contract for the exclusive management and operation of arrastre, stevedoring, and other cargo handling services, except porterage, at Makar Wharf, Port of General Santos, General Santos City in the Philippines that expired on February 19, 2016. Thereafter, the PPA granted SCIPSI a series of hold-over authority on a temporary basis over the cargo handling services at Makar Wharf, Port of General Santos. On February 22, 2018, the PPA issued AO No. 04-2018 directing all Port Managers of the PPA to grant hold-over authorities to cargo handling service providers with contracts due to expire in 2018, for six months, unless earlier terminated by the PPA or upon award of a new terminal management contract in accordance with PPA AO No. 03-2016. On June 21, 2018, the hold-over authority was issued by the PPA with a validity of six months starting February 25, 2018 until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. On October 19, 2018, the hold-over authority was issued by the PPA with a validity of six months starting August 25, 2018 or until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. As of March 5, 2019, SCIPSI has not received a new hold-over authority.

*Port of Portland, Oregon, U.S.A.* In October 2016, the Board of ICTSI Ltd. has authorized the management of ICTSI Oregon, Inc. (ICTSI Oregon) to negotiate with the Port of Portland and reach terms mutually acceptable to both parties with respect to the termination of the lease agreement after two major customers, Hanjin Shipping Co. and Hapag-Lloyd stopped calling the Port of Portland in March 2015 due to continuing labor disruptions. During the latter part of 2016, the Port of Portland and ICTSI Oregon began discussions of a mutual agreement to terminate the lease agreement. As of December 31, 2016, the Company provided for the amount of probable loss on the pre-termination of the lease agreement based on the Group's best estimate of the probable outcome of the negotiations with the Port of Portland. The estimated amount of probable loss from the pre-termination of the lease agreement charged to the 2016 consolidated statement of income was US$23.4 million, which consists of US$11.45 million in cash compensation and the carrying value of the container handling equipment and spare parts (see Notes 20.3 and 24.21).

On March 8, 2017, ICTSI, through ICTSI Oregon, and the Port of Portland signed a Lease Termination Agreement and both parties have mutually agreed to terminate the 25-year Lease Agreement to operate the container facility at Terminal 6 of the Port of Portland with an effective date of March 31, 2017. The Lease Termination Agreement allowed ICTSI Oregon to be relieved of its long-term lease obligations. In exchange, the Port of Portland received the cash compensation on March 29, 2017 and container handling equipment including spare parts and tools on March 31, 2017.

As a result of the Lease Termination Agreement, ICTSI Oregon is no longer engaged in container operations at Terminal 6 or at any other locations. ICTSI Oregon's activities are currently devoted to supporting the on-going legal proceedings.

*Cavite Gateway Terminal, Philippines.* On April 21, 2017, ICTSI, through its wholly-owned subsidiary, Cavite Gateway Terminal (CGT), in partnership with the Philippine Department of Transportation, project launched the country's first container roll-on roll-off barge terminal in Tanza, Cavite. CGT will facilitate off-the-roads seaborn transport of containers between Port of Manila and Cavite and service industrial locators in Cavite area. CGT's barge terminal will have an annual capacity of 115,000 TEUs, which is equivalent to 140,000 fewer truck trips on city roads each year. CGT formally commenced commercial operations in November 2018.

*Lekki International Container Terminal Services LFTZ Enterprise, Nigeria.* On August 10, 2012, ICTSI, through its wholly-owned subsidiary, Lekki International Container Terminal Services LFTZ Enterprise (LICTSLE), and Lekki Port LFTZ Enterprise (Lekki Port, the Concessionaire) signed the Sub-concession Agreement (Agreement) that grants LICTSLE, as a sub-concessionaire, an exclusive right to develop and operate, and to provide handling equipment and container terminal services at the container terminal within Lekki Port located at Ibeju Lekki, Lagos State, Federal Republic of Nigeria for a period of 21 years. On May 17, 2017, ICTSI and Lekki Port mutually agreed to terminate the Agreement subject to a payment by Lekki Port of an agreed amount. On May 23, 2017, ICTSI received the agreed amounts of US$12.5 million representing the return of payments made to Lekki Port pursuant to the Agreement, and US$7.5 million representing compensation of costs incurred by ICTSI in relation to the project which was recognized as "Other income" in the 2017 consolidated statement of income (see Notes 20.1 and 24.8). The termination of the Agreement was finalized and deemed effective on May 24, 2017.

*Motukea and Lae, Papua New Guinea.* In September 2017, ICTSI received a notification from PNG Ports Corporation Limited (PNGPCL), a PNG state-owned enterprise, of the confirmation by the Independent Consumer and Competition Commission in PNG with respect to the two 25-year agreements signed by ICTSI's PNG subsidiaries, Motukea International Terminal Limited (MITL) and South Pacific International Container Terminal Limited (SPICTL), with PNGPCL for the operation, management and development of the two international ports in Motukea and Lae in PNG. SPICTL and MITL were allowed by PNGPCL to take over the port facilities and begin operations at the Port of Lae in February 2018 and at the Port of Motukea in May 2018, respectively. The terminal operating agreements and other related contracts took effect on June 1, 2018 after all the parties have complied with the agreed conditions precedent.

*Manila North Harbor, Philippines.* On September 21, 2017, the Board of ICTSI granted the authority to acquire shares in MNHPI. On the same date, ICTSI signed a Share Purchase Agreement (SPA) with Petron Corporation for the acquisition of 10,449,000 MNHPI shares, representing 34.83% of the total issued and outstanding shares of MNHPI for a consideration of Php1.75 billion (US$33.8 million). The completion of the SPA was subject to several conditions, one of which was the approval of the acquisition by the Philippine Ports Authority which was obtained on October 20, 2017. The SPA was completed on October 30, 2017. An additional investment cost of Php2.45 billion (US$47.3 million) was incurred in relation to this acquisition.

On September 5, 2018, ICTSI has signed an SPA with Harbour Centre Port Terminal, Inc. (HCPTI) for the acquisition of 4,550,000 shares in MNHPI from HCPTI. The subject shares represent 15.17% of the total issued and outstanding shares of MNHPI. The consideration is Php910.0 million (US$16.8 million). As of March 5, 2019, the completion of the SPA remains subject to a number of conditions precedent. Upon completion of this transaction, ICTSI's shareholdings in MNHPI will increase from 34.83% to 50%. An additional investment cost will be incurred in relation to this acquisition.

*Port of Tanjung Priok, Indonesia.* On November 2, 2017, PT ICTSI Jasa Prima Tbk (IJP), an ICTSI subsidiary in Indonesia, signed a Conditional Share Purchase Agreement with PT Samudera Terminal Indonesia (STI) for the purchase of IJP's interest in PT Perusahaan Bongkar Muat Olah Jasa Andal (OJA), subject to certain conditions. As of March 5, 2019, the conditions precedent have not yet been fulfilled.

*Port of Port Sudan, Sudan.* On January 3, 2019, ICTSI, through its wholly-owned subsidiary ICTSI Middle East DMCC, signed a Concession Agreement with the Sea Ports Corporation of Sudan (SPC) to operate, manage and develop the South Port Container Terminal (SPCT) at Port Sudan, Republic of the Sudan for 20 years. The port of Port Sudan is the only major modern port in the country and serves as the international gateway for more than 95% of Sudan's cargo flows. In February 2019, ICTSI established Africa Gateway Terminal (AGT), a Sudanese entity, to operate the container terminal. The Group is currently working with SPC for the handover preparations and is expecting to take over the container terminal in the first half of 2019.

## 1.3 Subsidiaries, Joint Ventures and Associates

| | | | | Percentage of Ownership | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Place of Incorporation | Nature of Business | Functional Currency | 2016 | | 2017 | | **2018** | |
| | | | | Direct | Indirect | Direct | Indirect | **Direct** | **Indirect** |
| **Subsidiaries:** | | | | | | | | | |
| **Asia** | | | | | | | | | |
| International Container Terminal Holdings, Inc. (ICTHI) and Subsidiaries | Cayman Islands | Holding Company | US Dollar | 100.00 | – | 100.00 | – | **100.00** | **–** |
| ICTSI Ltd. | Bermuda | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Mauritius Ltd. | Mauritius | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Aeolina Investments Limited | British Virgin Islands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Pakistan International Container Terminal (PICT) | Pakistan | Port Management | Pakistani Rupee | – | 64.53 | – | 64.53 | **–** | **64.53** |
| IFEL | Singapore | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| NMCTS | Brunei | Port Management | Brunei Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| IJP and Subsidiaries | Indonesia | Maritime infrastructure and logistics | US Dollar | – | 80.16 | – | 80.16 | **–** | **80.16** |
| OJA | Indonesia | Port Management | US Dollar | – | 80.16 | – | 80.16 | **–** | **80.16** |
| PT Makassar Terminal Services, Inc. (MTS) | Indonesia | Port Management | Indonesian Rupiah | – | 95.00 | – | 95.00 | **–** | **95.00** |
| PT Container Terminal Systems Solutions Indonesia | Indonesia | Software Developer | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI (Hong Kong) Limited (IHKL) | Hong Kong | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Yantai International Container Terminals, Limited (YICT) | China | Port Management | Renminbi | – | 51.00 | – | 51.00 | **–** | **51.00** |
| Pentland International Holdings, Ltd. | British Virgin Islands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Georgia Corp. (IGC) | Cayman Islands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Global Procurement Ltd. (formerly ICTSI Poland) | Bermuda | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Honduras Ltd. | Bermuda | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Ltd. Regional Headquarters | Philippines | Regional Headquarters | Philippine Peso | – | 100.00 | – | 100.00 | **–** | **100.00** |

(Forward)

| | Place of Incorporation | Nature of Business | Functional Currency | Percentage of Ownership 2016 Direct | 2016 Indirect | 2017 Direct | 2017 Indirect | **2018 Direct** | **2018 Indirect** |
|---|---|---|---|---|---|---|---|---|---|
| International Container Terminal Services (India) Private Limited | India | Port Management | Indian Rupee | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Container Terminal de Venezuela Conterven CA (CTVCC) | Venezuela | Holding Company | US Dollar | – | 95.00 | – | 95.00 | **–** | **95.00** |
| ICTSI Africa (Pty) Ltd. [h] | South Africa | Business Development Office (BDO) | South African Rand | – | 100.00 | – | – | **–** | **–** |
| Australian International Container Terminals Limited (AICTL) [a] | Australia | Port Management | Australian Dollar | – | 70.00 | – | 70.00 | **–** | **70.00** |
| Mindanao International Container Terminal Services, Inc. (MICTSI) | Philippines | Port Management | Philippine Peso | 100.00 | – | 100.00 | – | **100.00** | **–** |
| Abbotsford Holdings, Inc. | Philippines | Holding Company | Philippine Peso | 100.00 | – | 100.00 | – | **100.00** | **–** |
| Hijo International Port Services, Inc. (HIPS) | Philippines | Port Management | Philippine Peso | – | 65.00 | – | 65.00 | **–** | **65.00** |
| DIPSSCOR | Philippines | Port Management | Philippine Peso | – | 96.95 | – | 96.95 | **–** | **96.95** |
| IWI Container Terminal Holdings, Inc. (IWI CTHI, formerly ICTSI Warehousing, Inc.) | Philippines | Warehousing | Philippine Peso | 100.00 | – | 100.00 | – | **100.00** | **–** |
| IW Cargo | Philippines | Port Equipment Rental | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Container Terminal Systems Solutions Philippines, Inc. | Philippines | Software Developer | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Bauan International Port, Inc. (BIPI) | Philippines | Port Management | Philippine Peso | – | 60.00 | – | 60.00 | **–** | **60.00** |
| Prime Staffers and Selection Bureau, Inc. [a] | Philippines | Manpower Recruitment | Philippine Peso | 100.00 | – | 100.00 | – | **100.00** | **–** |
| ICTSI Subic, Inc. (ICTSI Subic) | Philippines | Port Management | US Dollar | 100.00 | – | 100.00 | – | **100.00** | **–** |
| Subic Bay International Terminal Holdings, Inc. (SBITHI) | Philippines | Holding Company | US Dollar | 83.33 | – | 83.33 | – | **83.33** | **–** |
| Subic Bay International Terminal Corporation (SBITC) | Philippines | Port Management | US Dollar | – | 83.33 | – | 83.33 | **–** | **83.33** |
| Cordilla Properties Holdings, Inc. | Philippines | Holding Company | Philippine Peso | 100.00 | – | 100.00 | – | **100.00** | **–** |
| SCIPSI | Philippines | Port Management | Philippine Peso | 35.70 | 14.38 | 35.70 | 14.38 | **35.70** | **14.38** |
| ICTSI Dubai | United Arab Emirates | BDO | US Dollar | 100.00 | – | 100.00 | – | **100.00** | **–** |
| ICTSI Capital B.V. (ICBV) | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Icon Logistiek B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Royal Capital B.V. (RCBV) | The Netherlands | Holding Company | US Dollar | – | 75.00 | – | 75.00 | **–** | **75.00** |
| ICTSI Cooperatief | The Netherlands | Holding Company | US Dollar | 1.00 | 99.00 | 1.00 | 99.00 | **1.00** | **99.00** |
| Global Container Capital, B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Treasury B.V. (ITBV) | The Netherlands | Holding Company | US Dollar | – | 75.00 | – | 75.00 | **–** | **75.00** |
| ICTSI Americas B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Africa B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Sudan B.V. (formerly ICTSI Cameroon B.V.) | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| CMSA B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Tecplata B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| SPIA Colombia B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| TSSA B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| CGSA B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| SPIA Spain S.L. [c] | Spain | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| CGSA Transportadora S.L. [c] | Spain | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Crixus Limited | British Virgin Islands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |

(Forward)

| | Place of Incorporation | Nature of Business | Functional Currency | Percentage of Ownership 2016 Direct | 2016 Indirect | 2017 Direct | 2017 Indirect | **2018 Direct** | **2018 Indirect** |
|---|---|---|---|---|---|---|---|---|---|
| VICT | Australia | Port Management | Australian Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Asia Pacific Port Holdings Private Ltd. (APPH) (h) | Singapore | Holding Company | US Dollar | – | 50.50 | – | – | **–** | **–** |
| ICTSI Global Finance B.V. (IGFBV) | The Netherlands | Holding Company | US Dollar | – | 75.00 | – | 75.00 | **–** | **75.00** |
| IOBV | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Tuxpan B.V. | The Netherlands | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Asia Pacific Business Services, Inc. (APBS) | Philippines | Business Process Outsourcing | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Ltd. Regional Operating Headquarters (ROHQ) | Philippines | Regional Operating Headquarters | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Project Delivery Services Co. Pte. Ltd. | Singapore | Port Equipment Sale and Rental | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI QFC LLC | Qatar | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI South Asia Pte. Ltd. | Singapore | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| LGICT | Philippines | Port Management | Philippine Peso | – | 60.00 | – | 60.00 | **–** | **60.00** |
| ICTSI Middle East DMCC | United Arab Emirates | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| ICTSI Global Cooperatief U.A. | The Netherlands | Holding Company | US Dollar | 99.00 | 1.00 | 99.00 | 1.00 | **99.00** | **1.00** |
| Consultports S.A. de C.V. (b) | Mexico | BDO | Mexican Peso | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Asiastar Consultants Limited (g) | Hong Kong | Management Services | US Dollar | – | – | – | 100.00 | **–** | **100.00** |
| CGT (e) | Philippines | Port Management | Philippine Peso | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Intermodal Terminal Holdings, Inc. (e) | Philippines | Holding Company | Philippine Peso | 100.00 | – | 100.00 | – | **100.00** | **–** |
| ICTSI Americas B.V. (Multinational Headquarters) (g) | Panama | BDO | US Dollar | – | – | – | 100.00 | **–** | **100.00** |
| ICTSI South Pacific Limited (g) | Papua New Guinea | Holding Company | Papua New Guinean Kina | – | – | – | 100.00 | **–** | **100.00** |
| MITL (g) | Papua New Guinea | Port Management | Papua New Guinean Kina | – | – | – | 100.00 | **–** | **100.00** |
| SPICTL (g) | Papua New Guinea | Port Management | Papua New Guinean Kina | – | – | – | 100.00 | **–** | **100.00** |
| Tungsten RE Ltd. (g) | Bermuda | Insurance Company | US Dollar | – | – | – | 100.00 | **–** | **100.00** |
| **Europe, Middle East and Africa (EMEA)** | | | | | | | | | |
| Tartous International Container Terminal, Inc. (TICT) | Syria | Port Management | US Dollar | 100.00 | – | 100.00 | – | **100.00** | **–** |
| Madagascar International Container Terminal Services, Ltd. (MICTSL) | Madagascar | Port Management | Euro | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Baltic Container Terminal Ltd. (BCT) | Poland | Port Management | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Adriatic Gate Container Terminal (AGCT) | Croatia | Port Management | Euro | – | 51.00 | – | 51.00 | **–** | **51.00** |
| Batumi International Container Terminal LLC (BICTL) | Georgia | Port Management | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| LICTSLE | Nigeria | Port Management | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| IDRC | DR Congo | Port Management | US Dollar | – | 52.00 | – | 52.00 | **–** | **52.00** |
| ICTSI (M.E.) DMCC Iraq Branch (ICTSI Iraq) | Iraq | Port Management | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| **Americas** | | | | | | | | | |
| Contecon Guayaquil, S.A. (CGSA) (f) | Ecuador | Port Management | US Dollar | 51.00 | 49.00 | 51.00 | 49.00 | **51.00** | **49.00** |
| Contecon Manzanillo S.A. (CMSA) (d) | Mexico | Port Management | US Dollar | 1.00 | 99.00 | 1.00 | 99.00 | **1.00** | **99.00** |
| Tecon Suape, S.A. (TSSA) | Brazil | Port Management | Brazilian Real | – | 100.00 | – | 100.00 | **–** | **100.00** |

(Forward)

| | Place of Incorporation | Nature of Business | Functional Currency | 2016 Direct | 2016 Indirect | 2017 Direct | 2017 Indirect | **2018 Direct** | **2018 Indirect** |
|---|---|---|---|---|---|---|---|---|---|
| ICTSI Oregon | U.S.A. | Port Management | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| C. Ultramar, S.A. | Panama | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Future Water, S.A. | Panama | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Kinston Enterprise, Inc. | Panama | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| International Ports of South America and Logistics SA | Uruguay | Holding Company | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Tecplata S.A. (Tecplata) [(a)] | Argentina | Port Management | US Dollar | – | 100.00 | – | 100.00 | **–** | **100.00** |
| Nuevos Puertos S. A. (NPSA) | Argentina | Holding Company | US Dollar | 4.00 | 96.00 | 4.00 | 96.00 | **4.00** | **96.00** |
| Operadora Portuaria Centroamericana, S.A. (OPC) | Honduras | Port Management | US Dollar | 30.00 | 70.00 | 30.00 | 70.00 | **30.00** | **70.00** |
| TMT | Mexico | Port Management | Mexican Peso | – | 100.00 | – | 100.00 | **–** | **100.00** |
| CMSA Servicios Portuarios SA De CV [(g)] | Mexico | Manpower Services | Mexican Peso | – | – | – | 100.00 | **–** | **100.00** |
| CMSA Servicios Profesionales Y De Especialistas SA De CV [(g)] | Mexico | Manpower Services | Mexican Peso | – | – | – | 100.00 | **–** | **100.00** |
| **Joint Ventures:** | | | | | | | | | |
| Sociedad Puerto Industrial Aguadulce SA (SPIA) | Colombia | Port Management | US Dollar | – | 46.30 | – | 46.30 | **–** | **46.30** |
| Falconer Aircraft Management, Inc.(FAMI) [(j)] | Philippines | Aircraft Management | Philippine Peso | – | – | – | – | **–** | **49.0** |
| **Associates:** | | | | | | | | | |
| MNHPI [(i)] | Philippines | Port Management | Philippine Peso | – | – | 34.83 | – | **34.83** | **–** |
| Asiaview Realty and Development Corporation (ARDC) | Philippines | Realty | Philippine Peso | – | 49.0 | – | 49.0 | **–** | **49.0** |

*[(a)] Has not yet started commercial operations as at December 31, 2018*
*[(b)] Acquired in 2016 for US$60.0 thousand. This was not accounted for as a business combination due to immateriality of amount involved.*
*[(c)] Changed its functional currency from Euro to US Dollar on April 1, 2016*
*[(d)] Changed its functional currency from Mexican Peso to US Dollar on July 1, 2016*
*[(e)] Established in 2016*
*[(f)] In 2016, the Parent Company's shareholdings was diluted to 51% as a result of internal restructuring.*
*[(g)] Established in 2017*
*[(h)] Deregistered in 2017*
*[(i)] Acquired as an associate on October 30, 2017*
*[(j)] Established in 2018 and has not yet started commercial operations as of March 5, 2019*

## 2. Basis of Preparation and Consolidation and Statement of Compliance

### 2.1 Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investments in 2016 and 2017, financial assets at FVOCI in 2018 and derivative financial instruments, which have been measured at fair value. The consolidated financial statements are presented in United States dollars (US dollar, USD or US$), the Parent Company's functional and presentation currency. All values are rounded to the nearest US dollar unit, except when otherwise indicated.

### 2.2 Basis of Consolidation

The consolidated financial statements of the Group include the accounts of ICTSI and its subsidiaries where the Parent Company has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

*Subsidiaries.* Subsidiaries are entities controlled by the Parent Company. Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

*Non-controlling Interests.* Non-controlling interests represent the portion of profit or loss and net assets in PICT, MTS, AICTL, CTVCC, SBITC, SBITHI, BIPI, DIPSSCOR, YICT, SCIPSI, RCBV, AGCT, IJP, OJA, ITBV, HIPS, APPH (until December 2017), IGFBV, IDRC and LGICT, not held by the Group and are presented separately in the consolidated statement of income and the consolidated statement of comprehensive income, and consolidated balance sheet separate from equity attributable to equity holders of the parent.

An acquisition, transfer or sale of a non-controlling interest is accounted for as an equity transaction. No gain or loss is recognized in an acquisition of a non-controlling interest. The difference between the fair value of the consideration and book value of the share in the net assets acquired is presented under "Excess of acquisition cost over the carrying value of non-controlling interests" account within the equity section of the consolidated balance sheet. If the Group loses control over a subsidiary, it: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statement of income; and (iii) reclassifies the Parent Company's share of components previously recognized in other comprehensive income to the consolidated statement of income or retained earnings, as appropriate.

*Transactions Eliminated on Consolidation.* All intragroup transactions and balances including income and expenses, and unrealized gains and losses are eliminated in full.

*Accounting Policies of Subsidiaries.* The financial statements of subsidiaries are prepared for the same reporting year using uniform accounting policies as those of the Parent Company.

*Functional and Presentation Currency.* The Group's consolidated financial statements are presented in US dollar, which is ICTSI's functional and presentation currency. Each entity in the Group determines its own functional currency, which is the currency that best reflects the economic substance of the underlying transactions, events and conditions relevant to that entity, and items included in the financial statements of each entity are measured using that functional currency. When there is a change in those underlying transactions, events and conditions, the entity re-assesses its functional currency. When there is a change in functional currency, the entity accounts for such change in accordance with the Group's accounting policy on Change in Functional Currency.

At the reporting date, the assets and liabilities of subsidiaries whose functional currency is not the US dollar are translated into the presentation currency of ICTSI using the Bloomberg closing rate at balance sheet date and, their statements of income are translated at the Bloomberg weighted average daily exchange rates for the year. The exchange differences arising from the translation are taken directly and deferred to the consolidated statement of comprehensive income under the "Exchange differences on translation of foreign operations' financial statements" account. Upon disposal of the foreign entity, the deferred cumulative translation amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation is recognized in the consolidated statement of income.

2.3 Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with PFRS. PFRS includes Philippine Accounting Standards (PAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the Financial Reporting Standards Council (FRSC).

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## 3. Summary of Significant Accounting Policies, Significant Accounting Judgments, Estimates and Assumptions

3.1 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following amended standards as at January 1, 2018:

- Amendments to *PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The adoption of this amendment did not result in any impact on the consolidated financial statements since the Group only has equity-settled share-based payment transactions.

- *PFRS 9, Financial Instruments*
  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

  The Group chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:
  - Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods. Accordingly, the information presented for 2016 and 2017 does not reflect the requirements of PFRS 9.
  - The Group will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as of December 31, 2017.
  - The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application will be recognized in the opening retained earnings or other component of equity, as appropriate.
  - As comparative information is not restated, the third statement of financial position presented is not a result of the adoption of PFRS 9.

  As of January 1, 2018, the Group has reviewed and assessed all of its existing financial assets. The table below illustrates the classification and measurement of financial assets and financial liabilities under PFRS 9 and PAS 39 at the date of initial application. The accounting policies adopted by the Group in its evaluation of the classification and measurement categories under PFRS 9 are discussed in Note 3.

  The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018:

| | PAS 39 | | | | PFRS 9 | |
|---|---|---|---|---|---|---|
| **Financial Assets** | **Category** | **Amount** | **Reclassification** | **ECL** | **Amount** | **Category** |
| **Cash and cash equivalents** | **L&R** | **US$276,400,772** | **US$–** | **US$–** | **US$276,400,772** | **AC** |
| Cash in bank | | 209,766,005 | – | – | 209,766,005 | |
| Cash equivalents | | 66,634,767 | – | – | 66,634,767 | |
| **Receivables** | **L&R** | **112,891,114** | **–** | **(449,581)** | **112,441,533** | **AC** |
| Trade | | 100,218,745 | – | (449,581) | 99,769,164 | |
| Advances and nontrade | | 12,672,369 | – | – | 12,672,369 | |
| **Advances to a joint venture** | **L&R** | **314,202,106** | **–** | **–** | **314,202,106** | **AC** |
| | **L&R** | **US$703,493,992** | **US$–** | **(US$449,581)** | **US$703,044,411** | **AC** |
| **Investments in Equity instruments** [(a)] | **AFS** | **US$13,348,132** | **US$–** | **US$–** | **US$13,348,132** | **FVOCI** |
| **Derivative assets** | **FVTPL** | **US$5,074,653** | **US$–** | **US$–** | **US$5,074,653** | **FVTPL** |

[(a)] *As of January 1, 2018, the Group have irrevocably designated all equity investments at available-for-sale investments as FVOCI as these investments are strategic in nature.*

  The Group does not have financial assets and financial liabilities which had previously been designated at FVTPL to reduce an accounting mismatch in accordance with PAS 39 which had been reclassified to amortized cost or FVOCI upon transition to PFRS 9.

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 and the provisions in accordance with PAS 37 to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018:

| Measurement category | Impairment allowance under PAS 39/Provision under PAS 37 | Remeasurement | Impairment allowance under PFRS 9 |
|---|---|---|---|
| **Loans and Receivables (PAS 39)/Financial Assets at Amortized Cost (PFRS 9)** | | | |
| Receivables | **US$7,484,983** | **US$449,581** | **US$7,934,564** |

Under PFRS 9, the level of provision for credit and impairment losses has generally increased due to the incorporation of a more forward-looking approach in determining provisions. Further, since the implementation of PFRS 9, all financial assets except receivables and those measured at FVTPL are assessed for at least 12-month ECL and the population of financial assets to which the lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with PAS 39.

- Amendments to *PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- *PFRS 15, Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

  1. Identify the contracts with a customer
  2. Identify the performance obligations in the contract
  3. Determine the transaction price
  4. Allocate the transaction price to the performance obligations in the contract
  5. Recognize revenue as the entity satisfies a performance obligation.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018. Therefore, the comparative information were not restated and were reported under PAS 11, PAS 18 and related Interpretations.

The Group has concluded that it is acting as principal in all of its revenue arrangements because the Company is the primary obligor who is responsible for providing the services to the customers and the Company bears the credit risk.

The adoption of PFRS 15 as at January 1, 2018 did not have a material impact on the consolidated balance sheets, consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flow.

- Amendments to *PAS 28, Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

  The amendments are not applicable to the Group since none of the entities within the Group are considered as venture capital organization or other qualifying entities.

- *Amendments to PAS 40, Investment Property, Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  The adoption of these amendments did not result in any impact on the consolidated financial statements.

- *Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  The adoption of this interpretation did not result in any impact on the consolidated financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3.2 Significant Accounting Judgments, Estimates and Assumptions

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, in addition to those involving estimations, that can have significant effects on the amounts recognized in the consolidated financial statements:

*Determination of Control or Joint Control over an Investee Company.* Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, joint control is presumed to exist when the investors contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

*Determination of Significant Influence over an Investee Company.* Significant influence exists when an investor has the power to participate in the financial and operating policy decisions of the investee but is not control or joint control.

On October 30, 2017, after completion of the conditions under the SPA between the Group and Petron Corporation, the Group determined that the acquisition of 10,449,000 MNHPI shares representing 34.83% ownership enables the Group to exercise significant influence over MNHPI (Note 1.2).

*Determination of Acquisition of Group of Assets as a Business in Accordance with PFRS 3.* Management uses judgment in assessing if the group of assets and liabilities acquired would constitute a business. In accordance with PFRS 3, business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

*Functional Currency.* Management uses judgment in assessing the functional currency of the Parent Company and its subsidiaries. Each entity in the Group determines its own functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (see Note 1.3).

*Service Concession Arrangements.* The Group has determined that the concession contracts of the Parent Company, SBITC, MICTSL, CGSA, Tecplata, AGCT, ICTSI Subic, LICTSLE (until May 24, 2017), PICT, OPC, ICTSI Iraq, SPICTL and MITL are within the scope of IFRIC 12, *Service Concession Arrangements,* accounted for under the intangible asset model. The intangible assets pertaining to concession rights as at December 31, 2016, 2017 and 2018 are presented in Note 5 to the consolidated financial statements.

*Gross versus Net Revenue Recognition.* The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements because the Group is the primary obligor who is responsible for providing the services to the customers and the Group bears the credit risk. The Group accounts and presents its revenues from port operations and the port authorities' share in revenues on a gross basis.

*Revenue from contracts with customers (applicable starting January 1, 2018 upon the adoption of PFRS 15)*
The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- *Identifying performance obligations*
  The Group provides port services, mainly cargo handling, to its customers. The Group has determined that each of the services are capable of being distinct.

- *Determining the transaction price*
  The Group determined that the transaction price is in accordance with the tariff rates published by port authorities in certain jurisdictions or agreed rates with the customers.

- *Determining the timing of satisfaction of port services*
  The Group concluded that the revenue for port operations is to be recognized when the services are rendered.

*Operating Lease.* The evaluation of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. An arrangement is, or contains, a lease when the fulfillment of the arrangement depends on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Concession contracts outside the scope of IFRIC 12 and accounted by the Group in accordance with IFRIC 4, *Determining whether an Arrangement Contains a Lease*, were determined as operating leases.

The Group has also entered into operating lease agreements on property, office spaces and/or equipment as a lessor and as a lessee. The Group, as a lessee, has determined that the lessor retains all significant risks and rewards of ownership of these properties which are on operating lease agreements. As a lessor, the Group retains substantially all the risks and benefits of ownership of the assets.

*Deferred Tax Assets.* Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Deferred tax assets recognized as at December 31, 2016, 2017 and 2018 are disclosed in Note 21 to the consolidated financial statements. Unrecognized deferred tax assets on net operating loss carry-over (NOLCO) and other losses of certain subsidiaries amounted to US$3.3 million, US$3.0 million and US$3.3 million as at December 31, 2016, 2017 and 2018, respectively. These losses relate to subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The subsidiaries neither have any taxable temporary difference nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. On this basis, the Group has determined that it cannot recognize deferred tax assets on the tax losses carried forward.

*Contingencies.* The Group is currently a party in a number of legal cases and negotiations involving cargo, labor, tax, contracts and other issues. The Group's estimate of the probable costs for the resolution of these cases and negotiations has been developed in consultation with outside counsels handling the defense for these matters and is based upon an analysis of probable results. Management and its legal counsels believe that the Group has substantial legal and factual bases for its position and is of the opinion that losses arising from these actions, if any, will not have a material adverse impact on the Group's consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of strategies relating to these proceedings. Provision for claims and losses amounted to US$36.6 million, US$29.8 million and US$20.3 million as at December 31, 2016, 2017 and 2018, respectively (see Notes 18 and 25).

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Concession Rights.* The determination of the cost of concession rights on service concession arrangements requires management to make estimates and assumptions to determine the extent to which the Group receives a right or license to charge users of the public service. Management is also required to make estimates and assumptions in determining the fair value of concession rights acquired through business combinations. In making those estimates, management is required to determine a suitable discount rate to calculate the present value of these cash flows. While the Group believes that the assumptions used are reasonable and appropriate, these estimates and assumptions can materially affect the consolidated financial statements. The carrying amounts of concession rights as at December 31, 2016, 2017 and 2018 are disclosed in Note 5 to the consolidated financial statements.

*Determination of Fair Values of Identifiable Assets and Liabilities.* In the process of determining the embedded goodwill in relation to the Group's acquisition of an associate, management uses estimates and assumptions in determining the fair value of identifiable assets and liabilities of the associate. Management is required to use a suitable discount rate and determine the present of value of cash flows. While the Group believes that the assumptions used are reasonable and appropriate, these estimates and assumptions can materially affect the consolidated financial statements. The embedded goodwill and the share in the fair values of identifiable assets and liabilities of MNHPI are disclosed in Note 8 to the consolidated financial statements.

*Construction Revenue and Cost Recognition.* The Group's revenue from construction services in relation to its service concession arrangement is recognized using the input method and measured by reference to the percentage of costs incurred to date to estimated total costs for each contract.

Expenditures to cover the work program for the development of the concession area or committed investments for each port development or project are provided in the concession agreement. When the costs incurred to date exceed the committed investments, an assessment is conducted to determine the cause of the cost overrun. Cost overruns arising from uncontrollable factors such as oil price, wage increases and changes in technical work programs due to unforeseen economic, political and geological conditions are capitalized while all other cost overruns are treated as period costs.

*Impairment of Nonfinancial Assets and Assets Not Yet Available for Use.* PFRS requires nonfinancial assets to be tested for impairment when certain impairment indicators are present and intangible asset that has not yet been brought into use to be tested for impairment annually, irrespective of whether there are any indications of impairment. Nonfinancial assets include intangible assets already in use, except goodwill and intangible assets not yet available for use, property and equipment, investment properties, and investments in a joint venture and associates.

Management is required to make estimates and assumptions to determine the future cash flows to be generated from the continued use and ultimate disposition of these assets in order to determine the value of these assets. While the Group believes that the assumptions used are reasonable and appropriate, these estimates and assumptions can materially affect the consolidated financial statements. Future adverse events may cause management to conclude that the affected assets are impaired and may have a material impact on the financial condition and results of operations of the Group. The carrying amounts of intangible assets, including intangible assets not yet available for use, property and equipment, investment properties and investments in and advances to joint ventures and associates are disclosed in Notes 5, 6, 7 and 8 to the consolidated financial statements, respectively. There was no impairment loss recognized in 2016, 2017 and 2018.

*Impairment of Goodwill.* Purchase accounting requires extensive use of accounting estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at the acquisition date. It also requires the acquirer to recognize goodwill. The Group's business acquisitions have resulted in goodwill which is subject to a periodic impairment test. The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill as at December 31, 2016, 2017 and 2018 are disclosed in Note 5 to the consolidated financial statements. There are no impairment losses on goodwill recognized in 2016 and 2017. Impairment loss on goodwill recognized in 2018 amounted to US$5.8 million (see Notes 5 and 10).

*Estimating Useful Lives*. Management determines the estimated useful lives and the related depreciation and amortization charges for its concession rights, computer software, property and equipment, and investment properties based on the period over which these assets are expected to provide economic benefits. Management's estimation of the useful lives of concession rights, computer software, property and equipment, and investment properties is based on collective assessment of industry practice, internal technical evaluation, and experience with similar assets. These estimations are reviewed periodically and could change significantly due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of these assets. Management will increase the depreciation and amortization charges where useful lives are less than what have previously been estimated.

A reduction in the estimated useful lives of intangible assets (including concession rights), property and equipment, and investment properties will increase recorded expenses and decrease noncurrent assets. The carrying values of concession rights, property and equipment, and investment properties are disclosed in Notes 5, 6 and 7 to the consolidated financial statements, respectively.

*Fair Value of Financial Instruments.* When the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of financial assets and liabilities by category and the fair value hierarchy are set out in Note 26 to the consolidated financial statements.

*Estimating Allowance for Doubtful Accounts (applicable until December 31, 2017 prior to the adoption of PFRS 9).* Allowance for doubtful accounts is calculated using two methods, each of these methods are combined to determine the total amount of reserve. The first method is specific evaluation of information available that certain customers are unable to meet their financial obligations. In these cases, management uses judgment, based on the best available facts and circumstances, including but not limited to, the length of relationship with customer and the customer's current credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due and to reduce receivable amounts to expected collection. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated. Second, a provision is established as a certain percentage of receivables not provided with specific reserves. This percentage is based on a collective assessment of historical collection, write-off experience, current economic trends, and changes in customer payment terms and other factors that may affect the Group's ability to collect payments. Full allowance is provided for receivables with contested status.

The amounts and timing of recorded provision for doubtful accounts for any period would differ if the Group made different assumptions or utilized different estimates. An increase in the Group's allowance for doubtful accounts would increase the recorded operating expenses and decrease its current assets. The carrying values of receivables are disclosed in Note 12 to the consolidated financial statements.

*Estimating Net Realizable Value of Spare Parts and Supplies.* The Group carries spare parts and supplies at net realizable value when such value is lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The carrying amounts of spare parts and supplies carried at net realizable value as at December 31, 2016, 2017 and 2018 amounted to US$33.5 million, US$35.7 million and US$34.0 million, respectively.

The cost of these spare parts and supplies amounted to US$34.9 million, US$40.1 million and US$38.3 million as at December 31, 2016, 2017 and 2018, respectively.

Write-downs of spare parts and supplies charged to the consolidated statements of income amounted to US$0.5 million in 2016, US$2.5 million in 2017 and US$0.4 million in 2018.

*Pension Cost.* The determination of the obligation and cost for pension benefits is dependent on the selection of certain assumptions provided by the Group to its actuaries in calculating such amounts. Those assumptions were described in Note 23 and included among others, discount rate and future salary increases. In accordance with PAS 19, *Employee Benefits*, actual results that differ from the Group's assumptions are included in other comprehensive income and are not reclassified to profit or loss in subsequent periods. While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension and other pension obligations.

The carrying values of pension assets and pension liabilities as at December 31, 2016, 2017 and 2018 are disclosed in Note 23 to the consolidated financial statements.

*Definition of Default and Credit-impaired Financial Assets (applicable starting January 1, 2018 upon the adoption of PFRS 9)*
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when a customer is more than 120 days past due on its contractual obligations. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to calculate Company's expected loss.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria.

*Measurement of expected credit losses.* ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate, or an approximation thereof. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

<u>Inputs, assumptions and estimation techniques</u>
*General approach for debt financial assets measured at amortized cost other than trade receivables.* The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), defined as follows:

- *Probability of default.* The PD represents the likelihood of a debtor or customer defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on available market data using rating tools tailored to the various categories of counterparties and exposures. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

  The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- *Loss given default.* Loss Given Default represents the Group's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

- *Exposure at default.* EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

*Simplified approach for trade receivables.* The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and geography).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrices to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

*Incorporation of forward-looking information.* The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, the Group has considered a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs.

Based on the Group's evaluation and assessment and after taking into consideration external actual and forecast information, the Group considers two or more economic scenarios and the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The Group has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group considers macro-economic factors such as GDP growth rates and inflation rates of selected countries in its analysis.

Predicted relationship between the key indicators and default and loss rates on portfolios of financial assets have been developed based on analyzing historical data over the past 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Group has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

*Grouping of instruments for losses measured on collective basis.* For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. The Group considers in its collective assessment the type of customers and its geographical location.

The appropriateness of groupings is monitored and reviewed on a periodic basis by Group. In 2018, the total gross carrying amount of loans and receivables for which lifetime ECLs have been measured on a collective basis amounted to US$573.8 million.

The carrying values of receivables and the related allowance for credit losses of the Group are disclosed in Note 12.

3.3 <u>Significant Accounting Policies</u>

<u>Intangibles</u>
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is recognized at fair value at acquisition date. Following initial recognition, intangible assets, except goodwill, are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred. The Group accounts for goodwill following the accounting policy on Business Combinations and Goodwill.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that intangible assets may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed at least annually. Changes in expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income under the "Depreciation and amortization" account, which is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives such as goodwill and intangible assets not yet brought into use are not amortized but tested for impairment annually, either individually or at the cash-generating unit level, irrespective of whether there is any indication of impairment. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The following intangibles are recognized and determined by the Group to have finite useful lives:

*Concession Rights.* Concession rights are either purchased or acquired through business combinations or recognized on service concession arrangements.

Concession rights purchased or acquired through business combinations are recognized at fair value at the date of acquisition and are categorized as upfront fees.

Concession rights on service concession arrangements are recognized when the Group effectively receives a license or right to charge users for the public service it provides. Concession rights consist of:

a. Upfront fees payments on the concession contracts;

b. The cost of port infrastructure constructed (concession rights) and under construction (contract assets), including related borrowing costs, and port equipment purchased and committed in accordance with the terms and conditions of the concession arrangements accounted for under IFRIC 12. These are not recognized as property and equipment of the Group but as an intangible asset; and

c. Future fixed fee considerations in exchange for the license or right for concession arrangements accounted for under IFRIC 12. Fixed fees are recognized at present value using the discount rate at the inception date with a corresponding liability recognized. Interest on the unwinding of discount of the liability and foreign exchange differences arising from translations are recognized in the consolidated statement of income.

Subsequent costs and expenditures related to port infrastructure and equipment arising from the Group's commitments to the concession contracts, or that increase future revenue are recognized as additions to the intangible asset and are stated at cost. Capital expenditures necessary to support the Group's operation as a whole are recognized as property and equipment and accounted for in accordance with the accounting policy on Property and Equipment. When the Group has contractual obligations that it must fulfill as a condition of its license to: (i) maintain the infrastructure to a specified level of serviceability or, (ii) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service concession arrangement, it recognizes and measures these contractual obligations in accordance with the accounting policy on Provisions. Repairs and maintenance and other expenses that are routinary in nature are expensed and recognized in the consolidated statement of income as incurred in accordance with the accounting policy on Equipment and Facilities-related Expenses.

Concession rights are amortized using the straight-line method over the term of the concession arrangements ranging from 4 to 37 years. Upfront fees are amortized upon the effectivity of the concession agreement while port infrastructure and fixed fees are amortized when the terminal is ready for use or upon start of commercial operations, whichever is earlier.

*Computer Software Cost.* Computer software cost, excluding those considered as integral part of property and equipment, includes costs incurred in the development and acquisitions of computer software used in operations. Computer software is amortized when it is available for use on a straight-line method over five years.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Contract Assets (*applicable starting January 1, 2018 upon the adoption of PFRS 15*)
Contract assets, classified as part of concession rights, refer to on-going construction and upgrade services on concession arrangements under the scope of IFRIC 12.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method.

*Initial Measurement*
The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred such as finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; and general administrative costs, including the costs of maintaining an internal acquisitions department or business development offices are expensed and included as part of "Administrative and other operating expenses" account in the consolidated statement of income.

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

If the business combination is achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognized in the consolidated statement of income. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with appropriate PFRS. Contingent consideration that is classified as equity is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

If the initial accounting for business combination can be determined only provisionally by the end of the year during which the combination has occurred because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using provisional values. Adjustments to these provisional values because of completing the initial accounting shall be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if the asset, liability or contingent liability's fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

*Subsequent Measurement*
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's format determined in accordance with PFRS 8, *Operating Segments*.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit 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.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized as gain or loss in the consolidated statement of income.

Goodwill is shown as part of "Intangibles" account in the consolidated balance sheet.

Acquisition of Assets
When assets are acquired, through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

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

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

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost also includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met, and any obligation related to the retirement of the asset. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are generally recognized in the consolidated statement of income in accordance with the accounting policy on Equipment and Facilities-related Expenses. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income of such period.

Depreciation and amortization start when the property and equipment are available for use and computed using the straight-line method over the estimated useful lives of the assets or the terms of the operating contract with port authorities or concessions, whichever is shorter.

The estimated useful lives of property and equipment are as follows:

| | |
|---|---|
| Land improvements | 7-25 years |
| Leasehold rights and improvements | 5-48 years or terms of the operating contract with port authorities or concessions, whichever is shorter |
| Port facilities and equipment | 5-25 years or terms of the operating contract with port authorities or concessions, whichever is shorter |
| Transportation equipment | 3-5 years |
| Office equipment, furniture and fixtures | 3-5 years |
| Miscellaneous equipment | 5 years |

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

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

An item of property and equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the property and equipment) is included in the consolidated statement of income when the asset is derecognized.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and available for operational use.

Port equipment spare parts represent major components or parts of port equipment such as quay cranes, which generally include insurance spares, that are critical for the continuous operations of the terminal equipment and facilities that have significantly different patterns of consumption of economic benefits. Spare parts are classified as property and equipment if the expected time of use is more than twelve months and provided that the capitalization thresholds are met.

Borrowing Costs
Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset including intangibles and property and equipment while the qualifying asset is under construction are capitalized as part of the cost of that asset. Borrowing costs consist of interest

and other costs that an entity incurs in connection with the borrowing of funds. Capitalization of borrowing cost should commence when: (i) expenditures for the asset and borrowing costs are being incurred; and (ii) activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalization is suspended. When construction occurs piecemeal and use of each part is possible as construction continues, capitalization of each part ceases upon substantial completion of that part. For borrowing of funds associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowing is used.

All other borrowing costs are expensed as incurred.

However, if the carrying amount of the asset after capitalization of borrowing costs exceeds its recoverable amount, an impairment loss is recognized.

Investment Properties

Investment properties consisting mainly of land and improvements and buildings are initially measured at cost including transaction costs. Subsequent to initial recognition, improvements and buildings are stated at cost less depreciation and amortization, and any impairment in value.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 15 to 25 years.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses are measured as the difference between the net disposal proceeds and the carrying amount of the asset and recognized in the consolidated statement of income upon retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the cost and the carrying amount of the property transferred do not change. If an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the accounting policy on Property and Equipment up to the date of change in use.

Investments in Joint Ventures and in Associates

Investment in associates in which the Group exercises significant influence and which is neither a subsidiary nor a joint venture of the Group is accounted for under the equity method of accounting.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group’s investment in a joint venture is accounted for using the equity method.

Under the equity method, the cost of investment in associates and joint ventures is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group’s share of net assets of the associates and the joint ventures. Goodwill, if any, relating to associates or joint ventures is included in the carrying amount of the investment and is not amortized or separately tested for impairment. The consolidated statement of income reflects the share of the results of operations of the associates and joint ventures. Where there has been a change recognized directly in the equity of the associates and the joint ventures, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized profits or losses resulting from transactions between the Group and the associates and joint ventures are eliminated to the extent of the interest in the associates and joint ventures.

The reporting dates of the associates, the joint ventures and the Parent Company are identical and the accounting policies of the associates and joint ventures conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates or joint ventures is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates or joint ventures and its carrying value, and then recognizes the loss as "Equity in net loss of joint ventures and an associate" in the consolidated statement of income.

Upon loss of joint control over the joint venture and loss of significant influence over the associates, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture and the associates upon loss of joint control and significant influence, respectively, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Impairment of Nonfinancial Assets

Intangibles, except intangibles not yet brought into use, property and equipment, investment properties, and investment in associates and joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the consolidated statement of income. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal or value-in-use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Fair value less costs of disposal is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less costs of disposal while value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or from its disposal at the end of its useful life.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's cash generating unit to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on spare parts and supplies, are recognized in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

For these nonfinancial assets excluding goodwill and intangibles not yet brought into use, 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 Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. In such instance, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

Intangibles not yet brought into use are tested for impairment annually irrespective of whether there is any impairment indicator.

The following assets have specific characteristic for impairment testing:

*Goodwill.* Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, which is also the operating entity acquired through business combination and to which the goodwill relates or has been allocated. When the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

The Group performs its annual impairment test for intangibles not yet brought into use and goodwill at December 31.

*Investments in Joint Ventures and in Associates.* After application of the equity method, the Group determines whether it is necessary to recognize additional impairment loss of the Group's investment in its associates and joint ventures. The Group determines at each balance sheet date whether there is any objective evidence that the investment in joint ventures and in associates is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and joint ventures and the carrying amount of the investment, and recognizes the amount in the consolidated statement of income. The Group's investment in ARDC has been fully provided with an allowance for probable loss (see Note 8).

Fair Value Measurement

The Group measures financial instruments, such as, derivatives, at fair value at each balance sheet date. Also, fair values of non-financial assets such as investment properties and financial instruments measured at amortized cost are disclosed in Notes 7 and 26.1, respectively.

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

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

The principal or the most advantageous market must be accessible to the Group.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of the fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial Instruments – Classification and Measurement (*applicable starting January 1, 2018 upon the adoption of PFRS 9*)
*Classification of financial assets.* Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:
- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss

*Contractual cash flows characteristics.* If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

*Business model.* The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

<u>Financial assets at amortized cost</u>
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash in banks (see Note 11), trade receivables (see Note 12), and receivables from related parties (see Note 22).

<u>Financial assets at fair value through other comprehensive income (FVOCI)</u>
*Debt instruments.* A debt financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

As of December 31, 2018, the Group does not have debt instruments at FVOCI.

*Equity instruments.* The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

As of December 31, 2018, the Group elected to classify irrevocably all equity investments as financial asset at FVOCI (see Note 9).

<u>Financial assets at fair value through profit or loss (FVTPL)</u>
Financial assets at FVTPL are measured as at unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the parent company statements of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Group's financial assets at FVTPL consists of derivative instruments not designated under hedge accounting (see Note 26).

*Classification of financial liabilities*

Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Reclassifications of financial instruments (*applicable starting January 1, 2018 upon the adoption of PFRS 9*)
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

Impairment of Financial Assets (*applicable starting January 1, 2018 upon the adoption of PFRS 9*)
PFRS 9 introduces a single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Group recognizes expected credit losses (ECL) for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at amortized cost and FVOCI;
- contract assets;
- trade receivables;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

*Stage 1: 12-month ECL.* For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

*Stage 2: Lifetime ECL – not credit-impaired.* For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

*Stage 3: Lifetime ECL – credit-impaired.* Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowance
For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all debt financial assets other than trade receivables, ECLs are recognized using the general approach wherein the Group tracks changes in credit risk and recognizes a loss allowance based on either a 12-month or lifetime ECLs at each reporting date.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers certain debt investment securities to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

*Determining the stage for impairment.* At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group’s investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Group from the time of origination.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

Write-off policy
The Group writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Financial Instruments *(applicable until December 31, 2017 prior to the adoption of PFRS 9)*
*Financial Assets and Financial Liabilities.* Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVTPL).

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

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

There were no reclassifications within the categories of the financial assets and liabilities in 2016 and 2017.

*Financial Assets and Financial Liabilities at FVTPL.* These include financial assets and liabilities held for trading and financial assets and liabilities designated upon initial recognition as at FVTPL. Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract.

Financial assets or financial liabilities may be designated by management at initial recognition as at FVTPL if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or (ii) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVTPL are recorded in the consolidated balance sheet at fair value with gains or losses recognized in the consolidated statement of income.

This category includes derivative assets and liabilities (see Notes 9, 16 and 26).

Derivative Financial Instruments and Hedging
Derivative financial instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured and accounted for in the consolidated balance sheet at fair value. The method of recognizing the

resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment or accounted for as derivative not designated for hedges.

The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the consolidated statement of income. To qualify for hedge accounting, the hedging relationship must comply with strict requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group's derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges.

*Cash Flow Hedges.* Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statement of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as "Net change in unrealized mark-to-market values of derivatives" in the consolidated statement of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statement of income.

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as in the periods that depreciation expense or cost of sales is recognized). However, if an entity expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify from equity to profit or loss as a reclassification adjustment the amount that is not expected to be recovered.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been reported as "Net change in unrealized mark-to-market values of derivatives" is retained in the consolidated statement of comprehensive income until the hedged transaction impacts the consolidated statement of income. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously reported in the statement of comprehensive income is recognized immediately in the consolidated statement of income. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, shall be accounted for similar to cash flow hedges.

*Other Derivative Instruments not Accounted for as Hedges.* Certain freestanding derivative instruments that provide economic hedges under the Group's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. For bifurcated embedded derivatives in financial and non-financial contracts that are not designated or do not qualify as hedges, changes in the fair value of such transactions are recognized in the consolidated statement of income.

Embedded Derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVTPL.

Subsequent re-assessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case re-assessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees that are integral part of the EIR and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date otherwise; these are classified as noncurrent assets.

This category includes cash and cash equivalents and receivables (see Notes 11 and 12).

*HTM Investments.* HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the EIR method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date otherwise these are classified as noncurrent assets.

The Group had no HTM investments.

*AFS Investments.* AFS investments are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS investments are measured at fair value with unrealized gains or losses being recognized directly in other comprehensive income (OCI). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recorded in the consolidated statement of comprehensive income is recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the EIR method. Dividends earned on investments are recognized in the consolidated statement of income when the right of payment has been established. AFS investments are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from balance sheet date.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on balance sheet date. When current prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For investments where there is no active market, except investments in unquoted equity securities, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument which is substantially the same; net present value techniques and other relevant valuation models. Investments in unquoted equity securities are carried at cost, net of accumulated impairment losses.

As of December 31, 2016 and 2017, AFS investments consist of the Group's investments in quoted and unquoted equity shares (see Note 9).

Other Financial Liabilities (including Interest-bearing Loans and Borrowings)
Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Financial liabilities are classified under this category if they are not held for trading or not designated as FVTPL upon the inception of the liability.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

The Group's loans payable, accounts payable and other current liabilities, other noncurrent liabilities, concession rights payable and long-term debt are included under this classification.

Impairment of Financial Assets
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "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. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Assets Carried at Amortized Cost.* If there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk characteristics and the group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment. The Group considers factors such as the age of the receivable, payment status and collection experience in determining individually impaired financial assets. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, location and past due status.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*AFS Investments - Carried at Fair Value.* If an AFS investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from other comprehensive income to the consolidated statement of income.

An AFS investment is considered impaired if there is prolonged or significant decline in market value against cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

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

Reversals of impairment losses in respect of equity instruments classified as AFS are not recognized in the consolidated statement of income, increases in their fair value after impairment are recognized directly in other comprehensive income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

Derecognition of Financial Assets and Liabilities

*Financial Assets.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: a) has transferred substantially all the risks and rewards of ownership of the asset; or b) has neither transferred nor retained substantially all the risks and rewards of ownership 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 agreement, and has neither transferred nor retained substantially all the risks and rewards of ownership 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. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income. Otherwise, where the net present value of the cash flows under the new terms discounted using the effective interest rate of the original debt is less than 10 percent different from the discounted present value of the remaining cash flows of the original debt instrument, the financial liability is not derecognized.

Day 1 Difference

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

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

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Cash does not include restricted cash, which is classified in the consolidated balance sheet either as a current or noncurrent asset depending on the relationship to the asset for which the funds are restricted. If cash is restricted for investments, the restricted portion is classified as noncurrent.

Spare Parts and Supplies
Spare parts and supplies inventories are valued at the lower of cost and net realizable value. Net realizable value is the current replacement cost.

Cost is determined by using the first-in, first-out method. If the cost of spare parts and supplies inventories exceeds its net realizable value, write-downs are made for the differences between the cost and the net realizable value.

Prepayments
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises the following:

*Input Tax*. Input tax is recognized when an entity in the Group purchases goods or services from a Value Added Tax (VAT)-registered supplier or vendor. This account is offset, on a per entity basis, against any output tax previously recognized.

*Prepaid Port Fees, Insurance, Bonds and Other Expenses, and Advance Rent and Deposits*. Prepaid insurance, port fees, bonds and other expenses, and advance rent and non-refundable deposits are apportioned over the period covered by the payment and charged to the appropriate account in the consolidated statement of income when incurred.

*Creditable Withholding Tax*. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized.

*Tax Credits*. Tax credits granted and tax credit certificates are issued by tax authorities in lieu of tax refunds, which can be used to offset against future tax liabilities and customs duties. In some jurisdictions, tax credit certificates can be sold or exchanged for cash and cash equivalents.

*Advances to Suppliers and Contractors*. Advances to suppliers and contractors are reclassified to the proper asset or expense account and deducted from the contractors' billings as specified in the provisions of the contract.

Prepayments that are expected to be realized within 12 months from the balance sheet date are classified as current assets. Otherwise, these are classified as noncurrent assets.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against the retained earnings.

Cost of Shares Held by Subsidiaries

Own equity instruments which are held by subsidiaries are treated as treasury shares and recognized and deducted from equity at cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized as additional paid-in capital.

Treasury Shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized as additional paid-in capital. Voting rights related to treasury shares are nullified for the Parent Company and no dividends are allocated to them respectively. Shares vested during the reporting period are satisfied with treasury shares.

Retained Earnings

Retained earnings are the result of Group's accumulated profits or losses, declaration of dividends and the effects of retrospective application or retrospective restatement recognized in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded by each entity at its functional currency ruling at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the entity's functional currency rate of exchange at the balance sheet date. All foreign currency differences are taken to the consolidated statement of income except exchange differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These foreign currency borrowings include long-term receivables or loans to a foreign operation denominated in either the functional currency of the parent or of the foreign operations. Related exchange differences arising from net investment in foreign operations are taken directly to equity until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments made to the carrying amounts of assets and liabilities arising from the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing exchange rate at the balance sheet date.

Year-End Exchange Rates

The following rates of exchange have been adopted by the Group in translating foreign currency balance sheet and statement of income items as at and for the years ended December 31:

| | 2016 | | 2017 | | **2018** | |
|---|---|---|---|---|---|---|
| | Closing | Average | Closing | Average | **Closing** | **Average** |
| Foreign currency to 1 unit of US dollar (USD or US$): | | | | | | |
| Argentine peso (AR$) | 15.880 | 14.779 | 18.623 | 16.562 | **37.668** | **28.102** |
| Australian dollar (AUD) | 1.387 | 1.344 | 1.281 | 1.304 | **1.419** | **1.338** |
| Brazilian real (BRL or R$) | 3.255 | 3.481 | 3.313 | 3.193 | **3.881** | **3.657** |
| Brunei dollar (BND or B$) | 1.448 | 1.381 | 1.338 | 1.381 | **1.371** | **1.344** |
| Chinese renminbi (RMB) | 6.945 | 6.648 | 6.507 | 6.756 | **6.879** | **6.620** |
| Colombian peso (COP) | 3,002.000 | 3,051.900 | 2,985.780 | 2,952.400 | **3,254.250** | **2,955.553** |
| Croatian kuna (HRK) | 7.177 | 6.807 | 6.192 | 6.621 | **6.463** | **6.289** |
| Euro (EUR or €) | 0.951 | 0.903 | 0.833 | 0.885 | **0.872** | **0.847** |
| Georgian lari (GEL) | 2.658 | 2.366 | 2.596 | 2.508 | **2.675** | **2.535** |
| Honduran lempira (HNL) | 23.492 | 22.835 | 23.588 | 23.485 | **24.339** | **23.906** |
| Hong Kong dollar (HKD) | 7.756 | 7.763 | 7.814 | 7.792 | **7.832** | **7.838** |
| Indian rupee (INR) | 67.924 | 67.206 | 63.873 | 65.125 | **69.768** | **68.379** |
| Indonesian rupiah (IDR or Rp) | 13,473.000 | 13,305.000 | 13,555.000 | 13,382.000 | **14,390.000** | **14,243.000** |
| Iraqi dinar (IQD) | 1,197.155 | 1,194.412 | 1,176.526 | 1,186.463 | **1,192.682** | **1,188.468** |
| Malagasy ariary (MGA) | 3,364.500 | 3,181.032 | 3,242.950 | 3,137.360 | **3,496.770** | **3,349.826** |
| Mexican peso (MXN) | 20.727 | 18.689 | 19.659 | 18.920 | **19.650** | **19.233** |
| Pakistani rupee (PKR or Rs) | 104.370 | 104.715 | 110.700 | 105.347 | **139.800** | **121.785** |
| Papua New Guinean kina (PGK) | – | – | 3.218 | 3.187 | **3.369** | **3.292** |
| Philippine peso (₱) | 49.720 | 47.475 | 49.930 | 50.400 | **52.580** | **52.676** |
| Polish zloty (PLN) | 4.187 | 3.944 | 3.484 | 3.777 | **3.737** | **3.613** |
| Singaporean dollar (SGD) | 1.447 | 1.381 | 1.336 | 1.381 | **1.363** | **1.349** |
| South African rand (ZAR) | 13.740 | 14.694 | 12.383 | 13.310 | **14.347** | **13.253** |

In 2018, Argentina's economy has been considered as hyperinflationary. Accordingly, companies in Argentina whose functional currency is AR$ are required to apply PAS 29, Financial Reporting in Hyperinflationary Economies. As of December 31, 2018, the functional currency of Tecplata remains to be US$.

Determination of and Change in Functional Currency
Functional currency is the currency of the primary economic environment in which the entity operates, which is normally the one in which it primarily generates and expends cash. The Group considers the following factors in determining its functional currency:

a) the currency:
    a. that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
    b. of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
b) the currency that mainly influences labor, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

When there is a change in an entity's functional currency, the entity should apply the translation procedures applicable to the new functional currency prospectively from the date of change. An entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for nonmonetary items are treated as their historical cost. Exchange differences arising from the translation at the date of change are recognized as cumulative translation adjustment reported under the consolidated statement of comprehensive income and presented in the equity section of the consolidated balance sheet. Exchange differences arising from translation of a foreign operation recognized in other comprehensive income are not reclassified from equity to the consolidated statement of income until the disposal of the foreign operation.

The comparative financial statements shall be presented into the new presentation currency in accordance with the translation procedures described in PAS 21, The Effects of Changes in Foreign Exchange Rates, as follows:

a. all assets and liabilities at the exchange rates prevailing at the balance sheet date;
b. equity items at historical exchange rates;
c. revenue and expense items at the approximate exchange rates prevailing at the time of transactions; and
d. all resulting exchange differences are recognized in cumulative translation adjustments account, presented as part of the consolidated statement of comprehensive income.

Concession Rights Payable
Concession rights payable is recognized at the date of inception as the present value of the fixed portion of port fees or rental fees to the port authorities if the arrangement qualifies under IFRIC 12, *Service Concession Arrangements*, or IFRIC 4, *Determining whether an Agreement contains a Lease*, as a finance lease, respectively. This account is debited upon payment of port fees or rental fees to the port authorities. Such payments are apportioned between interest payment and payment of the principal. Interest arising from the accretion of concession rights payable is presented under "Interest expense on concession rights payable" account in the consolidated statement of income.

Concession rights payable that are expected to be settled for no more than 12 months after the reporting period are classified as current liabilities presented as Current portion of concession rights payable. Otherwise, these are classified as noncurrent liabilities.

Accounts Payable and Other Current Liabilities
Accounts payable is part of the working capital used in the normal operating cycle of the Group. Other current liabilities are not settled as part of the Group's normal operating cycle but are due for settlement within 12 months after the balance sheet date. Accounts payable and other current liabilities are recognized in the period when incurred. This account classification includes the following:

*Trade Payable*. Trade payable represents payable to port authorities other than concession rights pertaining to upfront fees payable in installments and fixed fees, such as accrual of variable portion of port fees and those payable to suppliers and vendors of goods and services.

*Accrued Expenses*. Accrued expenses are comprised of accruals relating to interest, salaries and benefits, and output and other taxes, among others.

*Provisions for Claims and Losses*. Provisions for claims and losses pertain to estimated probable losses on cargo, labor-related and other claims from third parties. Provision for losses not settled at the balance sheet date is re-assessed and adjusted, if necessary.

*Customers' Deposits*. Customers' deposits represent advance payment of customers subject to refund or for future billing applications.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A re-assessment is made after 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 specified asset; or

d. There is substantial change in the asset.

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

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

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

Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

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

Pension Benefits
*Defined Benefit Plans.* The Parent Company, BCT, BIPI, DIPSSCOR, SBITC, ROHQ, MTS, IJP, OJA, SCIPSI, MICTSL, MICTSI, AGCT, CGSA, CMSA, CMSA Servicios Portuarios SA De CV, CMSA Servicios Profesionales Y De Especialistas SA De CV, ICTSI Iraq and APBS have separate, noncontributory, defined benefit retirement plans covering substantially all of its regular employees. The pension plans of the Parent Company, BIPI, DIPSSCOR, SBITC and SCIPSI are funded.

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

Defined benefit costs comprise service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

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

*Defined Contribution Plan.* YICT, ICTSI Oregon and PICT have defined contribution plans under a state pension scheme. Contributions under the plan are recorded as expense in the consolidated statement of income. There are no further obligations beyond the contribution.

Share-based Payment Transactions

Certain qualified officers and employees of the Parent Company and subsidiaries receive remuneration for their services in the form of equity shares of the Parent Company ("equity-settled transactions").

The cost of equity-settled transactions with officers and employees is measured by reference to the fair value of the stock at the date on which these are granted.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

Revenue Recognition (*applicable starting January 1, 2018 upon the adoption of PFRS 15*)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding incentives, output tax, and other sales taxes or duties. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in substantially all its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Revenue Contract with Customer

*Gross Revenues from Port Operations*. Revenue, net of any incentives, is generally recognized when the services are rendered. The performance obligations are satisfied and payment is generally due upon completion and billing of the services. In circumstances wherein the collection is not certain, the Group makes an assessment of the probability of collecting the consideration to which it will be entitled in exchange for the services that it performed. In evaluating whether collectibility of an amount of consideration is probable, the Group considers the customer's ability and intention to pay the amount of consideration when it becomes due.

*Construction Revenue and Cost.* When the Group provides construction or upgrade services on concession arrangements accounted for within the scope of IFRIC 12, the consideration is measured at the fair value of the construction services provided.

Revenue Recognition (*applicable until December 31, 2017 prior to the adoption of PFRS 15*)

*Gross Revenues from Port Operations.* Revenue is generally recognized when services are rendered.

*Interest Income.* Revenue is recognized as the interest accrues taking into account the effective yield of the asset.

*Dividend Income.* Revenue is recognized when the Group's right to receive the payment is established, which is generally when the Board approve the dividend, and is included as part of "Other income" account in the consolidated statement income.

*Rental Income.* Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included as part of "Other income" account in the consolidated statement of income.

*Construction Revenue and Cost.* When the Group provides construction or upgrade services on concession arrangements accounted for within the scope of IFRIC 12, the consideration is measured at the fair value of the construction services provided. The Group recognizes revenue and cost relating to construction or upgrade services by reference to the stage of completion of the contract in accordance with PAS 11.

Government Grants
Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is initially recognized as a liability in the consolidated balance sheet and recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to the acquisition or construction of a fixed asset, it is initially recognized as a liability in the consolidated balance sheet and recognized as income in equal amounts over the period of depreciation of the related asset.

Expenses
Expenses are recognized as incurred. Expenses constitute the following:

*Port Authorities' Share in Gross Revenues*. Port authorities' share in gross revenues includes variable fees paid to port authorities as stipulated in the concession agreements.

*Manpower Costs*. Manpower costs include remunerations and benefits provided by the Group to its officers and employees such as salaries, wages, allowances, and bonuses, among others.

*Equipment and Facilities-related Expenses*. Equipment and facilities-related expenses include fixed fees paid to port authorities as stipulated in the concession agreements that qualify as leases under IFRIC 4 and expenses incurred for general repairs and maintenance of the Group's port facilities and other equipment such as consumption of fuel, oil and lubricants, contracted services, power, light and water, and technology and systems development expenses.

*Administrative and Other Operating Expenses*. Administrative and other operating expenses normally include costs of administering the business as incurred by administrative and corporate departments such as professional fees, transportation and travel, taxes and licenses, security and janitorial services, insurance and bonds, representation, utilities and general office expenses. This account also includes costs of business development offices in relation to the acquisition of new terminals or projects under exploratory stage.

Taxes
*Current Tax.* Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses or NOLCO, to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and NOLCO can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 re-assessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable income 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 and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognized outside the consolidated statement of income is recognized outside of the consolidated statement of income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Tax benefits acquired as part of business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period; otherwise, these shall be recognized in profit or loss.

<u>Project Development Costs</u>
Project development costs that do not qualify for capitalization as port infrastructure recognized as concession rights or property and equipment are expensed as incurred.

<u>Preoperating Expenses</u>
Preoperating expenses are expensed as incurred.

Earnings Per Share
Basic earnings per common share is computed by dividing the net income attributable to equity holders of the parent, adjusted by the effect of cumulative distributions on subordinated perpetual capital securities classified as equity in accordance with PAS 32, *Financial Instruments: Presentation*, by the weighted average number of common shares outstanding during each year after giving retroactive effect to stock dividends declared during the year.

Diluted earnings per common share is computed in the same manner, adjusted for the effect of the shares issuable to qualified officers and employees under the Parent Company's stock incentive plan which are assumed to be exercised at the date of grant.

Where the effect of the vesting of stock under the stock incentive plan is anti-dilutive, basic and diluted earnings per share are stated at the same amount.

Geographical Segments
The Group operates principally in one industry segment which is cargo handling and related services. The Group's operating business is organized and managed separately according to location, namely Asia, Europe, the Middle East and Africa (EMEA), and Americas. Financial information on geographical segments is presented in Note 4 to the consolidated financial statements.

Provisions
*General*. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

*Contingent Liabilities Recognized in a Business Combination*. A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognized in accordance with the requirements for provisions above or the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the requirements for revenue recognition.

Contingencies
Contingent assets and liabilities are not recognized in the consolidated financial statements. Contingent assets are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable and recognized in the consolidated balance sheet and the related income in the consolidated statement of income when an inflow of economic benefits is virtually certain. On the other hand, contingent liabilities are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Events after the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet 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 consolidated financial statements when material.

3.4 Future Changes in Accounting Policies

Pronouncements Issued but Not yet Effective
Pronouncements issued but not yet effective as at December 31, 2018 are listed below. The Group intends to adopt the following pronouncements when they become effective.

Deferred

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  On January 13, 2016, the FSRC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

Effective January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. The adoption of these amendments is not expected to have any significant impact on the consolidated financial statements.

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

The Group will apply the standard using the full retrospective approach. The new standard's transition provisions permit certain reliefs. The adoption of the standard will result in lower equipment and facilities-related expenses, higher amortization expense and interest expense in the consolidated statements of income and recognition of right-of-use asset and right-of-use liability in the consolidated balance sheets.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. The Group will adopt the amendments as it becomes applicable effective January 1, 2019.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The Group does not expect that the amendments will have a significant impact on its consolidated financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes,* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Group is currently assessing the impact of adopting this interpretation.

<u>Annual Improvements to PFRSs 2015-2017 Cycle</u>

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

  A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

  An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

<u>Effective January 1, 2020</u>

- Amendments to PFRS 3, *Definition of a Business*
  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. The Group does not expect any significant impact of adopting these amendments.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*
  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

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4. **Segment Information**

A segment is a distinguishable component of the Group that is engaged either in providing types of services (business segment) or in providing the services within a particular economic environment (geographic segment).

The Group operates principally in one industry segment which is cargo handling and related services. ICTSI has organized its cargo handling and related business into three geographical segments:

- Asia - includes Manila International Container Terminal (MICT), BIPI, DIPSSCOR, SCIPSI, SBITC, ICTSI Subic, HIPS, MICTSI, LGICT, CGT and MNHPI in the Philippines; YICT in China; OJA, IJP and MTS in Indonesia; VICT in Australia; NMCTS in Brunei; PICT in Pakistan; MITL and SPICTL in PNG; and AICTL, ICTHI, ICTSI Ltd. and other holding companies and those companies incorporated in The Netherlands for the purpose of supporting the funding requirements of the Group;

- EMEA - includes BCT in Poland, BICTL in Georgia, AGCT in Croatia, MICTSL in Madagascar, LICTSLE in Nigeria, IDRC in DR Congo, ICTSI Iraq in Iraq and AGT in Sudan; and

- Americas - includes TSSA in Brazil, CGSA in Ecuador, SPIA in Colombia, Tecplata in Argentina, CMSA and TMT in Mexico, OPC in Honduras and ICTSI Oregon in Oregon, U.S.A.

Management monitors the operating results of each operating unit separately for making decisions about resource allocation and performance assessment. The Group evaluates segment performance based on contributions to gross revenues, which is measured consistently with gross revenues from port operations in the consolidated statement of income.

Financing is managed on a group basis and centralized at the Parent Company level or at the entities created solely for the purpose of obtaining funds for the Group. Funding requirements that are secured through debt are recognized as liabilities of the Parent Company or of the entity issuing the debt instrument, classified under the geographical region of Asia and are not allocated to other geographical segments where funds are eventually transferred and used.

The tables below present financial information on geographical segments as at and for the years ended December 31:

| | 2016 | | | |
|---|---|---|---|---|
| | Asia | EMEA | Americas | Consolidated |
| Volume [(a)] | 4,552,881 | 1,131,792 | 3,004,690 | 8,689,363 |
| Gross revenues | US$581,404,186 | US$159,567,398 | US$387,423,367 | US$1,128,394,951 |
| Capital expenditures [(b)] | 226,927,004 | 88,288,382 | 76,668,281 | 391,883,667 |
| Other information: | | | | |
| Segment assets [(c)] | 2,319,247,358 | 428,078,300 | 1,345,055,471 | 4,092,381,129 |
| Segment liabilities [(d)] | 1,815,738,663 | 76,848,886 | 420,594,584 | 2,313,182,133 |

| | 2017 | | | |
|---|---|---|---|---|
| | Asia | EMEA | Americas | Consolidated |
| Volume [(a)] | 4,815,905 | 1,481,973 | 2,855,580 | 9,153,458 |
| Gross revenues | US$591,246,219 | US$251,809,694 | US$401,382,294 | US$1,244,438,207 |
| Capital expenditures [(b)] | 210,519,043 | 23,085,986 | 74,241,270 | 307,846,299 |
| Other information: | | | | |
| Segment assets [(c)] | 2,453,354,524 | 441,596,482 | 1,364,631,241 | 4,259,582,247 |
| Segment liabilities [(d)] | 1,853,420,361 | 90,034,899 | 444,635,820 | 2,388,091,080 |

| | **2018** | | | |
|---|---|---|---|---|
| | **Asia** | **EMEA** | **Americas** | **Consolidated** |
| Volume [(a)] | **5,237,452** | **1,563,888** | **2,935,281** | **9,736,621** |
| Gross revenues | **US$694,299,542** | **US$284,414,457** | **US$407,070,748** | **US$1,385,784,747** |
| Capital expenditures [(b)] | **110,892,716** | **70,068,704** | **84,718,126** | **265,679,546** |
| Other information: | | | | |
| Segment assets [(c)] | **2,787,877,377** | **484,849,277** | **1,271,918,749** | **4,544,645,403** |
| Segment liabilities [(d)] | **1,964,096,463** | **107,537,523** | **266,146,455** | **2,337,780,441** |

[(a)] *Measured in TEUs.*

[(b)] *Capital expenditures include amount disbursed for the acquisition of port facilities and equipment classified as intangibles under IFRIC 12 and property and equipment as shown in the consolidated statements of cash flows.*

[(c)] *Segment assets do not include deferred tax assets amounting to US$90.6 million, US$111.1 and US$158.3 million as at December 31, 2016, 2017 and 2018, respectively.*

[(d)] *Segment liabilities do not include income tax payable amounting to US$32.3 million, US$29.5 million, and US$31.6 million, and deferred tax liabilities amounting to US$71.4 million, US$80.5 million and US$104.3 million as at December 31, 2016, 2017 and 2018, respectively.*

Moreover, management monitors the Group's earnings before interest, taxes, depreciation and amortization (EBITDA) on a consolidated basis for decision-making purposes. The following table shows the computation of EBITDA as derived from the consolidated net income attributable to equity holders of the parent for the years ended December 31:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Net income attributable to equity holders of the parent | US$180,015,587 | US$182,141,250 | **US$221,493,804** |
| Non-controlling interests | 13,454,791 | 25,575,549 | **28,329,043** |
| Provision for income tax | 63,571,100 | 40,546,823 | **59,031,803** |
| Income before income tax | 257,041,478 | 248,263,622 | **308,854,650** |
| Add (deduct): | | | |
| Depreciation and amortization | 147,830,235 | 173,464,668 | **195,711,716** |
| Interest and other expenses [(a)] | 155,910,280 | 206,790,082 | **193,611,567** |
| Interest and other income [(b)] | (35,703,649) | (50,506,815) | **(55,957,306)** |
| EBITDA [(c)] | US$525,078,344 | US$578,011,557 | **US$642,220,627** |

[(a)] *Interest and other expenses include the following as shown in the consolidated statements of income: foreign exchange loss; interest expense on concession rights payable; interest expense and financing charges on borrowings; impairment loss on goodwill; equity in net loss of joint ventures and an associate; and other expenses.*

[(b)] *Interest and other income include the following as shown in the consolidated statements of income: foreign exchange gain; interest income; and other income.*

[(c)] *EBITDA is not a uniform or legally defined financial measure. EBITDA is presented because the Group believes it is an important measure of its performance and liquidity. EBITDA is also frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the industry.*

*The Group EBITDA figures are not, however, readily comparable with other companies' EBITDA figures as they are calculated differently and thus must be read in conjunction with related additional explanations. EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Group's results as reported under PFRS. Some of the limitations concerning EBITDA are:*

- *EBITDA does not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;*
- *EBITDA does not reflect changes in, or cash requirements for working capital needs;*
- *EBITDA does not reflect the interest expense, or cash requirements necessary to service interest or principal debt payments;*
- *Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; and*
- *Other companies in the industry may calculate EBITDA differently, which may limit its usefulness as a comparative measure.*

*Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of the business. The Group compensates for these limitations by relying primarily on PFRS results and uses EBITDA only as supplementary information.*

All segment revenues are from external customers. Gross revenues from port operations of ICTSI and other Philippine-based subsidiaries comprised 39.5 percent, 35.9 percent and 36.8 percent of the consolidated gross revenues from port operations for the years ended December 31, 2016, 2017 and 2018, respectively. Gross revenues from port operations outside the Republic of the Philippines comprised 60.5 percent, 64.1 percent and 63.2 percent of the consolidated gross revenues from port operations for the years ended December 31 2016, 2017 and 2018, respectively.

# 5. Intangibles

This account consists of:

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Concession Rights (see Note 24) | | | | | | |
| | Upfront Fees | Fixed Fees | Port Infrastructure | Subtotal | Computer Software | Goodwill | Total |
| Cost | | | | | | | |
| Balance at beginning of year | US$305,055,327 | US$556,322,511 | US$1,312,497,094 | US$2,173,874,932 | US$33,389,352 | US$127,697,578 | US$2,334,961,862 |
| Acquisitions or additions | – | – | 104,094,895 | 104,094,895 | 1,704,547 | – | 105,799,442 |
| Disposals | – | – | – | – | (1,325,380) | – | (1,325,380) |
| Change in accounting estimate (see Note 24.10) | – | (6,360,128) | – | (6,360,128) | – | – | (6,360,128) |
| Transfers from (to) other accounts (see Note 6) | – | – | (7,981,412) | (7,981,412) | 10,001,901 | – | 2,020,489 |
| Translation adjustments | (6,244,578) | (651,140) | (581,211) | (7,476,929) | 1,089,175 | (1,242,787) | (7,630,541) |
| Balance at end of year | 298,810,749 | 549,311,243 | 1,408,029,366 | 2,256,151,358 | 44,859,595 | 126,454,791 | 2,427,465,744 |
| Accumulated Amortization and Impairment Losses | | | | | | | |
| Balance at beginning of year | 82,383,481 | 98,741,046 | 287,785,909 | 468,910,436 | 16,950,478 | 64,985,984 | 550,846,898 |
| Amortization for the year | 11,361,724 | 22,909,765 | 49,585,489 | 83,856,978 | 6,315,539 | – | 90,172,517 |
| Disposals | – | – | – | – | (1,305,672) | – | (1,305,672) |
| Transfers from other accounts (see Note 6) | – | – | – | – | 16,314 | – | 16,314 |
| Translation adjustments | (1,098,610) | (305,265) | (320,594) | (1,724,469) | 723,109 | – | (1,001,360) |
| Balance at end of year | 92,646,595 | 121,345,546 | 337,050,804 | 551,042,945 | 22,699,768 | 64,985,984 | 638,728,697 |
| Net Book Value | US$206,164,154 | US$427,965,697 | US$1,070,978,562 | US$1,705,108,413 | US$22,159,827 | US$61,468,807 | US$1,788,737,047 |

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Concession Rights (see Note 24) | | | | | | |
| | Upfront Fees | Fixed Fees | Port Infrastructure | Subtotal | Computer Software | Goodwill | Total |
| Cost | | | | | | | |
| Balance at beginning of year | US$298,810,749 | US$549,311,243 | US$1,408,029,366 | US$2,256,151,358 | US$44,859,595 | US$126,454,791 | US$2,427,465,744 |
| Acquisitions or additions | 31,825 | – | 109,458,821 | 109,490,646 | 2,182,645 | – | 111,673,291 |
| Disposals | – | – | – | – | (12,479) | – | (12,479) |
| Termination of contracts (see Note 1.2) | (16,738,959) | – | – | (16,738,959) | (489,789) | – | (17,228,748) |
| Transfers from other accounts (see Notes 6 and 9) | – | – | 14,163,889 | 14,163,889 | 8,356,744 | – | 22,520,633 |
| Translation adjustments | 6,294,649 | 2,868,427 | 556,186 | 9,719,262 | 3,551,071 | 1,375,267 | 14,645,600 |
| Balance at end of year | 288,398,264 | 552,179,670 | 1,532,208,262 | 2,372,786,196 | 58,447,787 | 127,830,058 | 2,559,064,041 |
| Accumulated Amortization and Impairment Losses | | | | | | | |
| Balance at beginning of year | 92,646,595 | 121,345,546 | 337,050,804 | 551,042,945 | 22,699,768 | 64,985,984 | 638,728,697 |
| Amortization for the year | 10,321,295 | 23,060,424 | 57,581,598 | 90,963,317 | 9,317,360 | – | 100,280,677 |
| Disposals | – | – | – | – | (12,237) | – | (12,237) |
| Termination of contracts (see Note 1.2) | (988,389) | – | – | (988,389) | (489,789) | – | (1,478,178) |
| Translation adjustments | 1,066,800 | 789,201 | 1,925,894 | 3,781,895 | 2,050,763 | – | 5,832,658 |
| Balance at end of year | 103,046,301 | 145,195,171 | 396,558,296 | 644,799,768 | 33,565,865 | 64,985,984 | 743,351,617 |
| Net Book Value | US$185,351,963 | US$406,984,499 | US$1,135,649,966 | US$1,727,986,428 | US$24,881,922 | US$62,844,074 | US$1,815,712,424 |

| | **2018** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Concession Rights (see Note 24)** | | | | | | |
| | **Upfront Fees** | **Fixed Fees** | **Port Infrastructure** | **Subtotal** | **Computer Software** | **Goodwill** | **Total** |
| **Cost** | | | | | | | |
| Balance at beginning of year | **US$288,398,264** | **US$552,179,670** | **US$1,532,208,262** | **US$2,372,786,196** | **US$58,447,787** | **US$127,830,058** | **US$2,559,064,041** |
| Acquisitions or additions | **28,171,046** | **111,606,482** | **144,942,204** | **284,719,732** | **878,928** | **–** | **285,598,660** |
| Transfers from other accounts (see Notes 6 and 9) | **–** | **–** | **(9,309,831)** | **(9,309,831)** | **9,839,247** | **–** | **529,416** |
| Translation adjustments | **(12,320,425)** | **(7,106,223)** | **(14,088,363)** | **(33,515,011)** | **(1,879,895)** | **(7,370,444)** | **(42,765,350)** |
| Balance at end of year | **304,248,885** | **656,679,929** | **1,653,752,272** | **2,614,681,086** | **67,286,067** | **120,459,614** | **2,802,426,767** |
| **Accumulated Amortization and Impairment Losses** | | | | | | | |
| Balance at beginning of year | **103,046,301** | **145,195,171** | **396,558,296** | **644,799,768** | **33,565,865** | **64,985,984** | **743,351,617** |
| Amortization for the year | **10,333,719** | **25,463,710** | **62,985,189** | **98,782,618** | **8,570,392** | **–** | **107,353,010** |
| Impairment loss for the year (see Notes 5 and 10) | **–** | **–** | **–** | **–** | **–** | **5,786,047** | **5,786,047** |
| Transfers to other accounts (see Note 6) | **–** | **–** | **–** | **–** | **(3,699,777)** | **–** | **(3,699,777)** |
| Translation adjustments | **(4,064,759)** | **(3,019,904)** | **(7,886,586)** | **(14,971,249)** | **(1,050,376)** | **10,544** | **(16,011,081)** |
| Balance at end of year | **109,315,261** | **167,638,977** | **451,656,899** | **728,611,137** | **37,386,104** | **70,782,575** | **836,779,816** |
| **Net Book Value** | **US$194,933,624** | **US$489,040,952** | **US$1,202,095,373** | **US$1,886,069,949** | **US$29,899,963** | **US$49,677,039** | **US$1,965,646,951** |

Concession Rights
Additions to concession rights under port infrastructure pertain to acquisitions of port equipment and construction mainly in ICTSI Iraq, CGSA and MICT in 2016 and MICT, ICTSI Iraq and OPC in 2017. In 2018, additions to concession rights mainly pertain to acquisition of the terminal operating agreements, including acquisition of port facilities and equipment in SPICTL and MITL and acquisition of port facilities and equipment in OPC, MICT and ICTSI Iraq. Additions to concession rights under port infrastructure which are not yet available for use are not amortized but tested for impairment at December 31 in accordance with the Group's accounting policy on Impairment Testing on Nonfinancial Assets (see Note 10).

The reduction in concession rights under upfront fees pertains to the termination of the Sub-concession Agreement of LICTSLE and lease agreement of ICTSI Oregon amounting to US$12.5 million and US$4.2 million in 2017, respectively (see Note 1.2).

Concession rights have remaining amortization periods ranging from 4 to 37 years.

Upon recognition of the fair value of fixed fee on concession contracts, the Group also recognized the corresponding concession rights payable. Maturities of concession rights payable arising from the capitalization of fixed and upfront fees as at December 31, 2018 are as follows:

| | Amount |
|---|---|
| 2019 | US$10,603,454 |
| 2020 | 17,647,901 |
| 2021 | 19,102,491 |
| 2022 | 20,681,006 |
| 2023 onwards | 473,234,560 |
| Total | US$541,269,412 |

Interest expense on concession rights payable amounted to US$34.0 million in 2016, US$33.1 million in 2017 and US$37.5 million in 2018.

Capitalized borrowing costs amounted to US$3.1 million in 2016 at a capitalization rate of 6.42 to 6.45 percent, US$0.5 million in 2017 at a capitalization rate of 2.40 to 2.80 percent and US$1.8 million in 2018 at a capitalization rate of 3.50 to 7.00 percent. Unamortized borrowing costs amounted to US$109.3 million, US$108.2 million and US$106.9 million as at December 31, 2016, 2017 and 2018, respectively.

Computer Software
Computer software have remaining amortization periods ranging from one to five years.

Goodwill
Goodwill arises from the excess of acquisition costs over fair values of net assets at acquisition dates of the following subsidiaries:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| PICT | US$29,128,210 | US$27,462,533 | **US$21,746,214** |
| AGCT | 15,295,983 | 17,728,394 | **16,986,890** |
| YICT | 9,493,491 | 10,132,830 | **9,585,269** |
| DIPSSCOR (see Note 10) | 6,130,027 | 6,104,243 | **–** |
| Others | 1,421,096 | 1,416,074 | **1,358,666** |
| | US$61,468,807 | US$62,844,074 | **US$49,677,039** |

Goodwill is not amortized but subject to an annual impairment testing as at December 31 (see Note 10).

Impairment of Goodwill

*DIPSSCOR*. In 2018, an impairment charge of US$5.8 million was recorded in respect of the Group's goodwill in DIPSSCOR based on value-in-use calculation using discounted cash flows throughout the estimated period of concession. The remaining carrying value of goodwill in DIPSSCOR after the impairment charge is nil. The reportable segment of DIPSSCOR is Asia. The impairment charge in DIPSSCOR was a result of lower projected cash flows as DIPSSCOR's concession contract ended in April 2016 and is currently operating on the basis of hold-over authority granted by the PPA (see Note 3).

The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used discount rates based on the industry's Weighted Average Cost of Capital (WACC). Management assumed a discount rate of 10.34 percent for DIPSSCOR as at December 31, 2018. Management recognizes that unfavorable conditions can materially affect the assumptions used in the determination of value-in-use.

## 6. Property and Equipment

This account consists of:

2016

| | Land and Land Improvements | Leasehold Rights and Improvements | Port Facilities and Equipment | Transportation Equipment | Office Equipment, Furniture and Fixtures | Miscellaneous Equipment | Port Equipment Spare Parts | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| Balance at beginning of year | US$80,170,007 | US$338,396,133 | US$520,678,553 | US$73,048,071 | US$43,084,536 | US$17,954,965 | US$4,293,861 | US$364,733,981 | US$1,442,360,107 |
| Additions | 14,555,500 | 596,602 | 73,011,203 | 1,235,665 | 1,647,193 | 10,250,970 | 759,318 | 238,207,447 | 340,263,898 |
| Disposals | – | (1,941) | (1,455,499) | (23,644,870) | (531,524) | (282,937) | (76,668) | – | (25,993,439) |
| Transfers from (to) other accounts (see Note 5) | 11,660,540 | (18,012,176) | 22,676,895 | 661,837 | 3,735,583 | (1,486,813) | (161,177) | (21,095,178) | (2,020,489) |
| Translation adjustments | (9,434,928) | (7,878,427) | (574,647) | 710,657 | (169,306) | 466,720 | 151,196 | (24,596,145) | (41,324,880) |
| Balance at end of year | 96,951,119 | 313,100,191 | 614,336,505 | 52,011,360 | 47,766,482 | 26,902,905 | 4,966,530 | 557,250,105 | 1,713,285,197 |
| Accumulated Depreciation, Amortization and Impairment Losses | | | | | | | | | |
| Balance at beginning of year | – | 65,560,364 | 142,448,725 | 43,980,351 | 32,011,663 | 8,040,117 | 1,462,773 | – | 293,503,993 |
| Depreciation and amortization for the year | – | 17,624,736 | 25,897,023 | 6,469,400 | 4,702,819 | 2,384,520 | 231,903 | – | 57,310,401 |
| Disposals | – | (1,941) | (1,083,271) | (16,656,174) | (483,191) | (233,109) | – | – | (18,457,686) |
| Transfers from (to) other accounts (Note 5) | – | (8,208,022) | 8,139,547 | 467,191 | 1,020,020 | (1,435,050) | – | – | (16,314) |
| Translation adjustments | – | 495,188 | (109,481) | (1,310,051) | 12,520 | 302,629 | 70,917 | – | (538,278) |
| Balance at end of year | – | 75,470,325 | 175,292,543 | 32,950,717 | 37,263,831 | 9,059,107 | 1,765,593 | – | 331,802,116 |
| Net Book Value | US$96,951,119 | US$237,629,866 | US$439,043,962 | US$19,060,643 | US$10,502,651 | US$17,843,798 | US$3,200,937 | US$557,250,105 | US$1,381,483,081 |

2017

| | Land and Land Improvements | Leasehold Rights and Improvements | Port Facilities and Equipment | Transportation Equipment | Office Equipment, Furniture and Fixtures | Miscellaneous Equipment | Port Equipment Spare Parts | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| Balance at beginning of year | US$96,951,119 | US$313,100,191 | US$614,336,505 | US$52,011,360 | US$47,766,482 | US$26,902,905 | US$4,966,530 | US$557,250,105 | US$1,713,285,197 |
| Additions | 8,965,269 | 3,461,476 | 11,654,116 | 2,326,541 | 1,475,136 | 2,116,693 | 130,601 | 78,271,801 | 108,401,633 |
| Disposals | – | (65,998) | (3,595,352) | (1,226,779) | (439,928) | (382,923) | (306,129) | – | (6,017,109) |
| Termination of contract (Note 1.2) | – | (372,517) | (8,967,138) | (470,687) | (1,026,718) | (388,616) | – | (31,975) | (11,257,651) |
| Transfers from (to) other accounts (see Notes 5 and 9) | 816,135 | 326,795,051 | 133,094,682 | 494,547 | 1,566,153 | (4,649,570) | 241,629 | (475,258,659) | (16,900,032) |
| Translation adjustments | 1,994,289 | 17,339,377 | 12,140,270 | 184,174 | 254,288 | 723,745 | 37,458 | 33,099,835 | 65,773,436 |
| Balance at end of year | 108,726,812 | 660,257,580 | 758,663,083 | 53,319,156 | 49,595,413 | 24,322,234 | 5,070,089 | 193,331,107 | 1,853,285,474 |
| Accumulated Depreciation, Amortization and Impairment Losses | | | | | | | | | |
| Balance at beginning of year | – | 75,470,325 | 175,292,543 | 32,950,717 | 37,263,831 | 9,059,107 | 1,765,593 | – | 331,802,116 |
| Depreciation and amortization for the year | 1,389,254 | 25,937,532 | 33,371,797 | 4,127,746 | 4,740,157 | 3,091,669 | 178,907 | – | 72,837,062 |
| Disposals | – | (65,998) | (2,936,474) | (1,029,064) | (386,182) | (355,223) | – | – | (4,772,941) |
| Termination of contract (Note 1.2) | – | (66,713) | (3,824,711) | (468,380) | (1,003,907) | (266,283) | – | – | (5,629,994) |
| Transfers to other accounts (Note 5) | – | – | – | – | – | (2,312,000) | – | – | (2,312,000) |
| Translation adjustments | 495,519 | 1,918,565 | 2,258,395 | (34,562) | 84,735 | 504,649 | (57,710) | – | 5,169,591 |
| Balance at end of year | 1,884,773 | 103,193,711 | 204,161,550 | 35,546,457 | 40,698,634 | 9,721,919 | 1,886,790 | – | 397,093,834 |
| Net Book Value | US$106,842,039 | US$557,063,869 | US$554,501,533 | US$17,772,699 | US$8,896,779 | US$14,600,315 | US$3,183,299 | US$193,331,107 | US$1,456,191,640 |

| | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Land and Land Improvements** | **Leasehold Rights and Improvements** | **Port Facilities and Equipment** | **Transportation Equipment** | **Office Equipment, Furniture and Fixtures** | **Miscellaneous Equipment** | **Port Equipment Spare Parts** | **Construction in Progress** | **Total** |
| **Cost** | | | | | | | | | |
| Balance at beginning of year | **US$108,726,812** | **US$660,257,580** | **US$758,663,083** | **US$53,319,156** | **US$49,595,413** | **US$24,322,234** | **US$5,070,089** | **US$193,331,107** | **US$1,853,285,474** |
| Additions | **864,344** | **2,485,386** | **24,690,098** | **3,712,932** | **2,325,115** | **2,397,457** | **281,358** | **63,128,867** | **99,885,557** |
| Disposals | **–** | **(42,027)** | **(8,617,701)** | **(1,762,068)** | **(387,310)** | **(21,651)** | **(135,368)** | **(5,566,437)** | **(16,532,562)** |
| Transfers from (to) other accounts (see Notes 5 and 9) | **2,312,374** | **72,640,768** | **123,481,079** | **1,064,662** | **5,705,808** | **16,823,715** | **(543,121)** | **(221,066,394)** | **418,891** |
| Translation adjustments | **(1,981,258)** | **(51,707,555)** | **(36,352,672)** | **(959,173)** | **(1,453,127)** | **(625,172)** | **(137,875)** | **(6,922,708)** | **(100,139,540)** |
| Balance at end of year | **109,922,272** | **683,634,152** | **861,863,887** | **55,375,509** | **55,785,899** | **42,896,583** | **4,535,083** | **22,904,435** | **1,836,917,820** |
| **Accumulated Depreciation, Amortization and Impairment Losses** | | | | | | | | | |
| Balance at beginning of year | **1,884,773** | **103,193,711** | **204,161,550** | **35,546,457** | **40,698,634** | **9,721,919** | **1,886,790** | **–** | **397,093,834** |
| Depreciation and amortization for the year | **1,398,904** | **32,387,775** | **41,895,837** | **3,897,035** | **4,698,699** | **3,627,446** | **91,765** | **–** | **87,997,461** |
| Disposals | **–** | **(31,254)** | **(8,075,758)** | **(1,239,106)** | **(225,220)** | **(50,831)** | **–** | **–** | **(9,622,169)** |
| Transfers from other accounts (Note 5) | **–** | **–** | **–** | **–** | **3,699,777** | **–** | **–** | **–** | **3,699,777** |
| Translation adjustments | **(48,420)** | **(7,450,173)** | **(10,230,851)** | **(777,861)** | **(1,135,473)** | **(208,445)** | **(448,406)** | **–** | **(20,299,629)** |
| Balance at end of year | **3,235,257** | **128,100,059** | **227,750,778** | **37,426,525** | **47,736,417** | **13,090,089** | **1,530,149** | **–** | **458,869,274** |
| **Net Book Value** | **US$106,687,015** | **US$555,534,093** | **US$634,113,109** | **US$17,948,984** | **US$8,049,482** | **US$29,806,494** | **US$3,004,934** | **US$22,904,435** | **US$1,378,048,546** |

Capitalized borrowing costs amounted to US$21.2 million in 2016 at a capitalization rate of 6.45 percent, US$9.9 million in 2017 at a capitalization rate of 5.65 to 6.73 percent and US$2.5 million in 2018 at a capitalization rate of 3.76 to 6.47 percent. Unamortized borrowing costs amounted to US$53.7 million, US$62.1 million and US$62.1 million as at December 31, 2016, 2017 and 2018, respectively.

Construction in progress is mainly composed of ongoing port development and expansion projects in VICT and CMSA as of December 31, 2016; VICT and CGT as of December 31, 2017; and CMSA and MICT as of December 31, 2018 (see Note 1.2).

Fully depreciated property and equipment with cost amounting to US$98.0 million, US$153.3 million and US$185.7 million as at December 31, 2016, 2017 and 2018, respectively, are still being used in the Group's operations.

Port equipment of BCT with a total carrying value of US$3.0 million and US$6.0 million as at December 31, 2017 and 2018, respectively, were pledged as collateral for its outstanding loans from its overdraft facility (see Note 17); port equipment of AGCT with a total carrying value of HRK153.8 million (US$21.4 million), HRK148.3 million (US$24.0 million) and HRK141.3 million (US$21.9 million) were pledged as collateral for its outstanding foreign currency-denominated loan (see Note 15.2.4) as at December 31, 2016, 2017 and 2018, respectively; all present and future plant machinery, tools and equipment of PICT of up to Rs.2.0 billion (US$19.2 million) were used to secure its long-term debt from a commercial bank in Pakistan (see Note 15.2.4) as at December 31, 2016; certain property and equipment of YICT with total carrying value of RMB176.9 million (US$27.2 million) and RMB167.6 million (US$24.4 million) as at December 31, 2017 and 2018, respectively, were pledged as collateral for its outstanding foreign currency-denominated loan (see Note 15.2.4); certain port equipment of CMSA with a total carrying value of US$31.1 million and US$42.7 million as at December 31, 2016 and 2017, respectively, were pledged as security for its long-term loans from the project finance facility (see Note 15.2.2); and all current and future assets of VICT, including port equipment, with a total carrying value of AUD887.3 million (US$639.6 million), AUD813.0 million (US$639.6 million) and AUD837.1 million (US$590.7 million) as of December 31, 2016, 2017 and 2018, respectively, were pledged as securities for its project finance facilities (see Note 15.2.4).

## 7. Investment Properties

The details of investment properties are as follows:

| | 2016 | | |
|---|---|---|---|
| | Land and Improvements | Building and Others | Total |
| Cost | | | |
| Balance at beginning of year | US$11,253,304 | US$674,594 | US$11,927,898 |
| Translation adjustments | (234,791) | (7,219) | (242,010) |
| Balance at end of year | 11,018,513 | 667,375 | 11,685,888 |
| Accumulated Depreciation and Amortization | | | |
| Balance at beginning of year | 4,661,757 | 425,271 | 5,087,028 |
| Amortization during the year | 340,629 | 6,688 | 347,317 |
| Translation adjustments | – | (3,761) | (3,761) |
| Balance at end of year | 5,002,386 | 428,198 | 5,430,584 |
| Net Book Value | US$6,016,127 | US$239,177 | US$6,255,304 |

| | 2017 | | |
|---|---|---|---|
| | Land and Improvements | Building and Others | Total |
| Cost | | | |
| Balance at beginning of year | US$11,018,513 | US$667,375 | US$11,685,888 |
| Additions | 1,783,034 | 337,512 | 2,120,546 |
| Translation adjustments | (17,472) | (537) | (18,009) |
| Balance at end of year | 12,784,075 | 1,004,350 | 13,788,425 |
| Accumulated Depreciation and Amortization | | | |
| Balance at beginning of year | 5,002,386 | 428,198 | 5,430,584 |
| Amortization during the year | 340,629 | 6,300 | 346,929 |
| Translation adjustments | – | (225) | (225) |
| Balance at end of year | 5,343,015 | 434,273 | 5,777,288 |
| Net Book Value | US$7,441,060 | US$570,077 | US$8,011,137 |

| | **2018** | | |
|---|---|---|---|
| | **Land and Improvements** | **Building and Others** | **Total** |
| **Cost** | | | |
| Balance at beginning of year | **US$12,784,075** | **US$1,004,350** | **US$13,788,425** |
| Translation adjustments | **(208,466)** | **(6,410)** | **(214,876)** |
| Balance at end of year | **12,575,609** | **997,940** | **13,573,549** |
| **Accumulated Depreciation and Amortization** | | | |
| Balance at beginning of year | **5,343,015** | **434,273** | **5,777,288** |
| Amortization during the year | **355,217** | **6,028** | **361,245** |
| Translation adjustments | **–** | **(3,702)** | **(3,702)** |
| Balance at end of year | **5,698,232** | **436,599** | **6,134,831** |
| **Net Book Value** | **US$6,877,377** | **US$561,341** | **US$7,438,718** |

Land and improvements mainly include land held for capital appreciation and land improvements subject to operating leases.

Investment properties of MICT and IWI CTHI located in Cabuyao, Laguna have a fair value of ₱872.6 million (US$16.6 million) as at February 7, 2018 based on a valuation performed by a qualified independent appraiser whose report was dated February 27, 2018.

Fair value of the investment properties was determined using the sales comparison approach. This means that valuations performed by qualified independent appraisers are based on sales of similar or substitute properties, significantly adjusted for differences in the nature, location or condition of the specific property. This valuation approach is categorized as *Level 3* in the fair value hierarchy as of December 31, 2016, 2017 and 2018. The significant unobservable input to the valuation is the price per square meter which ranges from ₱2,268 (US$43.1) to ₱4,750 (US$90.3).

Significant increases or decreases in estimated price per square meter in isolation would result in a significantly higher or lower fair value on a linear basis.

Rental income derived from rental-earning investment properties presented as part of "Other income" account in the consolidated statements of income amounted to US$0.4 million both in 2016 and 2017 and US$0.6 million in 2018 (see Note 20.1). There were no restrictions on realizability of investment properties and no significant repairs and maintenance were made to maintain the Group's investment properties in 2016, 2017 and 2018. The rent agreement covering rental-earning investment properties is renewable at the option of both parties yearly.

Operating expenses related to the investment property amounted to US$0.6 million in 2016 and US$0.8 million both in 2017 and 2018, which pertains mainly to real property taxes.

## 8. **Investments in and Advances to Joint Ventures and Associates**

This account consists of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Investment in and advances to joint ventures | US$293,638,405 | US$299,680,549 | **US$299,262,180** |
| Investment in associates | 7,474,994 | 90,022,297 | **89,400,804** |
| | 301,113,399 | 389,702,846 | **388,662,984** |
| Less allowance for probable losses | 7,474,994 | 7,474,994 | **7,474,994** |
| | US$293,638,405 | US$382,227,852 | **US$381,187,990** |

Investment in and Advances to Joint Ventures
Investment in joint ventures mainly pertains to the Group's 46.30 percent ownership interest in SPIA as at December 31, 2018. The advances to SPIA mainly represent interest-bearing loans used by SPIA to finance the construction of its terminal and its start-up operations in Colombia (see Note 22.1). SPIA started commercial operations in the fourth quarter of 2016.

The Group has a 49 percent investment in FAMI. FAMI was established in March 2018 and has not yet started commercial operations as of March 5, 2019.

The movements and details of this account are as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Investment in Joint Ventures: | | | |
| Balance at beginning of year | US$22,019,569 | US$16,450,596 | **(US$14,521,557)** |
| Acquisition of shares in joint ventures | – | 47,619 | **2,338,207** |
| Conversion of advances to equity | – | 5,732,420 | **–** |
| Translation adjustments | 3,024 | – | **–** |
| Equity in net losses during the year | (5,571,997) | (36,752,192) | **(23,536,008)** |
| Balance at end of year | 16,450,596 | (14,521,557) | **(35,719,358)** |
| Advances to a joint venture (see Note 22.1) | 277,187,809 | 314,202,106 | **334,981,538** |
| | US$293,638,405 | US$299,680,549 | **US$299,262,180** |

The summarized financial information of SPIA as at and for the years ended December 31 follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Current assets [(a)] | US$7,181,633 | US$11,703,748 | **US$15,124,799** |
| Noncurrent assets | 627,306,201 | 618,971,579 | **604,996,288** |
| Current liabilities [(b)] | 296,183,118 | 325,518,840 | **347,818,988** |
| Noncurrent liabilities [(c)] | 301,819,841 | 336,484,536 | **354,254,325** |

*(a) Current assets include cash and cash equivalents amounting to US$3.0 million, US$4.8 million and US$2.5 million as at December 31, 2016, 2017 and 2018, respectively.*

*(b) Current liabilities include income tax payable amounting to US$101.3 thousand, US$150.8 thousand and nil as at December 31, 2016, 2017 and 2018, respectively.*

*(c) Noncurrent liabilities include deferred tax liabilities amounting to US$7.4 million, US$7.1 million and US$6.7 million as at December 31, 2016, 2017 and 2018, respectively.*

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Gross revenues from port operations | US$1,037,994 | US$14,535,018 | **US$41,445,905** |
| Operating expenses | (8,732,070) | (22,000,141) | **(25,666,482)** |
| Depreciation and amortization | (343,175) | (33,840,567) | **(36,121,362)** |
| Other income [(d)] | 2,277,119 | 2,855,285 | **2,894,862** |
| Other expenses [(e)] | (6,890,232) | (43,954,592) | **(46,184,668)** |
| Benefit from income tax | 615,813 | 3,026,612 | **13,007,569** |
| Net loss | (US$12,034,551) | (US$79,378,385) | **(US$50,624,176)** |

*(d) Other income includes interest income amounting to US$51.3 thousand in 2016, US$149.2 thousand in 2017 and US$104.1 thousand in 2018.*

*(e) Other expenses include interest expense on concession rights payable amounting to US$1.3 million in 2016, 2017 and 2018 and interest expense on advances from ICBV and PSA amounting to nil in 2016, US$35.5 million in 2017 and US$38.6 million in 2018.*

The difference between the carrying value of investment in SPIA against the share in net assets of SPIA represents the excess of fair value over the carrying value of the concession rights of SPIA.

Investments in Associates

The movements and details of this account are as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Investments in Associates | | | |
| Balance at beginning of year | US$7,474,994 | US$7,474,994 | **US$90,022,297** |
| Acquisition of shares in an associate (see Note 1.3) | – | 81,144,000 | **–** |
| Equity in net income during the year | – | 414,815 | **1,267,748** |
| Share in other comprehensive income (loss) (see Note 14.7) | – | 988,488 | **(1,889,241)** |
| Balance at end of year | 7,474,994 | 90,022,297 | **89,400,804** |
| Less allowance for probable losses | 7,474,994 | 7,474,994 | **7,474,994** |
| | US$– | US$82,547,303 | **US$81,925,810** |

The Group has a 49 percent investment in ARDC, an associate. ARDC had stopped commercial operations. The investment in ARDC was covered with a full allowance for probable losses amounting to US$7.5 million.

On September 21, 2017, ICTSI signed a SPA with Petron Corporation for the acquisition of 10,449,000 MNHPI shares, representing 34.83 percent of the total issued and outstanding shares of MNHPI for a consideration of Php1.75 billion (US$33.8 million). The completion of the SPA was subject to several conditions, one of which was the approval of the acquisition by the Philippine Ports Authority. The SPA was completed on October 30, 2017. An additional investment cost of Php2.45 billion (US$47.3 million) was incurred in relation to this acquisition.

On September 5, 2018, ICTSI has signed an SPA with Harbour Centre Port Terminal, Inc. (HCPTI) for the acquisition of 4,550,000 shares in MNHPI from HCPTI. The subject shares represent 15.17% of the total issued and outstanding shares of MNHPI. The consideration is Php910.0 million (US$16.8 million). As of March 5, 2019, the completion of the SPA remains subject to a number of conditions precedent. Upon completion of this transaction, ICTSI's shareholdings in MNHPI will increase from 34.83 percent to 50 percent. An additional investment cost will be incurred in relation to this acquisition.

The finalized fair values of the identifiable assets and liabilities of MNHPI at the date of acquisition were:

| | Share in the Fair Value Recognized on Acquisition |
|---|---|
| **Assets** | |
| Property and equipment | US$358,492 |
| Intangibles | 140,322,295 |
| Deferred tax asset | 1,504,712 |
| Other noncurrent assets | 1,740,985 |
| Cash and cash equivalents | 5,712,181 |
| Receivables | 3,038,693 |
| Spare parts and supplies | 1,767,810 |
| Prepaid expenses and other current assets | 2,300,524 |
| | 156,745,692 |
| **Liabilities** | |
| Loans payable | (37,168,452) |
| Accounts payable and other current liabilities | (3,027,272) |
| Long-term debt | (9,286,109) |
| Concession rights payable | (20,073,115) |
| Other noncurrent liabilities | (1,166,435) |
| Deferred tax liability | (17,759,649) |
| | (88,481,032) |
| Total identifiable net assets at fair value | 68,264,660 |
| Goodwill arising on acquisition | 12,879,340 |
| Purchase consideration and additional investment cost satisfied by cash | US$81,144,000 |

The finalized fair values reflect the financial effects of adjustments on intangibles, concession rignts payable and goodwill.

The summarized financial information of MNHPI as at and for the year ended December 31 follows:

| | 2017 | **2018** |
|---|---|---|
| Current assets [(a)] | US$40,501,252 | **US$29,180,195** |
| Noncurrent assets | 252,212,999 | **326,894,513** |
| Current liabilities | 121,800,880 | **110,297,818** |
| Noncurrent liabilities [(b)] | 78,042,108 | **75,399,475** |

*(a) Current assets include cash and cash equivalents amounting to US$16.7 million and US$9.5 million as at December 31, 2017 and 2018, respectively.*

*(b) Noncurrent liabilities include deferred tax liabilities amounting to nil and US$18.9 million as at December 31, 2017 and 2018, respectively.*

| | For the period November 1, 2017 to December 31, 2017 | **2018** |
|---|---|---|
| Gross revenues from port operations | US$12,093,570 | **US$72,668,167** |
| Operating expenses | (7,515,542) | **(36,097,953)** |
| Depreciation and amortization | (2,622,283) | **(19,019,400)** |
| Other income | 913,185 | **845,881** |
| Other expenses [(c)] | (1,677,959) | **(14,019,412)** |
| Provision from income tax | – | **(737,477)** |
| Net income | US$1,190,971 | **US$3,639,806** |

*(c) Other expenses include interest expense on concession rights payable amounting to US$0.8 million and US$3.7 million and interest expense and financing charges on borrowings amounting to US$0.9 million and US$7.3 million in 2017 and 2018, respectively.*

As of December 31, 2018, the difference between the carrying value of investment in MNHPI against the share in net assets of MNHPI represents goodwill on MNHPI amounting to US$12.9 million and excess of fair value over the carrying value of identifiable assets and liabilities of MNHPI amounting to US$39.0 million.

## 9. **Other Noncurrent Assets**

This account consists of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Advances to suppliers, contractors and others (net of allowance for probable losses of US$3.1 million, US$0.7 million and US$0.7 million as at December 31, 2016, 2017 and 2018, respectively) (see Note 20) | US$54,921,826 | US$54,038,658 | **US$91,145,589** |
| Restricted cash (see Notes 15 and 25) | 20,933,562 | 21,008,123 | **24,897,124** |
| AFS investments/ Financial assets at FVOCI (see Notes 3 and 26) | 13,103,435 | 13,348,132 | **13,722,125** |
| Input tax (see Note 13) | 1,481,100 | 246,775 | **883,098** |
| Derivative assets (Note 26) | 7,970,479 | 4,765,819 | **152,906** |
| Pension assets (see Note 23) | 981 | – | **89,898** |
| Debt issuance costs (see Note 15.2.6) | 3,666,403 | – | – |
| Prepayments and others | 4,229,373 | 4,956,162 | **7,993,150** |
| | US$106,307,159 | US$98,363,669 | **US$138,883,890** |

Advances to Suppliers, Contractors and Others
Advances to suppliers, contractors and others mainly pertain to advance payments for the acquisition of transportation equipment and construction of port facilities, advance payments for future rentals and deposits for acquisitions of properties and investments. As at December 31, 2016, 2017 and 2018, this account includes advances and deposits to suppliers and contractors and for the acquisition of properties and investments amounting to US$48.9 million, US$47.4 million and US$81.0 million, respectively (see Notes 1.2 and 8).

Restricted Cash
Restricted cash pertained mainly to cash deposits placed by the Group as required by the concession agreements for MICTSL, SCIPSI and DIPSSCOR. The garnished cash of TSSA arising from a civil suit filed by a former customer of TSSA is likewise included in this account (see Note 25). This account also included the US$13.0 million cash of CMSA placed in special purpose debt service and operating and maintenance reserve accounts in accordance with the project finance loan documents in 2016 and 2017 and nil in 2018 due to termination of CMSA loan (see Note 15.2.2). In 2018, this account also included the US$17.3 million (AUD24.6 million) cash of VICT placed in a special purpose debt service reserve account in accordance with the project finance loan documents (see Note 15.2.4).

Debt Issuance Costs
On July 24, 2014, the Board of ICTSI approved the establishment of a loan facility programme pursuant to which a subsidiary, IGFBV, may from time to time enter into one or more loan facilities with one or more lenders under the said programme, to be guaranteed by ICTSI. In connection with the establishment of the said programme, the Board also approved the first loan facility under the programme with IGFBV as the borrower and ICTSI as the guarantor. The loan facility is a revolving credit facility with a principal amount of US$350.0 million and a tenor of five years from signing date, July 24, 2014. In 2015, IGFBV availed a total of US$100.0 million from the US$350.0 million five-year revolving credit facility bearing interest ranging from 2.13 to 2.14 percent per annum. In August 2015, IGFBV prepaid the US$100.0 million loan.

In April and June 2016, IGFBV availed of loans amounting to US$150.0 million and US$10.0 million, respectively, from the US$350.0 million five-year revolving credit facility bearing interest ranging from 2.39 to 2.71 percent per annum. In August, November and December 2016, IGFBV partially paid loans availed in April and June 2016 totaling US$145.0 million. The remaining balance of US$15.0 million was fully paid on May 31, 2017.

The related debt issuance costs of the revolving facility amounting to US$7.1 million are being amortized over five years (see Note 15.2.6). Commitment fees amounting to US$2.2 million and US$1.2 million in 2016 and 2017, respectively, representing 0.78 percent per annum of the amount of the undrawn facility, is recorded as part of "Interest expense and financing charges on borrowings" account in the consolidated statements of income.

The revolving credit facility was cancelled on June 8, 2017. As a result of the cancellation, the unamortized portion of the costs of securing the loan facility amounting to US$3.0 million was charged to profit or loss and recognized as "Other expenses" in the 2017 consolidated statement of income (see Note 20.3).

AFS Investments/ Financial Assets at FVOCI

The net movement in unrealized mark-to-market gain on AFS investments / financial assets at FVOCI is as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Balance at beginning of year | US$1,125,896 | US$952,022 | **US$586,788** |
| Change in fair value of AFS investments/ financial assets at FVOCI | (173,874) | (365,234) | **393,072** |
| Balance at end of year (see Note 14.7) | US$952,022 | US$586,788 | **US$979,860** |

Prepayments and Others

As at December 31, 2018, this account includes the minimum presumed income tax of Tecplata amounting to US$3.9 million which is available to be offset against its future income tax payable (see Note 21).

## 10. Impairment Testing on Nonfinancial Assets

The Group reviews all assets annually or more frequently to look for any indication that an asset may be impaired. These assets include property and equipment, intangible assets, investments in joint ventures and associates, intangible assets not yet available for use and goodwill. If any such indication exists, or when the annual impairment testing for an asset is required, the Group calculates the asset's recoverable amount. Irrespective of whether there is any indication of impairment, intangible assets not yet available for use and goodwill acquired in a business combination are tested for impairment annually. ICTSI and its subsidiaries used a discounted cash flow analysis to determine value-in-use. Value-in-use reflects an estimate of the future cash flows the Group expects to derive from the cash-generating unit, expectations about possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors such as illiquidity that market participants would reflect in pricing the future cash flows the Group expects to derive from the cash-generating unit. The calculation of the value-in-use is based on reasonable and supportable assumptions, the most recent budgets and forecasts and extrapolation for periods beyond budgeted projections. These represent management's best estimate of the economic conditions that will exist over the remaining useful life of the asset.

The recoverable amount of non-financial assets of the Group subject to impairment testing has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period or remaining concession period. Projections beyond five years were used for the newly established terminals and/or greenfield projects.

Key assumptions used to determine the value-in-use are discount rates including cost of debt and cost of capital, growth rates, EBITDA margins, working capital and capital expenditure.

Discount Rates
The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group used discount rates based on the industry's WACC. The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets where the subsidiaries are domiciled taking into consideration the debt premium, market risk premium, gearing, corporate tax rate and asset betas of these subsidiaries. Management assumed discount rates of 7.10 percent to 10.72 percent in 2016, 9.50 percent to 13.01 percent in 2017 and 10.02 percent to 16.21 percent in 2018.

Growth Rates
Average growth rates in revenues are based on ICTSI's expectation of market developments and the changes in the environment in which it operates. ICTSI uses revenue growth rates ranging from 3 percent to 7 percent, based on past historical performance as well as expectations on the results of its strategies. On the other hand, the perpetual growth rate used to compute for the terminal value is based on the forecasted long-term growth of real gross domestic product (GDP) of the economy in which the business operates.

EBITDA Margin
The EBITDA margin represents the operating margin before depreciation and amortization and is estimated based on the margin achieved in the period immediately before the budget period and on estimated future development and growth in the industry and market. Committed operational efficiency programs are taken into consideration. Changes in the outcome of these initiatives may affect future estimated EBITDA margin.

Capital Expenditure
In computing the value-in-use, estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition. Capital expenditures that improve or enhance the asset's performance therefore are not included. However, for the newly established terminals and/or greenfield projects, management takes into consideration the capital expenditures necessary to meet the expected growth in volume and revenues. These expansionary capital expenditures of which the Group has incurred cash outflows, for the newly established terminals are deducted from the future cash flows.

## 11. **Cash and Cash Equivalents**

This account consists of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Cash on hand and in banks | US$248,562,837 | US$212,792,304 | **US$139,138,642** |
| Cash equivalents (see Note 26.4) | 76,495,755 | 66,634,767 | **307,940,683** |
| | US$325,058,592 | US$279,427,071 | **US$447,079,325** |

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term investments, which are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term investment rates. The carrying value of cash and cash equivalents approximates their fair value as at the balance sheet date.

Interest income derived from interest-earning bank deposits and short-term investments amounted to US$3.1 million, US$4.1 million and US$4.8 million for the years ended December 31, 2016, 2017 and 2018, respectively.

As of December 31, 2018, ICTSI designated EUR138.3 million (US$158.5 million) of its Euro denominated cash equivalents as cash flow hedges (see Note 26.4).

## 12. **Receivables**

This account consists of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Trade | US$93,476,622 | US$107,650,970 | **US$113,688,162** |
| Advances and nontrade | 16,858,404 | 12,725,127 | **14,703,918** |
| | 110,335,026 | 120,376,097 | **128,392,080** |
| Less allowance for doubtful accounts | 7,404,589 | 7,484,983 | **7,968,303** |
| | US$102,930,437 | US$112,891,114 | **US$120,423,777** |

Trade receivables are noninterest-bearing and are generally on 30-60 days' credit terms.

Advances and nontrade receivables mainly include noninterest-bearing advances to suppliers and vendors that may be applied against payable or collectible within 12 months.

Movements in the allowance for doubtful accounts are summarized below:

| | | 2016 | |
|---|---|---|---|
| | Trade | Advances and Nontrade | Total |
| Balance at beginning of year | US$5,495,804 | US$52,758 | US$5,548,562 |
| Provision during the year | 1,901,534 | − | 1,901,534 |
| Write-off | (591,310) | − | (591,310) |
| Translation adjustments | 545,803 | − | 545,803 |
| Balance at end of year | US$7,351,831 | US$52,758 | US$7,404,589 |

| | 2017 | | |
|---|---|---|---|
| | Trade | Advances and Nontrade | Total |
| Balance at beginning of year | US$7,351,831 | US$52,758 | US$7,404,589 |
| Provision during the year | 848,788 | – | 848,788 |
| Write-off | (744,270) | – | (744,270) |
| Translation adjustments | (24,124) | – | (24,124) |
| Balance at end of year | US$7,432,225 | US$52,758 | US$7,484,983 |

| | **2018** | | |
|---|---|---|---|
| | **Trade** | **Advances and Nontrade** | **Total** |
| Balance at beginning of year | **US$7,432,225** | **US$52,758** | **US$7,484,983** |
| Effect of PFRS 9 (see Note 3) | **449,581** | **–** | **449,581** |
| Balance at beginning of year, as restated | **7,881,806** | **52,758** | **7,934,564** |
| Provision during the year | **342,172** | **–** | **342,172** |
| Write-off | **(40,785)** | **–** | **(40,785)** |
| Translation adjustments | **(267,648)** | **–** | **(267,648)** |
| Balance at end of year | **US$7,915,545** | **US$52,758** | **US$7,968,303** |

## 13. Prepaid Expenses and Other Current Assets

This account consists of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Input tax (see Note 9) | US$25,850,876 | US$29,378,322 | **US$38,946,312** |
| Prepaid port fees, insurance, bonds and other expenses | 12,572,638 | 17,189,416 | **18,574,479** |
| Creditable withholding taxes | 8,894,553 | 14,576,148 | **6,550,338** |
| Tax credits | 3,236,372 | 7,064,208 | **2,472,451** |
| Others | 3,825,481 | 2,570,611 | **4,920,784** |
| | US$54,379,920 | US$70,778,705 | **US$71,464,364** |

Input Tax

This account includes input tax recognized mainly by CMSA and ICTSI from the acquisition of terminal equipment and payments of civil works in relation to the construction activities at these terminals (see Notes 6 and 9) and expected to be applied against output tax within 12 months from the balance sheet date.

Tax Credits

Tax credits consist of tax credits granted by the tax authorities and tax credit certificates issued to ICTSI, TSSA, OPC and CGSA which can be applied against tax liabilities in the future.

## 14. **Equity**

The Group was listed with the PSE on March 23, 1992. In its initial public offering, the Parent Company offered its common shares at a price of ₱6.70. As at December 31, 2016, 2017 and 2018, the Parent Company had 1,427, 1,399 and 1,383 shareholders on record, respectively.

### 14.1 Capital Stock and Treasury Shares

The Parent Company's common shares are listed and traded in the PSE.

The details and movements of ICTSI's capital stock and treasury shares as at December 31 were as follows:

| | Number of Shares | | | | | |
|---|---|---|---|---|---|---|
| | Authorized | | | Issued and Subscribed | | |
| | 2016 | 2017 | **2018** | 2016 | 2017 | **2018** |
| **Preferred A Shares** - nonvoting, non-cumulative, ₱1.00 (US$0.048) par value | 993,000,000 | 993,000,000 | **993,000,000** | 3,800,000 | 3,800,000 | **3,800,000** |
| **Preferred B Shares** - voting, non-cumulative, ₱0.01 (US$0.0002) par value | 700,000,000 | 700,000,000 | **700,000,000** | 700,000,000 | 700,000,000 | **700,000,000** |
| **Common Stock** - ₱1.00 (US$0.048) par value | 4,227,397,381 | 4,227,397,381 | **4,227,397,381** | 2,045,177,671 | 2,045,177,671 | **2,045,177,671** |

| | Number of Shares | | |
|---|---|---|---|
| | Issued and Subscribed | | |
| | 2016 | 2017 | **2018** |
| **Treasury Shares** | | | |
| Balance at beginning of year | (10,469,155) | (17,130,267) | **(10,982,205)** |
| Acquisitions during the year | (8,175,510) | (5,400,000) | **(25,039,790)** |
| Sale during the year | – | 10,000,000 | **–** |
| Issuance for share-based payments (see Note 19) | 1,514,398 | 1,548,062 | **1,846,255** |
| Balance at end of year | (17,130,267) | (10,982,205) | **(34,175,740)** |

| | Amount Issued and Subscribed | | |
|---|---|---|---|
| | 2016 | 2017 | **2018** |
| **Preferred Stock** | US$236,222 | US$236,222 | **US$236,222** |
| **Common Stock** | US$67,781,529 | US$67,781,529 | **US$67,781,529** |
| Subscription Receivable | (451,341) | (451,341) | **(451,341)** |
| | US$67,330,188 | US$67,330,188 | **US$67,330,188** |
| **Treasury Shares** | | | |
| Balance at beginning of year | (US$7,547,826) | (US$17,904,401) | **(US$15,059,524)** |
| Issuance of treasury shares for share-based payments (see Note 19) | 1,233,965 | 1,342,692 | **2,277,081** |
| Sale during the year | – | 11,069,183 | **–** |
| Acquisitions during the year | (11,590,540) | (9,566,998) | **(45,329,627)** |
| Balance at end of year | (US$17,904,401) | (US$15,059,524) | **(US$58,112,070)** |

Preferred Shares

The Preferred A shares, which were subscribed by ICTHI, are nonvoting, entitled to dividend at rates to be fixed by the Board, non-cumulative, convertible to common shares under such terms to be provided by the Board, redeemable at such price and terms determined by the Board and have preference over common shares in the distribution of the assets of the Parent Company (see Note 14.3). As at March 5, 2019, the Board has not fixed the dividend rate and terms of conversion of Preferred A shares.

The Preferred B shares were issued to Achillion Holdings, Inc. (Achillion). As at March 5, 2019, Preferred B shares have the following features: voting; issued only to Philippine Nationals; not convertible into common shares; earn no dividend and redeemable at the option of the Board.

Achillion is a Philippine corporation owned and controlled by ICTSI's Chairman and President and controlling stockholder, Mr. Enrique K. Razon, Jr. The ICTSI contract with PPA on the operation, management and development of the MICT requires the Razon Group to retain control of ICTSI.

Treasury Shares

Treasury shares came from the acquisition of ICTSI common shares or transfer of ICTSI common shares held by subsidiaries. Part of the treasury shares are subsequently reissued upon vesting of stock awards under the Stock Incentive Plan (SIP) (see Note 19).

On November 26, 2018, the Board of ICTSI approved and authorized the re-purchase from the open market of up to 30 million ICTSI shares, in addition to the number of shares approved and ratified by the BOD on September 16, 2015 initially at 10 million shares and on November 17, 2016 for an additional 20 million shares. The purpose of the said authorizations is to provide management the flexibility to acquire shares from the open market either for the SIP or as and when management deems the price of the shares to be undervalued. In 2016, 2017 and 2018, the Company acquired 8,175,510 treasury shares totaling US$11.6 million, 5,400,000 treasury shares totaling US$9.6 million and 25,039,790 treasury shares totaling US$45.3 million, respectively.

On September 8, 2017, the Board of ICTSI approved the sale of 10 million treasury shares. The approval of sale is in response to a reverse inquiry from an investor who expressed serious interest for a sizable ownership of the Company. On the same date, ICTSI's 10 million treasury shares were sold at US$2.07 (Php105.10) per share with net proceeds amounting to US$20.4 million. The said transaction resulted in the increase of US$9.3 million in additional paid-in capital and the reduction in treasury shares of US$11.1 million in 2017.

14.2 Additional Paid-in Capital

Additional paid-in capital is increased when ICTSI grants stock awards and these stock awards vest under the SIP. Aggregate increase in additional paid-in capital amounted to US$1.4 million, US$2.3 million and US$1.5 million in 2016, 2017 and 2018, respectively, as a result of granting and vesting of stock awards (see Note 19).

14.3 Cost of Shares Held by Subsidiaries

Details and movements in preferred and common shares held by subsidiaries as at December 31 are as follows:

| | 2016 | | 2017 | | **2018** | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | **Number of Shares** | **Amount** |
| **Preferred Shares** | 3,800,000 | US$72,492,481 | 3,800,000 | US$72,492,481 | **3,800,000** | **US$72,492,481** |
| **Common Shares** | 734,970 | 1,769,114 | 734,970 | 1,769,114 | **734,970** | **1,769,114** |
| | 4,534,970 | US$74,261,595 | 4,534,970 | US$74,261,595 | **4,534,970** | **US$74,261,595** |

As at December 31, 2016, 2017 and 2018, cost of preferred shares held by a subsidiary pertains to preference A shares held by ICTHI and cost of common shares held by a subsidiary pertains to common shares held by IWI CTHI.

14.4 Non-controlling Interests

The dividends distributed to non-controlling shareholders are as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| PICT | US$11,164,344 | US$8,764,022 | **US$6,335,029** |
| IDRC | – | – | **2,858,291** |
| AGCT | – | 987,166 | **1,864,889** |
| YICT | 618,740 | – | **1,841,962** |
| BIPI | 846,489 | 799,936 | **1,142,966** |
| SCIPSI | 1,281,148 | 1,481,089 | **615,898** |
| LGICT | – | – | **151,872** |
| MTS | – | – | **103,927** |
| DIPSSCOR | 73,668 | 42,283 | **28,866** |
| | US$13,984,389 | US$12,074,496 | **US$14,943,700** |

14.5 Retained Earnings

The details of ICTSI's declaration of cash dividends are as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Date of Board approval | April 21, 2016 | April 20, 2017 | **April 19, 2018** |
| Cash dividends per share | US$0.020 (₱0.91) | US$0.05 (₱2.47) | **US$0.05 (₱2.50)** |
| Record date | May 5, 2016 | May 5, 2017 | **May 4, 2018** |
| Payment date | May 18, 2016 | May 17, 2017 | **May 11, 2018** |

Retained earnings were reduced by distributions paid out by RCBV to holders of Perpetual Capital Securities discussed in Note 14.6 below aggregating US$34.2 million in 2016, US$41.6 million in 2017 and US$60.3 million in 2018.

Of the total retained earnings of US$779.4 million, US$819.7 million and US$882.8 million as at December 31, 2016, 2017 and 2018, respectively, undistributed cumulative earnings of subsidiaries in retained earnings position amounting to US$832.9 million, US$1,056.7 million and US$1,211.1 million, as at December 31, 2016, 2017 and 2018, respectively, were not available for dividend distribution (see Note 21). As at December 31, 2018, the retained earnings is restricted for dividend declaration to the extent of the cost of treasury shares held amounting to US$58.1 million.

On April 21, 2016, the Board of the Parent Company approved the release of US$90.0 million from appropriated retained earnings. On December 29, 2017, the Board of the Parent Company appropriated US$25.0 million for additional working capital requirements of its continuing domestic and foreign expansion projects in 2018. On March 6, 2018, the Board of the Parent Company approved the release of US$150.0 million from the appropriated retained earnings back to unappropriated retained earnings due to completion of the project in VICT in Australia. The remaining appropriated retained earnings of the Parent Company as of March 5, 2019 amounting to US$212.1 million is intended for capital expenditures for new and existing projects in MICT in Manila, OPC in Honduras, ICTSI Iraq in Iraq and CMSA in Mexico.

As at December 31, 2016, 2017 and 2018, total appropriated retained earnings of the Parent Company amounted to US$337.1 million, US$362.1 million and US$212.1 million, respectively.

The unappropriated retained earnings of the Parent Company that is available for dividend declaration as of December 31, 2018 amounted to US$74.6 million.

14.6 Perpetual Capital Securities

On April 28, 2011, RCBV (the "Issuer") and ICTSI (the "Guarantor") signed a Subscription Agreement with The Hong Kong and Shanghai Banking Corporation Limited (HSBC) and Citigroup Global Markets Limited (Citi) for the issuance of US$200,000,000 8.375 percent Subordinated Guaranteed Perpetual Capital Securities (the "Original Securities"). The Original Securities confer a right to receive a return on the Original Securities (the "Distribution") every Distribution Payment Date as described in the terms and conditions of the Original Securities. These distributions are payable semi-annually in arrears on the Distribution Payment Dates of each year. However, the Issuer may, at its sole and absolute discretion, prior to any Distribution Payment Date, resolve to defer payment of all or some of the Distribution which would otherwise be payable on that Distribution Payment Date subject to exceptions enumerated in the terms and conditions of the Original Securities. The Original Securities are perpetual securities in respect of which there is no fixed redemption date but the Issuer may, at its option change the status of the Securities or redeem the same on instances defined under its terms and conditions.

On April 29, 2011, the Board approved the terms and conditions of the Original Securities, which were subsequently issued on May 5, 2011. The net proceeds from the issue of the Original Securities amounting to US$193.4 million were used for the development of greenfield projects, potential acquisitions and general corporate purposes.

On January 9, 2012, ICTSI tapped a further US$150.0 million (the "Further Securities") of the Original Securities discussed in the preceding paragraphs, increasing the size to US$350.0 million. The Further Securities were issued on January 17, 2012. The Original and Further Securities are collectively referred to as the "Securities". The Further Securities were issued at a price of 98.375 percent (plus interest accrued on the Securities from and including November 5, 2011 to but excluding January 17, 2012). The net proceeds from the issue of the Further Securities amounting to US$143.6 million were used for the same purpose as the Original Securities.

The Securities were not registered with the Philippine SEC. The Securities were offered in offshore transactions outside the United States in accordance with Regulation S under the U.S. Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered or sold within the United States. The Securities are traded and listed in the Singapore Stock Exchange.

The Securities are treated as a liability in the financial statements of the Issuer or RCBV since it has the obligation to pay the accumulated distributions should the Guarantor declare dividends to its common stockholders. On the other hand, the Securities are treated as part of equity attributable to equity holders of the parent in the consolidated financial statements of the Group because nothing in the terms and conditions of the Securities gives rise to an obligation of the Group to deliver cash or another financial asset in the future as defined by PAS 32. However, should the Issuer decide to exercise its option to redeem the Securities, the Securities shall be treated as a financial liability from the date the redemption option is exercised. Should the Issuer also opt to not defer payment of distributions on a Distribution Payment Date, all distributions in arrears as at that date will be recognized as a financial liability until payment is made.

On January 29, 2015, RCBV issued US$300.0 million 6.25 percent Senior Guaranteed Perpetual Capital Securities unconditionally and irrevocably guaranteed by ICTSI at a price of 99.551 percent or US$298.7 million. The new issue was partly used to finance the tendered US$230.0 million 8.375 percent Subordinated Guaranteed Perpetual Capital Securities ("Original Securities") at a tender price of 107.625 or US$247.5 million. The cash proceeds received by RCBV amounted to US$46.7 million, net of debt issuance cost. Exchange premium and unamortized debt issuance cost of the Original Securities amounting to US$23.2 million, was directly charged against retained earnings as a result of the transaction. The transaction did not have an impact on the 2015 consolidated statement of income of the Company and was treated as an equity transaction since the perpetual capital securities are treated as part of equity in the 2015 consolidated balance sheet.

On August 26, 2015, RCBV issued US$450.0 million 5.50 percent Senior Guaranteed Perpetual Capital Securities ("New Securities") unconditionally and irrevocably guaranteed by ICTSI. The cash proceeds received by RCBV amounted to US$436.3 million, net of debt issuance cost, will be used for refinancing, funding capital expenditures and general corporate purposes.

In July and August 2015, RCBV redeemed and cancelled a total of US$11.3 million of the Subordinated Guaranteed Perpetual Capital Securities.

On May 5, 2016, RCBV redeemed the remaining US$108.3 million of the US$350 million Original and Further Securities and paid the accrued distributions amounting to US$4.5 million. The difference amounting to US$7.6 million between the total of the redemption price and accrued distributions of US$112.8 million and the carrying amount of the remaining Original and Further Securities of US$105.2 million was directly charged against retained earnings.

On October 3, 2016, RCBV tendered its US$300.0 million 6.25 percent and US$450.0 million 5.50 percent Senior Guaranteed Perpetual Capital Securities for redemption at a price of 106.75 and 105.75, respectively. On October 20, 2016, RCBV redeemed a total of US$345.5 million of the tendered securities and paid the associated accrued distributions of US$9.3 million. Together with the redemption, RCBV issued US$375.0 million 4.875 percent Senior Guaranteed Perpetual Capital Securities unconditionally and irrevocably guaranteed by ICTSI at a price of 99.225. The new issue was used to finance the redemption and payment of accrued distributions of the tendered securities. The difference amounting to US$41.2 million between the redemption price of US$376.2 million, including accrued distributions of US$9.3 million, and the carrying value of the redeemed perpetual capital securities amounting to US$335.0 million was directly charged to retained earnings. The amount equivalent to the proceeds from the new issue, net of debt issuance costs, was recognized as additional perpetual capital securities.

On January 10, 2018, the Board approved the principal terms and conditions and issuance of the US$350.0 million 5.875 percent fixed-for-life Senior Guaranteed Perpetual Capital Securities (the "New Securities"). The New Securities were unconditionally and irrevocably guaranteed by ICTSI.

On January 11, 2018, the Board approved the issuance of additional Senior Guaranteed Perpetual Capital Securities amounting to US$50.0 million ("Additional Securities") which was consolidated and formed a single series with the New Securities initially offered on January 10, 2018. The Additional Securities were also unconditionally and irrevocably guaranteed by ICTSI.

The cash proceeds received by RCBV from the issuance of the New and Additional Securities amounted to US$392.3 million, net of debt issuance costs, which shall be used for the financing of acquisitions and capital expenditures and for general corporate purposes.

RCBV paid distributions totaling US$34.2 million, US$41.6 million and US$60.3 million to the holders of the Securities in 2016, 2017 and 2018, respectively (see Note 14.5). Interest expense on Perpetual Capital Securities, which represents cumulative distributions to holders of Perpetual Capital Securities, amounted US$46.3 million, US$41.6 million and US$63.9 million for the years ended December 31, 2016, 2017 and 2018. However, the interest expense has not been recognized in the consolidated statements of income but instead directly charged against retained earnings since the Perpetual Capital Securities are presented as equity attributable to equity holders of the parent. For purposes of computing for earnings per share, the cumulative distributions to holders of Perpetual Capital Securities are deducted from net income attributable to equity holders of the parent.

### 14.7 Other Comprehensive Loss - Net

The details of other comprehensive net loss, net of applicable tax, as at December 31 are as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Cumulative translation adjustments* (see Note 3.3) | (US$291,425,330) | (US$259,625,939) | **(US$314,373,993)** |
| Unrealized mark-to-market gain (loss) on derivatives (see Notes 26.4 and 26.6) | 3,682,715 | 247,337 | **(1,534,126)** |
| Unrealized mark-to-market gain on AFS investments (see Note 9) | 952,022 | 586,788 | **979,860** |
| Business combination revaluation reserve | 609,969 | 609,969 | **609,969** |
| Share of other comprehensive gain (loss) of associates (see Note 8) | – | 988,488 | **(900,753)** |
| Actuarial gains on defined benefit plans (see Note 23) | 735,260 | 570,928 | **466,220** |
| | (US$285,445,364) | (US$256,622,429) | **(US$314,752,823)** |

**Cumulative translation adjustments arise from the change in functional currency of the Parent Company and some of its subsidiaries' translation of foreign operations.*

## 15. Long-term Debt

### 15.1 Outstanding Balances and Maturities

A summary of outstanding balance of long-term debt (net of debt issuance costs) as at December 31 is presented below:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| US dollar-denominated notes (see Note 15.2.1) | US$179,228,914 | US$179,241,377 | **US$179,255,736** |
| US dollar-denominated term loans (see Note 15.2.2) | 210,314,320 | 217,199,722 | **70,664,215** |
| Foreign currency-denominated loans (see Note 15.2.4) | 190,719,874 | 282,423,146 | **263,513,330** |
| US dollar-denominated medium-term notes (see Note 15.2.5) | 749,502,820 | 753,553,631 | **757,902,011** |
| Revolving credit facility (see Note 15.2.6) | 15,000,000 | – | **–** |
| | 1,344,765,928 | 1,432,417,876 | **1,271,335,292** |
| Less current portion | 18,485,813 | 22,149,388 | **50,848,341** |
| | US$1,326,280,115 | US$1,410,268,488 | **US$1,220,486,951** |

The balances of and movements in unamortized debt issuance costs, premium and discounts, net of the recognized fair value of prepayment option as at and for the years ended December 31 are shown below:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Balance at beginning of year | US$57,110,867 | US$64,810,450 | **US$58,729,772** |
| Debt issuance costs during the year | 14,437,862 | 623,485 | **–** |
| Amortization during the year | (6,344,213) | (6,626,331) | **(6,366,709)** |
| Write-off due to prepayment of long-term debt (see Notes 15.2.2 and 20.3) | – | – | **(7,034,590)** |
| Translation adjustments | (394,066) | (77,832) | **(961,137)** |
| Balance at end of year | US$64,810,450 | US$58,729,772 | **US$44,367,336** |

Amortization of debt issuance costs is presented as part of "Interest expense and financing charges on borrowings" in the consolidated statements of income.

Principal maturities of long-term debt (gross of unamortized debt issuance cost) as at December 31, 2018 were as follows:

| | Amount |
|---|---|
| 2019 | US$52,429,114 |
| 2020 | 234,777,449 |
| 2021 | 32,159,049 |
| 2022 | 25,063,136 |
| 2023 onwards | 971,273,880 |
| | US$1,315,702,628 |

15.2 Details and Description

15.2.1 US Dollar-denominated Notes

On March 10, 2010, ICTSI signed a Subscription Agreement with HSBC and JP Morgan Securities, Ltd. for the issuance of ten-year senior notes (the "Original Notes"). The Original Notes were issued on March 17, 2010 with an aggregate principal amount of US$250.0 million maturing on March 17, 2020. The Original Notes bear interest at a fixed rate of 7.375 percent, net of applicable taxes, payable semi-annually in arrears.

On April 29, 2010, ICTSI tapped a further US$200.0 million (the "Further Notes") of the Original Notes discussed in the preceding paragraph, increasing the size to US$450.0 million. The Further Notes were issued on May 6, 2010. The Original and Further Notes are collectively referred to as the "Notes". The Further Notes bear interest at the fixed rate of 7.375 percent, net of applicable taxes, and was set at a price of 102.627 for an effective yield of 7.0 percent.

The net proceeds of the Notes amounting to US$448.1 million were used to fund ICTSI's investments in existing and new terminal construction activities, refinance some of its existing debt and for other general corporate purposes.

The Notes were not registered with the Philippine SEC. The Notes were offered in offshore transactions outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered or sold within the United States. The Notes are traded and listed in the Singapore Stock Exchange.

On September 17, 2013, ITBV exchanged newly issued US$207.5 million 5.875 percent Notes due 2025 for ICTSI's US$178.9 million 7.375 percent Notes due 2020. The Notes due 2020 were then reduced from US$450.0 million to US$271.1 million. The Notes due 2025 were issued by ITBV under its US$1.0 billion Medium Term Note Programme (the "MTN Programme"), and are unconditionally and irrevocably guaranteed by ICTSI (see Note 15.2.5).

On January 29, 2015, a total of US$117.5 million 5.875 percent Notes due 2025 from the MTN Programme were issued at a price of 102.625 and US$102.6 million of which was used to exchange with holders of US$91.8 million 7.375 percent Notes due 2020. The cash proceeds received by ITBV amounted to US$11.6 million, net of debt issuance cost. These new Notes were consolidated and formed a single series with the US$282.5 million 5.875 percent guaranteed Notes due 2025 issued on September 17, 2013 and April 30, 2014 (see Note 15.2.5).

As at December 31, 2018, the outstanding balance of the Notes due 2020 amounted to US$179.3 million, net of debt issuance costs.

15.2.2 US Dollar-denominated Term Loans

*CMSA.* On October 21, 2015, CMSA signed a US$260.0 million Project Finance Facility with International Finance Corporation (IFC) and Inter-American Development Bank (IADB), and participated by Standard Chartered Bank (SCB) and KfW Ipex Bank.

The CMSA Project (the Project) is for the development and operation of a Specialized Container terminal at the Port of Manzanillo in Manzanillo, Mexico. The terminal will have a capacity of 2.2 million TEUs when completely built. The development will be done in three phases with phase one creating capacity of 750,000 TEUs. Phase two, which is expected to be completed by 2020, will increase the terminal's capacity to 1.4 million TEUs.

The financing package, which has a tenor of 12 years and a long availability period of four years, will help CMSA finance the completion of phases one and two of the Project. Interest is payable semi-annually based on floating interest rate computed at 6-month London Interbank Offered Rate (LIBOR) plus loan spread with a weighted average of 2.80 percent.

In accordance with the project finance loan documents, CMSA is required to maintain special purpose debt service and operating and maintenance reserve accounts to guarantee the debt payments and project costs disbursements and to pledge certain major port equipment as security (see Notes 6 and 9).

On December 23, 2015, CMSA availed US$95.0 million from the US$260.0 million facility. On November 15, 2016, CMSA availed an additional US$86.0 million from the same facility. In 2017, CMSA paid US$6.8 million of the loans. Upon prepayment of the loan on May 15, 2018, the related outstanding debt issuance costs of US$7.0 million was written off and charged to profit and loss as "Other expenses" in the 2018 consolidated statement of income (see Notes 15.1 and 20.3)

*BCT.* On October 27, 2011, BCT entered into a facilities agreement with Bank Polska Kasa Opieki S.A. ("Bank Polska") under which Bank Polska agreed to provide (i) term loan facility up to US$9.2 million, (ii) a capital expenditure facility up to US$36.3 million to finance or refinance project costs and fees, and (iii) an overdraft facility up to US$1.0 million to finance working capital requirements. Both the term loan and capital expenditure facility bear interest at 2.65 percent over LIBOR. The utilization under the overdraft facility will bear interest at 1.75 percent over LIBOR or Warsaw Interbank Offered Rate (WIBOR), as the case may be.

WIBOR is determined by the Financial Markets Association-ACI Polska for utilizations requested in Polizh Zloty.

In 2012, BCT availed: (i) US$7.9 million from the term loan facility; and (ii) US$0.9 million from the capital expenditure facility with Bank Polska, as discussed in the preceding paragraph. In 2013 and 2014, BCT availed US$2.0 million and US$10.4 million from the capital expenditure facility, respectively.

The purpose of the term loan facility under the facilities agreement is to refinance all existing financial indebtedness under the 2004 loan agreement. The 2011 loan agreement provided for substantially the same security arrangement and restrictions on the payment of dividends to ICTSI, as provided for in the 2004 loan agreement. One of the conditions precedent to any borrowing under the facilities agreement is for BCT to confirm the availability of the grant (the "EU Grant") by the *Centrum Unijnych Projektow Transportowych* (CUPT), a Polish grant authority, in an amount not lower than PLN50.0 million (approximately equivalent to US$16.2 million) to partly finance the cost of BCT's projected capital expenditure requirements.

On March 29, 2012, BCT and CUPT signed the EU Grant whereby CUPT would grant BCT a subsidy amounting to US$17.3 million (PLN53.9 million) and on October 21, 2013, BCT and CUPT signed a second EU Grant whereby CUPT would grant BCT a subsidy amounting to US$4.8 million (PLN14.6 million). The confirmation of the availability of the EU Grant is a condition precedent to any borrowing under the facilities agreement with Bank Polska, as discussed above. In December 2015, BCT finalized capital expenditure projects supported by the EU Grant with an estimated total of US$19.5 million (see Note 16). In July 2014, BCT entered into a term loan facility agreement for US$36.0 million with HSBC to refinance its current loan with Bank Polska and finalize capital expenditure projects supported by the EU Grant with an estimated total of US$20.0 million. The new term loan bore interest at 1.70 percent over LIBOR. In December 2015, BCT prepaid in full its outstanding HSBC loans totaling US$29.8 million and the related debt issuance cost and commitment fees totaling US$0.4 million were derecognized and charged to the 2015 consolidated statement of income.

*CGSA.* In 2014, CGSA availed of two-year unsecured term loans with local banks, namely, Banco Bolivariano and Banco De Guayaquil ("Local Banks in Ecuador") totaling US$4.5 million to finance capital expenditures and working capital requirements. The term loans with local banks in Ecuador bear a fixed interest rate of 7.5 percent with the principal payable in monthly installments. In September 2015, CGSA obtained two-year unsecured loans from Banco Del Pacifico amounting to US$2.0 million at a fixed interest rate of 8.75 percent and Banco Bolivariano amounting to US$2.0 million at a fixed interest rate of 8.83 percent. In October 2015, CGSA availed of a three-year unsecured term loan with BBP Bank, S.A. amounting to US$4.0 million at a fixed interest rate of 6.78 percent. In 2018, CGSA paid US$0.9 million of the loans. The loan was fully paid in September 2018.

In January and February 2016, CGSA obtained two-year fixed-term loans with a total of US$0.6 million from Banco del Pacifico at an interest rate of 8.75% per annum. The loans were fully paid in April 2016.

On March 29, 2016, CGSA (as "Borrower"), Metropolitan Bank and Trust Company (as "Lender" or "MBTC") and ICTSI (as "Surety") signed a loan agreement which consists of two tranches of US$32.5 million (Tranche I) and US$7.5 million (Tranche II) with floating interest rates. Tranche I has a final maturity in March 2021 while Tranche II matures in May 2017. In 2016, CGSA availed of loans with a total amount of US$40.0 million. Portion of the proceeds of these loans was used to refinance the unsecured term loans of CGSA amounting to US$9.2 million in

April 2016. In 2016 and 2017, CGSA paid a total amount of US$4.5 million and US$3.0 million of the loan under Tranche II. In 2017 and 2018, CGSA has paid a total amount of US$7.6 million and US$7.6 million of the loan under Tranche I, respectively. As at December 31, 2018, the outstanding balance of the loan with MBTC amounted to US$17.2 million.

*OPC.* On July 11, 2017, OPC (as "Borrower"), Metropolitan Bank and Trust Company (as "Lender") and ICTSI (as "Surety") signed a loan agreement amounting to US$77.0 million with floating interest rate and maturity date of July 2020. Proceeds of the loan was used to finance capital expenditures. OPC availed a total of US$24.5 million in 2017 and US$15.0 million in 2018 from the term loan facility. On April 26, 2018, US$25.0 million of the loan facility was voluntarily cancelled, reducing such facility from US$77.0 million to US$52.0 million. On June 21, 2018 and September 11, 2018, the amount of the facility was further reduced to US$47.0 million and US$39.5 million, respectively. OPC prepaid US$10.0 million on October 20, 2018. As at December 31, 2018, the outstanding balances of the loan amounted to US$29.5 million. OPC prepaid US$10.0 million on January 20, 2019.

*IDRC.* On October 9, 2018, IDRC availed of a four-year term loan with Rawbank RDC amounting to US$25.0 million at a fixed interest rate of 8.00 percent per annum. In 2018, IDRC has paid US$1.0 million of the loan. As at December 31, 2018, the outstanding balance of the loan amounted to US$24.0 million.

15.2.3 US Dollar-denominated Securities

On September 23, 2011, CGSA engaged in a fiduciary contract as originator for a securitization arrangement under which it transferred its receivables and future operating revenues from selected customers such as shipping lines and banana exporters (the "securitized assets") to a special purpose trust administered by *Administradora de Fondos de Inversión y Fideicomisos Futura Futurfid S.A.* (formerly named *Administradora de Fondos de Inversion Y Fideicomisos BG S.A.*) as trustee and handling agent. On October 24, 2011, the special purpose trust was officially approved to issue securities in three series against the securitized assets in the aggregate principal amount of US$60.0 million with each series to mature within five years from date of issue. Series A bears variable interest at the rate of 2.5 percent plus the reference interest rate for savings posted by Central Bank of Ecuador subject to a readjustment every quarter, while Series B and Series C bear interest at a fixed rate of 7.5 percent. Principal and interest are payable quarterly for each series.

The proceeds of the securitization issue, which were remitted to CGSA as consideration for the securitized assets, were used to finance capital expenditures and expansion of port operations. On the other hand, regular cash flows from the securitized assets were used by the special purpose trust to pay principal and interest due to holders of the securities and other expenses. Any excess in the cash flows remaining with the special purpose trust, after all obligations to holders of securities and relevant third parties are fully paid, will revert to CGSA as the originator. The securities issued pursuant to the securitization agreement are currently registered with and traded in the Ecuadorian stock market.

As at December 31, 2011, CGSA has received proceeds from the issuance and placement of securities under the securitization agreement amounting to US$55.0 million, net of debt issuance cost of US$0.8 million. In February 2012, CGSA placed the balance of the US$60.0 million securities, through a special purpose trust approved in 2011, amounting to US$4.2 million. CGSA has paid US$12.8 million in 2015 and US$13.8 million in 2016 of the outstanding securities. The securities were fully paid on 2016.

15.2.4 Foreign Currency-denominated Loans

*PICT.* On July 11, 2011, PICT signed a five-year Rs.2.5 billion (equivalent to US$29.1 million) Agreement for Financing on Mark-up Basis (Term Finance) with Faysal Bank Limited. The loan carries mark-up at the rate of six months Karachi Interbank Offered Rate (KIBOR) plus 1.75 percent and is secured against all present and future plant machinery, tools and equipment (see Note 6). Principal is repayable in nine equal semi-annual installments commencing in July 2012. Proceeds of the loan were partially used to fully pay the loans with IFC and Organization of the Petroleum Exporting Countries Fund for International Development (OFID) amounting to Rs.2.4 billion (US$27.9 million) on July 22, 2011, which were originally maturing in January 2018. The loan with remaining balance of Rs.1.5 billion was refinanced by Habib Bank Limited. The new loan carries a mark-up at the rate of six months Karachi Interbank Offered Rate (KIBOR) plus 0.75 percent and is secured against all present and future plant machinery, tools and equipment (see Note 6). Principal is repayable in five equal semi-annual installments commencing in June 2015. The loans were fully paid on June 2, 2017.

*AGCT.* In March 2013, AGCT signed the first part of a ten-year loan agreement for US$8.1 million (EUR6.2 million) with Raiffeisenbank Austria d.d. to partly finance the purchase of port equipment intended for the Brajdica Container Terminal. The principal is repayable in 112 monthly installments from January 31, 2014 up to April 30, 2023. Interest is payable monthly based on floating interest rate computed at 1-month Euro Interbank Offered Rate plus a spread of 4.2 percent. The loan is secured by AGCT's port equipment (see Note 6).

On July 22, 2013, AGCT signed the second part of the same loan agreement for US$5.6 million (EUR4.4 million). Principal is repayable in 120 monthly installments from January 31, 2014 up to December 31, 2023. Interest is payable monthly based on floating interest rate computed at 1-month Euro Interbank Offered Rate plus a spread of 4.2 percent. The loan is secured by AGCT's port equipment (see Note 6). On July 1, 2016, the spread on the interest of AGCT's loans was reduced from 4.2 percent to 3.4 percent. As at December 31, 2018, the total outstanding balance of the loans amounted to US$5.8 million (EUR5.1 million).

On April 6, 2016, AGCT signed a loan agreement for US$1.1 million (EUR 0.95 million). Principal is repayable in 12 monthly installments from November 30, 2016 up to October 31, 2017. Interest is payable monthly based on fixed interest rate of 3.90%. AGCT fully paid the loan on August 31, 2016.

On April 2018, AGCT signed a loan agreement for US$0.7 million (EUR0.6 million). Principal is repayable in 15 installments starting August 31, 2018 up to October 31, 2019. Interest is payable monthly based on fixed interest rate of 2.50%. In 2018, AGCT, paid US$0.3 million (EUR0.2 million) of the loans. As at December 31, 2018, the total outstanding balance of the loan amounted to US$0.4 million (EUR0.4 million).

*YICT.* The Company acquired, through the consolidation of YICT, the long-term loan with outstanding balance US$35.8 million (RMB222.2 million) as at December 31, 2014. The long-term loan with Agricultural Bank of China (ABC), which was availed principally to finance the development project related to the construction of the container terminal, bears an interest rate of 6.15 percent per annum and matured on December 7, 2014. On December 4, 2014, YICT signed a two-year loan agreement to refinance the loan bearing a lower interest rate of 6.0 percent per annum, which was repriced at 4.75 percent per annum in 2015.

Upon maturity of the loan from ABC in December 2016, YICT obtained a US$21.6 million (RMB150.0 million) short-term loan from YPH at an interest rate of 4.35 percent per annum and a maturity date of January 25, 2017. The loan was used to refinance YICT's loan with ABC. On January 12 and March 1, 2017, YICT prepaid a total amount of US$3.0 million (RMB20.0 million) and the balance of US$18.9 million (RMB130.0 million) was renewed with an interest rate of 4.50 percent per annum and matured on April 30, 2017 (see Note 17). On April 26, 2017, YICT obtained a US$21.8 million (RMB150.0 million) loan from ABC payable in installments with a final maturity on November 21, 2023 to refinance the maturing loan with YPH. Interest is based on the interest rate published by People's Bank of China (PBOC) less 5.00 percent of such base rate. The floating rate is subject to adjustment every twelve months. In 2017 and 2018, YICT paid US$8.9 million (RMB60.0 million) and US$6.0 million (RMB40.0 million) of the loans. The outstanding balance of the loan amounted to US$7.3 million (RMB50.0 million) as at December 31, 2018.

*VICT.* On July 15, 2016, VICT signed the syndicated project finance facilities with international and regional banks, namely: Citibank N.A., KFW IPEX-Bank, Standard Chartered Bank as Mandated Lead Arrangers and Bookrunners, Bank of China Limited, DBS Bank Ltd., Investec Bank PLC as Mandated Lead Arrangers, and Cathay United Bank as Lead Arranger, for principal amount of US$300.0 million (AUD398.0 million) with interest rates based on Australian Bank Bill Swap Reference Rate (bid) (BBSY) plus average margin of 3.1% per annum and maturities until 2023, 2026 and 2031. VICT is required to maintain a special purpose debt service account in accordance with the project finance loan documents and the finance facilities are secured against IOBV's shares in VICT, all present assets of VICT, and will be secured against future assets of VICT, among others (see Notes 6 and 9).

In 2016, 2017 and 2018, VICT availed of loans from the facilities amounting to US$196.9 million (AUD266.0 million), US$64.4 million (AUD84.0 million) and USD$20.9 million (AUD28.0 million), respectively. In 2018, VICT paid US$8.7 million (AUD11.6 million) of the loans. As at December 31, 2018, the total outstanding balance of the loans amounted to US$250.0 million (AUD354.7 million), net of debt issuance costs.

*ICTSI Middle East DMCC.* On January 9, 2019, ICTSI Middle East DMCC, as borrower, and ICTSI, as guarantor, signed a term loan facility agreement with Citigroup Global Markets Asia Limited and Standard Chartered Bank, the original mandated lead arrangers and bookrunners, for the principal amount of EUR260.0 million (US$297.6 million) with interest rate based on Euro Interbank Offer Rate (EURIBOR) plus an agreed margin and maturity on December 20, 2022. The term facility agreement was entered into pursuant to the Loan Facility Programme Agreement dated July 24, 2014 between ICTSI Global Finance B.V. as the borrower, ICTSI as the guarantor, and The Bank of New York Mellon, Singapore Branch as the trustee ("Loan Programme"). ICTSI Middle East DMCC acceded to the Loan Programme as an additional borrower and an additional obligor thereunder.

On January 10, 2019, ICTSI Middle East DMCC has fully availed the EUR260.0 million from the facility.

15.2.5 US Dollar-denominated Medium Term Note Programme (the "MTN Programme")

On January 9, 2013, ITBV, a majority owned subsidiary through ICTSI Ltd., established the MTN Programme that would allow ITBV from time to time to issue medium term notes (MTN), unconditionally and irrevocably guaranteed by ICTSI. The aggregate nominal amount of the MTN outstanding will not at any time exceed US$750.0 million (or its equivalent in other currencies), subject to increase as described in the terms and conditions of the Programme Agreement. This was increased to US$1.0 billion in August 2013.

Also, on January 9, 2013, ITBV and ICTSI signed a Subscription Agreement with HSBC and UBS AG, Hong Kong Branch, for the issuance of ten-year US$300.0 million guaranteed MTN (the "Original MTN") under the MTN Programme. The Original MTN were issued on January 16, 2013 to mature on January 16, 2023 at a fixed interest rate of 4.625 percent, net of applicable taxes, and were set at a price of 99.014 and payable semi-annually in arrears.

Moreover, on January 28, 2013, ITBV and ICTSI signed a Subscription Agreement with UBS AG, Hong Kong Branch, for the issuance of an additional ten-year US$100.0 million guaranteed MTN under the MTN Programme (the "MTN Tap") to form a single series with the Original MTN as discussed in the preceding paragraph. The MTN Tap were issued on February 4, 2013 to mature on January 16, 2023 at a fixed interest rate of 4.625 percent, net of applicable taxes, and were set at a price of 101.25 and payable semi-annually in arrears.

The aggregate net proceeds of the MTN amounting to US$393.8 million were used to refinance some of ICTSI's existing debt and for other general corporate purposes.

In June 2013, ICTSI purchased a total of US$6.0 million of ITBV's US$400.0 million MTN at US$5.7 million.

On April 25, 2014, the Board of ICTSI confirmed, ratified and approved the issuance of additional notes under the US$1.0 billion medium term note programme of ITBV, in the aggregate nominal amount of US$75.0 million. These new notes were consolidated and formed a single series with the US$207.5 million, 5.875 percent guaranteed Notes due 2025 issued on September 17, 2013 (see Note 15.2.1). The said notes were issued on April 30, 2014.

On January 29, 2015, a total of US$117.5 million 5.875 percent Notes due 2025 from the MTN Programme were issued at a price of 102.625 and US$102.6 million of which was used to exchange with holders of US$91.8 million 7.375 percent Notes due 2020. The cash proceeds received by ITBV amounted to US$11.6 million, net of debt issuance cost. The 2025 Notes were issued by ITBV under its US$1.0 billion MTN programme, and are unconditionally and irrevocably guaranteed by ICTSI. These new Notes were consolidated and formed a single series with the US$282.5 million 5.875 percent guaranteed Notes due 2025 issued on September 17, 2013 and April 30, 2014.

As at December 31, 2018, outstanding notes under the programme amounted to US$757.9 million, which includes the US$207.5 million 5.875 percent Notes due 2025 and US$117.5 million 5.875 percent Notes due 2025 discussed in Note 15.2.1.

The MTN were not registered with the Philippine SEC. The MTN were offered in offshore transactions outside the United States in accordance with Regulation S under the Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered or sold within the United States. The MTN are traded and listed in the Singapore Stock Exchange.

15.2.6 Revolving Credit Facility Programme

*IGFBV.* On July 24, 2014, the Board of ICTSI approved the establishment of a loan facility programme pursuant to which IGFBV, may from time to time enter into one or more loan facilities with one or more lenders under the said programme, to be guaranteed by ICTSI. In connection with the establishment of the said programme, the Board also approved the first loan facility under the programme with IGFBV as the borrower and ICTSI as the guarantor. The loan facility is a revolving credit facility with a principal amount of US$350.0 million and a tenor of five years from signing date, July 24, 2014. In 2015, IGFBV has availed a total of US$100.0 million from the US$350.0 million five-year revolving credit facility bearing interest ranging from 2.13 to 2.14 percent per annum. In August 2015, IGFBV prepaid the US$100.0 million loan.

In April and June 2016, IGFBV availed of loans amounting to US$150.0 million and US$10.0 million, respectively, from the US$350.0 million five-year revolving credit facility bearing interest ranging from 2.39 to 2.71 percent per annum. In August, November and December 2016, IGFBV partially paid loans availed in 2016 totaling US$145.0 million. The remaining balance of US$15.0 million was fully paid on May 31, 2017.

The related debt issuance cost of the revolving facility amounting to US$7.1 million was being amortized over five years (see Note 9) until the revolving credit facility was cancelled on June 8, 2017. As a result of the cancellation, the unamortized portion of the costs of securing the loan facility amounting to US$3.0 million was charged to profit or loss and recognized as "Other expenses" in the 2017 consolidated statement of income (see Note 20.3). Commitment fees amounting to US$2.2 million in 2016 and US$1.2 million in 2017, representing 0.78 percent per annum of the amount of undrawn facility, is recorded as part of "Interest expense and financing charges on borrowings" account in the consolidated statements of income.

15.3 Loan Covenants and Capitalized Borrowing Costs

The loan agreements with banks impose certain restrictions with respect to corporate reorganization, disposition of all or a substantial portion of ICTSI's and subsidiaries' assets, acquisitions of futures or stocks, and extending loans to others, except in the ordinary course of business. ICTSI is also required to comply with a specified financial ratio relating to their debt to EBITDA up to 4 times when incurring additional debt.

There was no material change in the covenants related to the Group's long-term debt. As at December 31, 2018, ICTSI and subsidiaries were in compliance with their loan covenants except for VICT whose Debt Service Coverage Ratio requirement was not met but having been irrevocably waived by the creditors, no event of default has occurred.

Interest expense, net of amount capitalized as intangible assets and property and equipment, presented as part of "Interest expense and financing charges on borrowings" account in the consolidated statements of income, amounted to US$68.0 million in 2016, US$93.4 million in 2017 and US$93.9 million in 2018 (see Notes 5 and 6).

## 16. **Other Noncurrent Liabilities**

This account consists of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Accrued rental (see Note 18) | US$64,575,728 | US$100,323,772 | **US$147,173,229** |
| Government grant (see Note 15.2.2) | 15,741,736 | 13,278,509 | **10,815,283** |
| Pension liabilities (see Note 23) | 7,487,607 | 9,477,311 | **9,240,574** |
| Derivative liability (Note 26) | 122,736 | 2,441,379 | **2,220,022** |
| Finance lease payable | 146,843 | 725,060 | **893,521** |
| Accrued taxes and others (see Note 18) | 2,893,477 | 9,559,077 | **9,179,182** |
| | US$90,968,127 | US$135,805,108 | **US$179,521,811** |

Accrued Rental

The accrued rental of VICT amounted to US$149.6 million (AUD207.5 million), US$100.3 million (AUD128.5 million) and US$147.2 million (AUD208.8 million) as at December 31, 2016, 2017 and 2018, respectively, calculated using the straight-line method from the inception of the contract in June 2014. The current portion of the accrued rental of VICT classified under "Accounts payable and other current liabilities" account amounting to US$85.0 million (AUD117.9 million) as at December 31, 2016 and nil as of December 31, 2017 and 2018 (see Note 18).

Government Grant

On March 29, 2012, BCT and CUPT, a Polish grant authority, signed the EU Grant whereby CUPT would grant BCT a subsidy amounting to US$17.3 million (PLN53.9 million) and on October 21, 2013, BCT and CUPT signed a second EU Grant whereby CUPT would grant BCT a subsidy amounting to US$4.8 million (PLN14.6 million). The confirmation of the availability of the EU Grant was a condition precedent to any borrowing under the facility agreement of BCT. In December 2015, BCT finalized capital expenditure projects supported by the EU Grant with an estimated total of US$19.5 million (see Note 15.2.2). As at December 31, 2018, BCT has availed a total of US$19.5 million of the EU Grant. The EU Grant is treated as deferred income and is amortized over the duration of the existing concession agreement ending on May 31, 2023. The unamortized deferred income from government grant amounted to US$15.7 million, US$13.3 million and US$10.8 million as at December 31, 2016, 2017 and 2018, respectively. Amortization of deferred income include under "Other income" amounted to US$2.5 million for each of the years 2016, 2017 and 2018 (see Note 20.1).

Accrued Taxes and Others

Accrued taxes and others as at December 31, 2018 include the noncurrent portion of customs duties payable in relation to the importation of port equipment in CGSA amounting to US$6.9 million. The current portion amounting to US$1.0 million as at December 31, 2018 is included in "Accounts payable and other current liabilities" account under accrued output and other taxes (see Note 18).

## 17. **Loans Payable**

Loans payable are unsecured loans obtained by ICTSI and several subsidiaries.

In April 2015, CGSA availed one-year loans from Banco Bolivariano and Banco Guayaquil totaling US$6.0 million at fixed interest rate of 8.0 percent per annum. In February 2016, CGSA obtained short-term unsecured US$ loans with a total of US$3.5 million from Banco Guayaquil S.A., Citibank and Banco Bolivariano at annual fixed interest rates ranging from 8.89 percent to 9.12 percent. The short-term loans were fully paid in 2016.

On May 17, 2016, ICTSI availed of a US$30.2 million (₱1.4 billion) short-term loan with Metropolitan Bank and Trust Company at an annual interest rate of 2.5 percent. On July 7, 2016 and October 7, 2016, ICTSI fully paid the short-term loan.

On November 28, 2016, OPC availed of a US$15.0 million short-term loan from Metropolitan Bank and Trust Company. The loan bears interest at prevailing market rate and matures on November 23, 2017. On July 26, 2017, OPC prepaid the US$15.0 million short-term loan.

On December 5, 2016, YICT obtained a US$21.6 million (RMB150.0 million) short-term loan from YPH at an interest rate of 4.35 percent per annum and a maturity date of January 25, 2017. The loan was used to refinance YICT's maturing loan with ABC (see Note 15.2.4). On January 12, 2017 and March 1, 2017, YICT prepaid a total amount of US$3.0 million (RMB20.0 million) and the balance of US$18.9 million (RMB130.0 million) was renewed with an interest rate of 4.50 percent per annum and matured on April 30, 2017. On April 26, 2017, YICT obtained a US$21.8 million (RMB150.0 million) loan from ABC payable in installments with a final maturity on November 21, 2023 to refinance the maturing loan with YPH. Interest is based on the interest rate published by PBOC less 5.00 percent of such base rate. The floating rate is subject to adjustment every twelve months (see Note 15.2.4).

In 2017, BCT availed loans from its overdraft facility with HSBC Bank Polska S.A with interest based on prevailing market rate. In 2018, BCT paid a total amount of US$1.3 million of the loan from its overdraft facility and availed additional loans amounting to US$3.3 million. The outstanding balance of the loan amounted to US$4.0 million as at December 31, 2018.

On March 30, 2017, CGSA availed one-year loans from Citibank, Banco Bolivariano and Banco Guayaquil totaling to US$8.5 million at prevailing market rates. In 2017, CGSA paid a total amount of US$6.4 million. The loans were fully paid in March 2018.

On May 15, 2017, ICTSI availed of short-term loans from The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), Citibank N.A. (Citibank), HSBC, and SCB totaling to US$55.0 million with interest based on prevailing market rate and maturity date of August 11, 2017. These loans were renewed to mature on February 9, 2018. The loans from Citibank, HSBC and SCB were fully paid on January 23, 2018 and the loan from BTMU was fully paid on February 9, 2018.

On April 10, 2018, CGSA availed of a short-term loan from Citibank N.A. Ecuador amounting to US$6.0 million with interest based on prevailing market rate and maturity date of April 5, 2019. The loan was fully paid on May 30, 2018.

On April 13, 2018, SPICTL and MITL obtained a loan facility with Australia and New Zealand Banking Group (PNG) Limited amounting to US$31.1 million (PGK101.0 million) and US$25.2 million (PGK82.0 million), respectively, with interest at prevailing market rate and a maturity date of six months from first drawdown date. In April 2018 and May 2018, SPICTL and MITL obtained loans amounting to US$18.3 million (PGK60.2 million) and US$14.2 million

(PGK46.7 million). On October 26, 2018, the loan facilities were extended for another six months at a reduced amount of US$22.3 million (PGK75.0 million) for SPICTL and US$16.4 million (PGK55.0 million) for MITL. The outstanding loans as at December 31, 2018 of US$17.9 million (PGK60.2 million) for SPICTL and US$13.9 million (PGK46.7 million) for MITL were also extended for another six months up to April 18, 2019.

Interest expense incurred related to these loans payable amounted to US$0.7 million in 2016, US$0.4 million in 2017 and US$1.1 million in 2018.

## 18. Accounts Payable and Other Current Liabilities

This account consists of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Trade (see Notes 20.3 and 22.1) | US$200,324,689 | US$119,394,482 | **US$139,395,889** |
| Accrued expenses: | | | |
| Output and other taxes (see Note 16) | 34,693,099 | 53,313,749 | **72,475,917** |
| Salaries and benefits | 21,413,326 | 22,790,520 | **25,596,903** |
| Interest (see Notes 15 and 17) | 22,905,888 | 23,497,213 | **22,767,344** |
| Others | 15,596,870 | 16,272,269 | **19,412,397** |
| Provisions for claims and losses (see Notes 20, 24 and 25) | 36,587,263 | 29,821,998 | **20,278,993** |
| Customers' deposits | 11,106,128 | 8,592,074 | **7,987,562** |
| Dividends payable | 3,203,531 | 2,459,164 | **1,080,917** |
| Finance lease payable | 738,489 | 180,898 | **270,516** |
| Others | 1,139,803 | 244,052 | **53,611** |
| | US$347,709,086 | US$276,566,419 | **US$309,320,049** |

Trade payables are noninterest-bearing and are generally settled on 30-60 day terms. This includes the current portion of the accrued rental of VICT amounting to US$85.0 million (AUD117.9 million) as at December 31, 2016 and nil as of December 31, 2017 and 2018.

Provisions for claims and losses pertain to estimated probable losses in connection with legal cases and negotiations involving cargo, labor, contracts and other issues. The movements in this account follow:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Balance at beginning of year | US$13,322,197 | US$36,587,263 | **US$29,821,998** |
| Provision during the year (see Note 24.21) | 25,613,823 | 15,959,347 | **5,100,991** |
| Settlement and reversal during the year (see Note 20.3) | (3,434,325) | (23,258,553) | **(13,597,144)** |
| Translation adjustment | 1,085,568 | 533,941 | **(1,046,852)** |
| Balance at end of year | US$36,587,263 | US$29,821,998 | **US$20,278,993** |

## 19. Share-based Payment Plan

Certain officers and employees of the Group receive remuneration through share-based payment transactions, whereby officers and employees are given awards, in the form of ICTSI common shares, in lieu of cash incentives and bonuses under the SIP ("equity-settled transactions"). The SIP was approved by the stockholders of ICTSI on March 7, 2007, effective for a period of ten years unless extended by the Board. On March 7, 2016, the Board approved for the extension of the SIP for a further 10 years until March 2027 and the amendment of vesting period of the SIP. The vesting period of the SIP was amended from two years where 50% is to vest on the first anniversary date of the award and the other 50% to vest on the second anniversary date of the award, to three years where 25% is to vest on the first anniversary date of the award, 25% to vest on the second anniversary date of the award, and 50% to vest on the third anniversary date of the award. Unless the Stock Incentive Committee determines otherwise, when dividends are declared by the Company, the number of shares subject to an award shall be increased by the number equal in value to the dividends the awardee would have received in respect of an award had the shares awarded to the awardee vested at the time of the dividend declaration. This is designated as the Dividend Re-investment Plan (DRIP).

The shares covered by the SIP are held under treasury until they are awarded and issued to the officers and employees as determined by the Stock Incentive Committee. As at December 31, 2018, there were 43,393,280 ICTSI common shares granted in aggregate under the SIP since it became effective in 2007. Also, as at December 31, 2018, there are 34,175,740 ICTSI common shares held under treasury, part of which are allotted for the SIP (see Note 14.1).

The grant of shares under the SIP does not require an exercise price to be paid by the awardee. Awardees who resign or are terminated will lose any right to unvested shares. In the event of retirement of an awardee, the unvested shares shall automatically vest in full. In the event of death or total disability of an awardee, the outstanding unvested shares shall vest in full and the shares will be released to the designated heirs of the awardee. A change in control in ICTSI will trigger the automatic vesting of unvested awarded shares. There are no cash settlement alternatives.

The SIP covers permanent and regular employees of ICTSI with at least one-year tenure; officers and directors of ICTSI, its subsidiaries or affiliates; or other persons who have contributed to the success and profitability of ICTSI or its subsidiaries or affiliates.

Stock awards, including DRIP shares, granted by the Stock Incentive Committee to officers and employees of ICTSI and ICTSI Ltd. for the past three years are shown below:

| Grant Date | Number of Shares Granted | Fair Value per Share at Grant Date |
|---|---|---|
| March 14, 2016 | 2,567,763 | US$1.39 (₱65.00) |
| March 14, 2017 | 2,627,463 | US$1.57 (₱79.20) |
| May 17, 2017 | 113,673 | US$2.00 (₱99.50) |
| March 9, 2018 | 1,862,677 | US$2.11 (₱109.90) |
| May 11, 2018 | 152,059 | US$1.60 (₱83.00) |

Fair value per share was determined based on the quoted market price of stock at the date of grant.

Movements in the stock awards (number of shares) in 2016, 2017 and 2018 follow:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Balance at beginning of year | 2,721,319 | 3,478,125 | **4,462,248** |
| Stock awards granted | 2,567,763 | 2,741,136 | **2,014,736** |
| Stock awards vested, issued and cancelled | (1,810,957) | (1,757,013) | **(1,846,255)** |
| Balance at end of year | 3,478,125 | 4,462,248 | **4,630,729** |

Total compensation expense recognized on the vesting of the fair value of stock awards and presented as part of manpower costs in the consolidated statements of income amounted to US$2.8 million in 2016, US$3.3 million in 2017 and US$3.9 million in 2018, respectively. A corresponding increase in additional paid-in capital, net of applicable tax, was also recognized in the consolidated statements of changes in equity (see Note 14.2).

## 20. Income and Expenses

### 20.1 Other Income

This account consists of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Reversal of accrued taxes and other accruals (see Notes 13 and 21) | US$4,572,561 | US$9,477,232 | **US$14,728,255** |
| Mark-to-market gain on derivatives - net (see Note 26) | – | – | **4,078,746** |
| Income from amortization of government grant (see Note 16) | 2,463,140 | 2,486,258 | **2,470,408** |
| Rental income (see Notes 6 and 7) | 752,760 | 1,133,773 | **1,855,007** |
| Gain on disposal of property and equipment (see Note 6) | 1,682,668 | 249,185 | **248,527** |
| Dividend income (see Note 9) | 198,706 | 198,456 | **179,163** |
| Gain on settlement of insurance and other claims | 571,342 | 86,958 | **87,518** |
| Gain on termination of management contract (see Note 1.2) | – | 7,500,000 | – |
| Others | 3,152,389 | 2,474,003 | **4,643,859** |
| | US$13,393,566 | US$23,605,865 | **US$28,291,483** |

### 20.2 Port Authorities' Share in Gross Revenues

This account consists of port authorities' share in gross revenues of the Group as stipulated in agreements with the port authorities where the Group operates (see Note 24). Port authorities' share in gross revenues includes variable fees aggregating US$183.7 million in 2016, US$190.5 million in 2017 and US$203.1 million in 2018 (see Note 24).

### 20.3 Other Expenses

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Write-off of debt issuance costs and costs of securing a revolving credit facility due to cancellation (see Notes 9, 15.1, 15.2.2 and 15.2.6) | US$– | US$3,042,918 | **US$7,034,590** |
| Restructuring and separation costs (see Note 18) | – | 18,028,269 | **3,406,717** |
| Pre-termination cost and other bank charges | 2,257,130 | 3,515,738 | **3,222,533** |
| Management fees (see Note 22.1) | 637,836 | 1,508,819 | **2,788,377** |
| Loss on disposal of property and equipment (see Note 6) | 181,375 | 591,529 | **582,212** |
| Wealth tax on equity of SPIA | 929,543 | 372,318 | – |
| Loss on pre-termination of lease agreement (see Notes 1.2 and 24.21) | 23,432,184 | – | – |
| Probable losses on non-trade advances and receivables (see Note 9) | 3,125,248 | – | – |
| Solidarity contribution on equity of CGSA (see Note 21) | 1,455,876 | – | – |
| Mark-to-market loss on derivatives - net | 1,031,447 | – | – |
| Others | 3,300,621 | 4,988,383 | **4,451,638** |
| | US$36,351,260 | US$32,047,974 | **US$21,486,067** |

Restructuring and Separation Costs

Restructuring and separation costs pertain to costs incurred with respect to cost optimization and rationalization in response to market developments in certain terminals.

## 21. Income Tax

The components of recognized deferred tax assets and liabilities are as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Deferred tax assets on: | | | |
| Unrealized foreign exchange losses | US$57,424,745 | US$69,500,560 | **US$83,525,994** |
| NOLCO | 12,353,824 | 17,640,422 | **49,300,731** |
| Intangible assets and concession rights payable under IFRIC 12 | 14,173,405 | 13,153,679 | **15,702,492** |
| Accrued retirement cost and other expenses | 1,435,954 | 1,344,660 | **1,714,591** |
| Allowance for doubtful accounts and other provisions | 1,076,888 | 547,690 | **855,787** |
| Share-based payments | 59,274 | 391,520 | **352,405** |
| Allowance for obsolescence | 139,508 | 572,259 | **252,072** |
| Others | 3,908,216 | 7,953,574 | **6,582,792** |
| | US$90,571,814 | US$111,104,364 | **US$158,286,864** |

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Deferred tax liabilities on: | | | |
| Difference in depreciation and amortization periods of port infrastructure classified as concession rights | US$12,745,917 | US$16,418,860 | **US$22,733,941** |
| Unrealized mark-to-market gain on derivatives | 2,266,574 | 10,083,436 | **20,084,387** |
| Excess of fair value over book value of net assets of AGCT, BCT, Tecplata, YICT, PICT, OJA and TMT | 21,486,453 | 20,121,374 | **17,953,292** |
| Capitalized borrowing costs | 18,373,108 | 18,734,817 | **17,649,551** |
| Accelerated depreciation and translation difference between functional and local currency | 6,394,075 | 9,786,719 | **15,656,764** |
| Nonmonetary assets | 4,152,228 | 3,443,319 | **4,307,706** |
| Unrealized foreign exchange gains | 74,405 | – | **137,123** |
| Others | 5,884,045 | 1,897,937 | **5,822,770** |
| | US$71,376,805 | US$80,486,462 | **US$104,345,534** |

Other deferred taxes mainly pertain to difference in tax and accounting bases for lease and depreciation.

The Parent Company is subject to income tax based on its Philippine peso books even as its functional currency is US dollars. As a result, the Parent Company's US dollar-denominated net monetary liabilities were translated to Philippine peso giving rise to the recognition of deferred tax asset on net unrealized foreign exchange losses. The deferred tax asset on net unrealized foreign exchange losses amounting to US$57.4 million, US$69.5 million and US$83.5 million as at December 31, 2016, 2017 and 2018, respectively, mainly pertains to Parent Company.

Deferred tax assets on NOLCO of certain subsidiaries amounting to US$3.3 million, US$3.0 million and US$3.3 million as at December 31, 2016, 2017 and 2018, respectively, were not recognized, as management believes that these subsidiaries may not have sufficient future taxable profits against which the deferred tax assets can be utilized. Deferred tax assets are recognized for subsidiaries when there is expectation of sufficient future taxable profits from which these deferred tax assets can be utilized.

As at December 31, 2016, 2017 and 2018, deferred tax liability has not been recognized on undistributed cumulative earnings of subsidiaries in retained earnings position amounting to US$832.9 million, US$1,056.7 million and US$1,211.1 million, respectively, because the Parent Company has control over such earnings, which have been earmarked for reinvestment in foreign port projects and are not expected to reverse in the foreseeable future (see Note 14.5).

ICTSI recognized deferred tax asset amounting to US$0.1 million in 2016, US$0.4 million both in 2017 and 2018, on the excess of the tax deduction (or estimated future deduction) on stock awards over the related cumulative compensation expense (see Notes 14.2 and 19). The Group recognized deferred tax asset on actuarial loss amounting to US$0.2 million in 2016 and US$0.1 million both in 2017 and 2018, respectively. The related deferred tax assets were taken to equity.

A reconciliation of income tax expense on income before income tax at the statutory tax rates to provision for income tax for the years presented is as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Income tax expense computed at statutory tax rates | US$74,047,123 | US$53,182,375 | **US$75,802,174** |
| Add (deduct): | | | |
| Income tax incentive | (10,326,374) | (13,876,313) | **(18,222,533)** |
| Nondeductible tax losses of subsidiaries - net | 207,875 | 2,002,481 | **1,000,744** |
| Interest income already subjected to final tax | (588,979) | (668,976) | **(930,483)** |
| Unallowable interest expense | 90,339 | 73,710 | **81,642** |
| Others - net | 141,116 | (166,454) | **1,300,259** |
| Provision for income tax | US$63,571,100 | US$40,546,823 | **US$59,031,803** |

The statutory income tax rates applicable to each subsidiary are as follows:

| Name of Company | Tax Rate | Tax Rules |
|---|---|---|
| IDRC | 35.0% | The regular corporate income tax rate in DR Congo is 35 percent. The minimum tax payable is the higher of 1 percent of revenue and CDF2.5 million for large corporations. IDRC is entitled to an income tax holiday for four years starting from 3rd quarter of 2016. |
| ICTSI Oregon | 21.0% | ICTSI Oregon is subject to federal tax rate of 21 percent. Based on the new tax law signed in December 2017, corporate tax rate was reduced to 21 percent effective January 1, 2018. ICTSI Oregon is also subject to state tax of 6.6 to 7.6 percent and city/county tax of 3.65 percent based on taxable income less federal tax. Under the federal and local state corporate income tax systems, corporations that are not an exempt and small corporation are subject to an Alternative Minimum Tax (AMT) at a rate of 20 percent. Corporations pay the minimum amount of tax subject to federal and state regulations. There is no minimum tax on corporation in a net operating loss position. However, certain states require taxes to be remitted on a gross revenue basis. In accordance with the new tax law, the AMT is repealed effective January 1, 2018. Net operating losses (NOL) can be carried forward for 20 years and carried back for two years. After the passage of the tax reform law, the NOL generated after December 31, 2017 can no longer be carried back for two years but can still be carried forward for 20 years. Further, the utilization of NOL shall be limited to 80 percent of the taxable income for the year. |
| PICT | 29.0% | Corporate tax rate in Pakistan that applies to PICT is 29 percent. In 2014, a new provision [Section 113(c) of Income Tax Ordinance, 2001 (Ordinance)] is added by which companies are required to pay Alternative Corporate Tax (ACT) at 17 percent of accounting profits if the actual tax liability is less than ACT. The differential excess can be carried forward for ten years. The Government of Pakistan through Finance Act 2015 has imposed a temporary super tax in 2015 and extended the application of super tax up to the year 2018. The super tax has been levied at the rate of 2 percent (2015 to 2017: 3 percent) on all taxpayers earning income amounting to PKR500.0 million or more in the previous year. PICT accrued and paid super tax amounting to US$1.3 million (PKR123.4 million) in 2016, US$1.3 million (PKR136.0 million) in 2017 and US$1.7 million (PKR208.8 million) in 2018. |

| Name of Company | Tax Rate | Tax Rules |
|---|---|---|
| | | In Pakistan, deductible depreciation is computed by applying the applicable rates, as provided in the Third Schedule to the Ordinance, to the particular category of assets on a diminishing balance method. The rate of tax depreciation ranges from 10 to 30 percent depending on the category of the assets. An initial depreciation allowance at the rate of 15 percent and 25 percent, depending on the category of assets, is also available for eligible depreciable assets, in accordance with section 23 of the Ordinance. |
| ICTSI and other Philippine subsidiaries (excluding SBITC, ICTSI Subic and APBS), VICT, AICTL, Tecplata, CMSA and TMT | 30.0% | The corporate income tax rate of Philippine entities is 30 percent.<br>On May 14, 2008, the Board of Investments (BOI) approved the registration of ICTSI's construction of Berth 6 of the MICT as "New Operator of Port Infrastructure (Berth 6)" on a Pioneer status under the Omnibus Investment Code of 1987. From November 2011, Berth 6 is entitled, among others, to an income tax holiday for a period of six years. Berth 6 was completed, inaugurated and started full commercial operations in July 2012. In 2016 and 2017, Berth 6 recognized gross revenues from port operations amounting to US$70.0 million and US$70.8 million and availed of tax incentive arising from the income tax holiday of US$10.3 million and US$10.9 million, respectively. On July 2, 2015, the BOI approved the registration of ICTSI's construction of Berth 7 of the MICT as "Expanding Operator of Container Yard" on a Non-Pioneer status under the Omnibus Investment Code of 1987. Starting July 2017, Berth 7 is entitled, among others, to an income tax holiday for a period of three years. In 2017 and 2018, Berth 7 recognized gross revenues from port operations amounting to US$4.4 million and US$14.3 million and availed of tax incentive arising from the income tax holiday of US$0.8 million and US$4.3 million, respectively.<br>On December 18, 2008, the Bureau of Internal Revenue issued Revenue Regulations No. 16-2008, which implemented the provisions of Republic Act 9504 on Optional Standard Deductions (OSD). This regulation allows both individuals and corporate taxpayers to use OSD in computing for taxable income. Corporations may elect a standard deduction equivalent to 40 percent of gross income, as provided by law, in lieu of the itemized allowed deductions. For the years ended December 31, 2016, 2017 and 2018, BIPI, MICTSI and SCIPSI have elected to use OSD in computing for their taxable income. DIPSSCOR opted to use itemized deductions method for the years ended December 31, 2016, 2017 and 2018 in computing for its taxable income.<br>On March 3, 2014, HIPS was registered with the BOI as a new operator of seaport and container yard/terminal on a non-pioneer status under the Omnibus Investment Code of 1987. HIPS is entitled, among others, to an income tax holiday for four years from January 2016 or start of commercial operations, whichever is earlier. On September 26, 2016, HIPS has requested the BOI to cancel its registration in light of developments affecting the economics of the project. The said cancellation was approved in 2017.<br>On March 28, 2016, LGICT was registered with the BOI as a new export services provider on a non-pioneer status under the Omnibus Investment Code of 1987. LGICT is entitled, among others, to an income tax holiday for four years from March 2016.<br>VICT and AICTL are subject to corporate income tax rate of 30 percent. Tax losses can be carried forward indefinitely, subject to same ownership and continuity of business tests.<br>Tecplata's nominal tax rate is 30 percent. In accordance with the tax reform in 2017, the tax rate was reduced to 30 percent in 2018 and further reduced to 25 percent starting 2019. In addition to the profits tax, Tecplata is subject to annual minimum presumed income tax calculated as 1 percent of the fixed and current assets (see Note 9). However, should the minimum presumed income tax exceed income tax in the previous fiscal year, such excess may be treated as payment on account of any income tax excess over minimum presumed income tax that may occur in any of the |

| Name of Company | Tax Rate | Tax Rules |
|---|---|---|
| | | ten subsequent fiscal years. Tecplata obtained an exemption from the tax authority for the payment of the minimum presumed income tax starting in the second half of 2016. Minimum presumed income tax will be repealed in 2019. Tax losses can be carried forward for five years. |
| | | Effective January 1, 2014, CMSA and TMT are subject to corporate income tax rate of 30 percent. |
| RCBV, ITBV and other subsidiaries in The Netherlands | 25.0% | The corporate income tax rate in the Netherlands is 20 percent on taxable income of up to €200,000 and 25.0 percent on taxable income exceeding €200,000. Tax losses in Netherlands can be carried forward for nine years. |
| OPC | 25.0% | OPC's corporate income tax rate is 25 percent. An additional social contribution is levied on OPC calculated as 5 percent of the surplus of the net taxable income above HNL1.0 million. The net asset tax is levied to a 1.0 percent tax rate applicable over the surplus of HNL3.0 million of the value of the total assets reflected on the balance sheet. A 5 percent temporary social contribution is levied in addition to the corporate income tax applied to the excess of net taxable income above HNL1.0 million. An AMT is levied on a taxpayer that has operating losses in two of the past five years and whose gross income in the past year is HNL100.0 million or more. AMT is computed by applying the 1.0 percent rate to gross income. OPC is exempt from AMT during its first five years of operations. A Minimum tax is levied on the 1.5 percent over the total gross income greater or equal to HNL.10.0 million during the tax period, when the Corporate income tax resulting is lower than the 1.5 percent of the gross income declared. Companies are exempted from the application of this minimum tax during their first 2 years of establishment or pre-operational period. |
| | | On January 31, 2017, the Secretariat of Finance (SEFIN) issued a resolution through which it grants the Company an exemption of Net Asset Tax, Temporary Solidarity Contribution, Advance of 1 percent in respect of Income Tax provided for in Decree No. 96-2012, (Law on Anti-Evasion Measures on Income Tax) of the Income Tax modality corresponding to 1.5 percent of Gross Income Declared set forth in Article 22-A of the Income Tax Act, as well as from all those taxes related to income, for the lifetime of the project called "Design, Financing, Construction, Maintenance, Operation and Exploitation of Puerto Cortes' Container and General Cargo Terminal", as of the date of commencement of operations, and it must be renewed annually until the end of the concession by SEFIN. It is stated in the official document that SEFIN will verify that OPC complies with the commitments and objectives stipulated in the concession contract, otherwise, the benefit of the tax exemption will be suspended. The tax authorities will verify that OPC is in compliance with its obligations and, otherwise, the benefit will be suspended. Likewise, OPC shall update the registration of exempted payers annually. |
| MTS, IJP, OJA, PT CTSSI and YICT | 25.0% | Registered as a Sino-foreign joint venture in China, Berths 61 and 62 of YICT are entitled to a full tax holiday in the first five years and 50 percent exemption in the subsequent five years starting 2008 and 2006, respectively. YICT's tax exemption is until December 2015 and starting year 2016, YICT is subjected to the 25 percent regular income tax rate. Tax losses can be carried forward for five years. |
| | | In January 2015, Berths 51 and 52 of YICT were granted a full tax holiday in the first three years and 50 percent exemption in the subsequent three years. |
| | | MTS, IJP and OJA are subject to corporate income tax rate in Indonesia of 25 percent. |
| CGSA | 25.0% | CGSA's corporate income tax rate applicable starting 2018 is 25 percent. This tax is calculated after deducting 15 percent of social contribution on profits for workers. |
| | | In 2016, the government of Ecuador passed a law with the purpose of raising funds in order to recover from the effects of the earthquake that occurred in April 2016. The law introduced the collection of solidarity |

| Name of Company | Tax Rate | Tax Rules |
|---|---|---|
| | | contributions from various sources, increase in value-added tax rate by 2 percent, among others. CGSA paid solidarity contributions from profits amounting to US$1.0 million while ICTSI, through CGSA, paid solidarity contributions from equity amounting to US$1.5 million (see Note 20.3) in 2016 and nil in 2017 and 2018. |
| MICTSL and SPIA | 20.0% | MICTSL is subject to statutory corporate income tax rate of 20 percent. A minimum tax of MGA0.32 million plus 0.5 percent of the annual turnover is levied if the company incurs a loss or if the corporate tax rate calculated using the 20 percent rate is less than the minimum tax.<br>SPIA is incorporated in Colombia and on June 26, 2012, the Colombian Government issued the formal resolution granting SPIA a Free Trade Zone status. Effective 2012, the income tax applicable to SPIA is 15 percent instead of 33 percent general corporate income tax rate in force in 2012. Subsequently, a structural tax reform passed in December 2016 increased the income tax rate for Free Trade Zone users by 5 percent, from 15 percent to 20 percent effective starting 2017. |
| BCT | 19.0% | BCT is subject to statutory corporate income tax rate of 19 percent. |
| NMCTS | 18.5% | The first B$100,000 of chargeable income of NMCTS is taxed at a reduced rate of one quarter of the full rate, while the next B$150,000 is taxed at half the full rate. |
| AGCT | 18.0% | The statutory corporate income tax rate in Croatia for entities which operate in the free-trade zone is 15 percent from 2014 up to 2016 and 18 percent from 2017 onwards. |
| TSSA | 15.25% | TSSA's nominal tax rate is 25.0 percent and was granted a tax rate reduction resulting to a tax rate of 15.25 percent. The tax incentive is applicable for the years 2005 to 2022 on profits from port operating services in Suape, Pernambuco. |
| BICTL and ICTSI Iraq | 15.0% | BICTL is subject to statutory corporate income tax rate of 15 percent. Starting January 1, 2017, income tax is calculated based on distributed profit.<br>ICTSI Iraq is subject to statutory corporate income tax rate of 15 percent. Tax losses can be carried forward up to five years provided that losses may not offset more than half of the taxable income of each of the five years and the loss may offset only income from the same source from which the loss arose. Any carry-over losses is subject to discretion of the tax authorities. |
| SBITC, ICTSI Subic, Inc. and APBS | 5.0% | SBITC and ICTSI Subic are registered with the Subic Bay Metropolitan Authority as Subic Bay Free Port Zone Enterprises that are entitled to certain tax incentives including a preferential income tax rate of 5.0 percent percent based on gross revenues less allowable deductions.<br>APBS is registered with the Philippine Economic Zone Authority as an Ecozone IT Enterprise that is entitled to certain tax incentives including a preferential income tax rate of 5.0 percent on gross income from Philippine Economic Zone Authority-registered activities, in lieu of all national and local taxes. APBS is also entitled to an income tax holiday of four years from date of commercial operations on December 31, 2015. |
| LICTSLE | 0.0% | LICTSLE was located in a free trade zone governed by the Nigeria Export Processing Zones Authority. LICTSLE was exempt from all taxes, including corporate income tax. |
| SPICTL and MITL | 30% | The corporate tax rate for resident PNG companies is 30 percent. Tax losses can be carried forward for a period of 20 years. Corporate income tax is collected under a provisional tax system. Provisional tax is imposed by assessment issued by the Internal Revenue Commision based on the last year assessed with an 8 percent increase. Provisional tax is payable over three equal instalments in April, July and October. In the event that no prior assessment exists, the Commissioner General has the right to estimate the amount of tax that he believes should be paid. Applications can be made to adjust (reduce or increase) the amount of provisional tax payable. Under estimation of provisional taxes can result in a penalty of 25 |

| Name of Company | Tax Rate | Tax Rules |
|---|---|---|
| | | percent. Overpaid taxes can be offset against other taxes payable (goods and services tax, corporate income tax, etc.) by the lodgment of a CR1 form. Overpaid taxes are refunded through the lodgment of an application (CR2) form. |

## 22. Related Party Transactions

### 22.1 Transactions with the Shareholders and Affiliates

| | | | 2016 | | 2017 | | **2018** | |
|---|---|---|---|---|---|---|---|---|
| Related Party | Relationship | Nature of Transaction | Amount | Outstanding Receivable (Payable) Balance | Amount | Outstanding Receivable (Payable) Balance | **Amount** | **Outstanding Receivable (Payable) Balance** |
| | | | | | *(In Millions)* | | | |
| **ICBV** | | | | | | | | |
| SPIA | Joint venture | Interest-bearing loans (see Note 8) [i] | US$52.00 | US$249.20 | US$25.40 | US$269.48 | **US$2.80** | **US$–** |
| | | Interest income (converted into interest-bearing loan) (see Note 8) [i] | 12.45 | 19.98 | 15.52 | 35.50 | **13.35** | **–** |
| | | Interest receivable [i] | 14.58 | 7.43 | 17.75 | 9.05 | **14.35** | **–** |
| **SPIA Spain S.L.** | | | | | | | | |
| SPIA | Joint venture | Interest-bearing loans (see Note 8) [i] | – | – | – | – | **(1.29)** | **270.99** |
| | | Interest income (converted into interest-bearing loan) (see Note 8) [i] | – | – | – | – | **4.41** | **53.26** |
| | | Interest receivable [i] | – | – | – | – | **4.95** | **9.73** |
| **YICT** | | | | | | | | |
| YPH | Non-controlling shareholder | Port fees [ii] | 1.77 | – | 1.59 | – | **0.32** | **0.15** |
| | | Trade transactions [iii] | – | – | – | – | **0.87** | **(0.07)** |
| | | Interest-bearing loans [iv] | 21.60 | (21.60) | 21.60 | – | **–** | **–** |
| | | Interests on loans [iv] | 0.07 | (0.03) | 0.28 | – | **–** | **–** |
| YPG | Common shareholder | Port fees [ii] | 2.36 | (0.14) | 3.10 | (0.17) | **3.86** | **(0.90)** |
| | | Trade transactions [iii] | 1.87 | (0.02) | 1.66 | – | **1.74** | **(0.20)** |
| **SCIPSI** | | | | | | | | |
| Asian Terminals, Inc. | Non-controlling shareholder | Management fees | 0.20 | (0.03) | 0.17 | (0.02) | **0.19** | **(0.02)** |
| **AGCT** | | | | | | | | |
| Luka Rijeka D.D. (Luka Rijeka) | Non-controlling shareholder | Provision of services [v] | 0.37 | (0.02) | 0.25 | (0.04) | **0.32** | **(0.03)** |
| **PICT** | | | | | | | | |
| Premier Mercantile Services (Private) Limited | Common Shareholder | Stevedoring and storage charges [vi] | 5.17 | (0.03) | 5.50 | (0.40) | **2.09** | **(0.01)** |
| Premier Software (Private) Limited | Common shareholder | Software maintenance charges | 0.01 | – | – | – | **–** | **–** |
| Marine Services (Private) Limited, Portlink International (Private) Limited, and AMI Pakistan (Private) Limited | Common shareholder | Container handling revenue [vii] | 0.52 | 0.03 | 0.37 | 0.01 | **0.13** | **–** |
| **LGICT** | | | | | | | | |
| NCT Transnational Corp. | Non-controlling shareholder | Management fees | 0.41 | (0.04) | 0.47 | (0.04) | **0.45** | **(0.03)** |
| | | Maintenance and repairs | 0.09 | (0.02) | 0.14 | (0.01) | **0.13** | **(0.02)** |
| **BIPI** | | | | | | | | |
| Atlantic Gulf and Pacific Co. of Manila, Inc. (AG&P) | Common shareholder | Rent expense | 0.05 | (0.02) | 0.06 | (0.02) | **0.09** | **(0.03)** |
| | | Utilities | 0.03 | – | 0.03 | – | **0.03** | **(0.01)** |
| **IDRC** | | | | | | | | |
| Ledya SARL | Non-controlling shareholder | Management fees | – | – | 0.85 | (0.85) | **1.43** | **(0.53)** |
| **Parent Company** | | | | | | | | |
| Prime Metro BMD Corporation | Common shareholder | Construction services [viii] | – | – | – | – | **4.73** | **5.73** |
| | | Dredging services [viii] | – | – | – | – | **1.41** | **0.40** |
| | | Rental income [viii] | – | – | – | – | **0.22** | – |

| Related Party | Relationship | Nature of Transaction | 2016 Amount | 2016 Outstanding Receivable (Payable) Balance | 2017 Amount | 2017 Outstanding Receivable (Payable) Balance | **2018 Amount** | **2018 Outstanding Receivable (Payable) Balance** |
|---|---|---|---|---|---|---|---|---|
| | | | | | *(In Millions)* | | | |
| **CGT** | | | | | | | | |
| Prime Metro BMD Corporation | Common shareholder | Contract administration and site management services (ix) | US$– | US$– | US$0.10 | (US$0.02) | **US$0.61** | **(US$0.25)** |

*(i) On October 1, 2018, ICBV assigned to SPIA Spain S.L. all its outstanding interest-bearing loans, including interest converted into interest-bearing loan, and interest receivable from SPIA as of the same date, amounting to US$321.1 million and US$9.6 million, respectively.*

*(ii) YICT is authorized under the Joint Venture Agreement to collect port charges levied on cargoes, port construction fees and facility security fee in accordance with government regulations. Port fees remitted by YICT for YPH /YPG are presented as part of "Port authorities' share in gross revenues" in the consolidated statements of income. Outstanding payable to YPH/YPG related to these port charges are presented under "Accounts payable and other current liabilities" account in the consolidated balance sheets.*

*(iii) Trade transactions include utilities, rental and other transactions paid by YICT to YPH and YPG.*

*(iv) On December 5, 2016, YICT obtained a US$21.6 million (RMB150.0 million) short-term loan from YPH at an interest rate of 4.35 percent per annum and maturity date of January 25, 2017. The loan was used to refinance YICT's maturing loan with ABC. On January 12 and March 1, 2017, YICT prepaid a total amount of US$3.0 million (RMB20.0 million) and the balance of US$18.9 million (RMB130 million) was renewed with an interest rate of 4.50 percent per annum and a maturity date of April 30, 2017. The remaining loan from YPH was fully paid upon the availment of a long-term loan from ABC on April 26, 2017 (see Notes 15.2.4 and 17).*

*(v) AGCT has entered into agreements with Luka Rijeka, a non-controlling shareholder, for the latter's provision of services such as equipment maintenance, power and fuel and supply of manpower, among others. Total expenses incurred by AGCT in relation to these agreements were recognized and presented in the consolidated statements of income as part of Manpower costs, Equipment and facilities-related expenses and Administrative and other operating expenses.*

*(vi) PICT has entered into an agreement with Premier Mercantile Services (Private) Limited for the latter to render stevedoring and other services, which are settled on a monthly basis.*

*(vii) Marine Services (Private) Limited, Portlink International (Private) Limited, and AMI Pakistan (Private) Limited are customers of PICT.*

*(viii) ICTSI has entered into contracts with Prime Metro BMD Corporation for the construction of port facilities and sublease of office space.*

*(ix) CGT has entered into contract with Prime Metro BMD Corporation for contract administration and site management services.*

The outstanding balances arising from these related party transactions are current and payable without the need for demand.

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2016, 2017 and 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

### 22.2 Compensation of Key Management Personnel

Compensation of key management personnel consists of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Short-term employee benefits | US$1,193,221 | US$1,581,345 | **US$1,582,621** |
| Post-employment pension | 29,659 | 29,061 | **25,728** |
| Share-based payments | 1,052,078 | 924,459 | **1,054,395** |
| Total compensation to key management personnel | US$2,274,958 | US$2,534,865 | **US$2,662,744** |

## 23. Pension Plans

Defined Benefit Pension Plans

The Parent Company, BCT, BIPI, DIPSSCOR, SBITC, ROHQ, MTS, IJP, OJA, SCIPSI, MICTSL, MICTSI, AGCT, CGSA, CMSA, CMSA Servicios Portuarios SA De CV, CMSA Servicios Profesionales Y De Especialistas SA De CV, ICTSI Iraq and APBS have separate, noncontributory, defined benefit retirement plans covering substantially all of its regular employees. The benefits are based on employees' salaries and length of service. Net pension expense charged to operations included as manpower costs amounted to US$1.9 million in 2016, US$3.1 million in 2017 and US$2.0 million in 2018.

Pension plans consist of:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Pension assets (presented as "Other noncurrent assets") | | | |
| Asia | US$981 | US$– | **US$89,898** |
| Pension liabilities (presented as "Other noncurrent liabilities") | | | |
| Asia | US$3,407,307 | US$3,902,514 | **US$3,506,518** |
| EMEA | 1,284,721 | 2,185,414 | **2,091,535** |
| Americas | 2,795,579 | 3,389,383 | **3,642,521** |
| | US$7,487,607 | US$9,477,311 | **US$9,240,574** |

*Pension Liabilities.* The following tables summarize the components of the Group's net pension expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets.

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Net pension expense: | | | |
| Current service cost | US$1,546,120 | US$3,621,890 | **US$1,479,640** |
| Net interest cost | 274,747 | 404,141 | **310,069** |
| Past service cost | 2,201 | 14,026 | **129,984** |
| Effect of curtailments | – | (942,538) | **–** |
| | US$1,823,068 | US$3,097,519 | **US$1,919,693** |
| Pension liabilities: | | | |
| Present value of defined benefit obligation | US$16,197,260 | US$18,307,974 | **US$17,359,581** |
| Fair value of plan assets | (8,709,653) | (8,830,663) | **(8,119,007)** |
| | US$7,487,607 | US$9,477,311 | **US$9,240,574** |
| Changes in the present value of the defined benefit obligation: | | | |
| Balance at beginning of year | US$6,780,186 | US$16,197,260 | **US$18,307,974** |
| Current service cost | 1,546,120 | 3,621,890 | **1,479,640** |
| Interest cost | 763,864 | 820,113 | **736,123** |
| Actuarial loss (gain) on obligations - net | 350,441 | (383,074) | **(239,853)** |
| Past service cost | 2,201 | 14,026 | **129,984** |
| Effect of curtailments | – | (942,538) | **–** |
| Benefits paid | (2,662,704) | (1,344,941) | **(1,788,019)** |
| Translation adjustment | (672,113) | (250,140) | **(591,584)** |
| Change in plan position | 10,089,265 | 575,378 | **(674,684)** |
| Balance at end of year | US$16,197,260 | US$18,307,974 | **US$17,359,581** |
| Changes in fair value of plan assets: | | | |
| Balance at beginning of year | US$270,727 | US$8,709,653 | **US$8,830,663** |
| Interest income | 489,117 | 415,972 | **426,054** |
| Actuarial loss on plan assets | (190,175) | (88,308) | **(413,038)** |
| Benefits paid | (2,312,809) | (1,588,039) | **(844,130)** |
| Actual contributions | 657,527 | 848,616 | **1,168,962** |
| Translation adjustment | (508,326) | (43,590) | **(412,485)** |
| Change in plan position | 10,303,592 | 576,359 | **(637,019)** |
| Balance at end of year | US$8,709,653 | US$8,830,663 | **US$8,119,007** |
| Actual return on plan assets | US$298,942 | US$327,664 | **US$13,016** |

*Pension Assets.* The following tables summarize the components of the Group's net pension expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets.

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Net pension expense: | | | |
| Current service cost | US$45,172 | US$– | **US$46,171** |
| Net interest income | (2,034) | – | **(619)** |
| | US$43,138 | US$– | **US$45,552** |
| Pension assets: | | | |
| Fair value of plan assets | US$576,359 | US$– | **US$665,762** |
| Present value of defined benefit obligation | (575,378) | – | **(575,864)** |
| | US$981 | US$– | **US$89,898** |
| Changes in the present value of the defined benefit obligation: | | | |
| Balance at beginning of year | US$10,820,792 | US$575,378 | **US$–** |
| Current service cost | 45,172 | – | **46,171** |
| Interest cost | 28,795 | – | **34,825** |
| Actuarial gain on obligations - net | (44,295) | – | **(117,784)** |
| Benefits paid | (23,348) | – | **(19,690)** |
| Translation adjustment | (162,473) | – | **(42,342)** |
| Change in plan position | (10,089,265) | (575,378) | **674,684** |
| Balance at end of year | US$575,378 | US$– | **US$575,864** |
| Changes in fair value of plan assets: | | | |
| Balance at beginning of year | US$10,946,740 | US$576,359 | **US$–** |
| Interest income | 30,829 | – | **35,444** |
| Actuarial loss on plan assets | (41,391) | – | **(24,132)** |
| Benefits paid | (23,348) | – | **(19,690)** |
| Actual contribution | – | – | **69,116** |
| Translation adjustment | (32,879) | – | **(31,995)** |
| Change in plan position | (10,303,592) | (576,359) | **637,019** |
| Balance at end of year | US$576,359 | US$– | **US$665,762** |
| Actual return (loss) on plan assets | (US$10,562) | US$– | **US$11,312** |

The Group does not expect significant contributions to the retirement plans of the Parent Company and its subsidiaries in 2019.

The principal assumptions used in determining pension benefits obligation of the Parent Company, BIPI, SBITC, ROHQ, APBS, DIPSSCOR, MTS, OJA, IJP, SCIPSI, MICTSI, AGCT, BCT, MICTSL, ICTSI Iraq, CMSA, CMSA Servicios Portuarios SA De CV, CMSA Servicios Profesionales Y De Especialistas SA De CV and CGSA are shown below (in percentage):

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Discount rate | | | |
| Asia | 4.54% - 8.65% | 5.21% - 7.40% | **7.08% - 8.00%** |
| EMEA | 3.50% - 10.46% | 3.25% - 10.40% | **1.50% - 8.79%** |
| Americas | 7.46% - 8.13% | 3.91% - 7.47% | **4.25% - 7.97%** |
| Future salary increases | | | |
| Asia | 4.00% - 10.00% | 3.00% - 10.00% | **4.00% - 10.00%** |
| EMEA | 2.50% - 5.00% | 2.50% - 5.00% | **2.50% - 5.00%** |
| Americas | 3.00% - 6.00% | 1.50% - 5.04% | **1.00% - 5.04%** |

A quantitative sensitivity analysis for significant assumptions as at December 31, 2018 is shown below (amounts in millions):

| | Discount rate | | Future salary increases | |
|---|---|---|---|---|
| Sensitivity level | 1.0% increase | 1.0% decrease | 1.0% increase | 1.0% decrease |
| Impact on the net defined benefit obligation | (US$0.9) | US$1.0 | US$1.1 | (US$1.0) |

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected to be made in the future years out of the defined benefit plan obligation:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Within the next 12 months | US$1,393,826 | US$1,596,827 | **US$1,906,203** |
| Between 2 and 5 years | 4,689,252 | 4,910,600 | **4,677,517** |
| Between 5 and 10 years | 7,306,481 | 7,328,031 | **7,743,023** |
| Beyond 10 years | 26,792,519 | 24,678,316 | **33,306,769** |
| Total expected payments | US$40,182,078 | US$38,513,774 | **US$47,633,512** |

The average duration of the defined benefit plan obligation as at December 31, 2018 is 15 years.

The amount of experience adjustments on pension obligations amounted to US$0.7 million both in 2016 and 2017 and US$0.3 million in 2018. The amount of experience adjustments on plan assets amounted to nil in 2016 and in 2017 and US$29.1 thousand in 2018.

The plan assets of Group are being held by various trustee banks. The investing decisions of these plans are made by the respective trustees.

The following table presents the carrying amounts and fair values of the combined assets of the plans less liabilities:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Cash and cash equivalents | US$3,794,515 | US$2,489,501 | **US$2,317,648** |
| Investments in debt securities | 1,074,112 | 954,661 | **1,004,346** |
| Investments in government securities | 3,665,428 | 3,845,057 | **4,108,594** |
| Investments in equity securities | 688,606 | 1,541,764 | **1,556,629** |
| Others | 86,445 | 2,716 | **105,058** |
| | 9,309,106 | 8,833,699 | **9,092,275** |
| Liabilities | (23,094) | (3,036) | **(307,506)** |
| | US$9,286,012 | US$8,830,663 | **US$8,784,769** |

The plan assets' carrying amount approximates its fair value since these are either short-term in nature or stated at fair market values.

The plans' assets and investments consist of the following:

- Cash and cash equivalents, which includes regular savings and time deposits;

- Investments in corporate debt instruments, consisting of both short-term and long-term corporate loans, notes and bonds, which bear interest ranging from 3.92 percent to 7.81 percent and have maturities from 2020 to 2027;

- Investments in government securities, consisting of retail treasury bonds that bear interest ranging from 3.5 percent to 11.137 percent and have maturities from 2020 to 2031; and

- Investments in equity securities include investment in shares of stock of ICTSI amounting to US$0.6 million, US$0.8 million and US$0.8 million as at December 31, 2016, 2017 and 2018, respectively. For years ended December 31, 2016, 2017 and 2018, mark-to-market gain arising from investment in ICTSI shares amounted to US$0.1 million, US$0.4 million and US$0.3 million, respectively.

  The carrying amounts of investments in equity securities also approximate their fair values given that they are stated at fair market values. The voting rights over these equity securities are exercised by the authorized officers of the respective subsidiary.

- Other financial assets held by these plans are primarily accrued interest income on cash deposits and debt securities held by the plan.

- Liabilities of the plan pertain to trust fee payable and retirement benefits payable.

Defined Contribution Pension Plan
The employees of YICT are members of a state-managed retirement benefit scheme operated by the local government. YICT is required to contribute a specified percentage of its payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of YICT with respect to the retirement benefit scheme is to make the specified contributions.

PICT operates a recognized provident fund scheme for all its eligible employees. Equal monthly contributions are made by PICT and the employees to the fund at a rate of 8.33 percent of the basic salary.

In addition, ICTSI Oregon maintains a Safe Harbor 401k plan (401k plan), covering all of its employees, which became effective January 1, 2011. Participants who are eligible can contribute up to 100 percent of their eligible compensation and those who have reached the age of 21 years old are eligible to make contributions following six months of continuous service. All participants in the 401k plan are eligible for matching contributions of 100 percent of each dollar contributed up to 6 percent of a participant's earnings. Participant's voluntary contributions and actual earnings thereon are immediately vested. ICTSI Oregon's matching contributions to the 401k plan are immediately vested and cannot be forfeited.

Contributions made by YICT, ICTSI Oregon and PICT to the plans and recognized as expense under manpower costs totaled US$0.9 million both in 2016 and 2017 and US$0.8 million in 2018.

## 24. Significant Contracts and Agreements

The Group has entered into a number of contracts and agreements mainly related to the operation, development and management of ports and container terminals. As at December 31, 2018, ICTSI and its subsidiaries, joint venture and associate are in compliance with their concession agreements.

**Agreements within the Scope of IFRIC 12**

A service concession agreement is within the scope of IFRIC 12 if: (a) the grantor regulates the services, customers and the pricing of the services to be provided; and (b) the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

24.1 Contract for the Management, Operation and Development of the MICT

The Parent Company has a contract with the PPA for the exclusive management, operation, and development of the MICT for a period of 25 years starting May 18, 1988, which was extended for another 25 years until May 18, 2038.

Under the provisions of the contract, "Gross Revenues" shall include all income generated by the Parent Company from the MICT from every source and on every account except interest income, whether collected or not, to include but not limited to harbor dues, berthing fees, wharfage, cargo handling revenues, cranage fees, stripping/stuffing charges, and all other revenues from ancillary services. Harbor dues, berthing fees, and wharfage included in gross revenues defined in the MICT contract amounted to US$17.1 million in 2016, US$17.2 million in 2017 and US$17.3 million in 2018.

In addition, under the original contract, the Parent Company agreed to pay the PPA a fixed fee of US$313.8 million payable in advance in quarterly installments converted to Philippine peso using the closing Philippine Dealing System (PDS) rate of the day before payment is made (net of harbor dues, berthing fees and wharfage allowed by PPA as deduction) and a variable fee based on percentages of the Parent Company's gross revenues ranging from 12 percent to 20 percent during the term of the contract. Under the renewal contract effective May 19, 2013, the Parent Company agreed to pay the PPA a fixed fee of US$600.0 million payable in 100 advanced quarterly installments and pay a variable fee of 20 percent of the gross revenues.

The total variable fees paid to the PPA, shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income, amounted to US$82.5 million in 2016, US$82.3 million in 2017 and US$95.4 million in 2018. Fixed fees formed part of the capitalized concession rights which are being amortized over the period of the concession. Related concession rights payable amounted to US$314.4 million, US$306.1 million and US$296.4 million, as at December 31, 2016, 2017 and 2018, respectively. The current portion amounting to US$2.9 million, US$3.2 million and US$3.3 million is presented as "Current portion of concession rights payable" and the noncurrent portion amounting to US$311.5 million, US$302.8 million and US$293.1 million is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets as at December 31, 2016, 2017 and 2018, respectively.

Both the original and renewal contracts contain commitments and restrictions which include, among others, prohibition on the change of Parent Company's controlling ownership without prior consent of the PPA and adherence to a container terminal equipment acquisition program and deployment schedule. Moreover, upon expiration of the term of the contract or in the event of pre-termination, all the structures, buildings, facilities and equipment of the Parent Company being used at the MICT shall automatically become the property of the PPA. The PPA has no obligation to reimburse the Parent Company for the equipment, except for those acquired during the last five years prior to the termination of the contract for which the PPA shall have the option to purchase at book value or to pay rentals. Upon expiration of the original contract of MICT in May 2013, the Parent Company executed a deed of absolute transfer to effect the transfer of ownership of the said structures, improvements, buildings, facilities and equipment, except equipment purchased during the last five years of the original contract. Berth 6 was included in the said transfer. However, ICTSI shall continue to have possession, control and use of the transferred assets for another 25 years in accordance with the terms of the renewal contract in consideration for the upfront fee payment made by the Parent Company.

In 1997, the Parent Company signed a contract for leasehold rights over the storage facilities at the MICT. Under the contract, the Parent Company is committed to pay the PPA ₱55.0 million (equivalent to US$1.0 million as at December 31, 2018) a year from January 16, 1997 up to January 15, 2007 and a variable fee of 30 percent of revenues in excess of ₱273.0 million (equivalent to US$5.2 million as at December 31, 2018) generated from the operation of the storage facilities. This contract was renewed on June 11, 2008 and has been made co-terminus with the MICT Management Contract, or up to May 18, 2038.

In 1998, the Parent Company also acquired a contract to handle non-containerized cargoes and the anchorage operations for a period of ten years starting January 1998. Such contract was renewed on June 11, 2008 and has been made co-terminus with the 1988 MICT Management Contract, or up to May 18, 2038. Under this contract, the Parent Company is required to pay a variable fee of 14 percent of its gross revenues from anchorage operations and 20 percent of its gross revenues from berthside operations for the first three years of the contract. Thereafter, the consideration to be paid by the Parent Company shall be a fixed fee plus a variable fee of 7.5 percent of its gross revenues from berthside operations or 20 percent of its gross revenues, whichever is higher. The fixed fee shall be determined based on the highest annual government share by the Parent Company for the handling of non-containerized cargoes at berthside for the first three years, plus 10 percent thereof.

24.2 Contract with Subic Bay Metropolitan Authority (SBMA) and Royal Port Services, Inc. (RPSI)

On February 20, 2007, SBITC was awarded by the SBMA the contract to operate the New Container Terminal 1 (NCT-1) at Cubi Point in Subic for a period of 25 years. The NCT-1 was constructed by SBMA in accordance with the SBMA Port Master Plan and the Subic Bay Port Development Project. In consideration for the concession, SBITC shall pay: (i) base rent of US$0.70 per square meter per month with 6 percent escalation on the 5th year and every three years thereafter; (ii) fixed fee of US$500,000 every year except for the first two years of the contract; and (iii) variable fee of 12 percent to 16 percent of SBITC's gross revenue based on the volume of containers handled at the terminal.

Total variable fees paid to SBMA, shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income, amounted to US$1.4 million in 2016, US$1.0 million in 2017 and US$1.2 million in 2018. Fixed fees pertaining to the contract to operate NCT-1 formed part of the capitalized concession rights which are being amortized over the concession period. Related concession rights payable amounted to US$18.7 million, US$18.2 million and US$17.7 million as at December 31, 2016, 2017 and 2018, respectively. The current portion amounting to US$0.5 million, US$0.6 million and US$0.6 million is presented as "Current portion of concession rights payable" and the noncurrent portion amounting to

US$18.2 million, US$17.6 million and US$17.1 million is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets as at December 31, 2016, 2017 and 2018, respectively.

24.3 Agreement for Public Concession with Societe de Gestion du Port Autonome de Toamasina (SPAT)

On June 16, 2005, the Parent Company and SPAT signed a 20-year concession agreement for a Public Service Concession for the operation of a container terminal in the Port of Toamasina. Under the agreement, the Parent Company, through MICTSL (a wholly owned subsidiary), will undertake container handling and related services in the Port of Toamasina. The Parent Company agreed to pay SPAT an entry fee of €5.0 million (US$6.5 million) and fixed and variable fees converted to MGA using the Euro/MGA weighted exchange rate published by the Central Bank of Madagascar on the day payment is made. Fixed fees paid amounted to €1.0 million (US$1.3 million) per year for the years 2005 to 2007; €1.5 million (US$1.9 million) per year for the years 2008 to 2010; €2.0 million (US$2.6 million) per year for years 2011 to 2015; and €2.5 million (US$3.2 million) per year for the years 2016 to 2025. The part of fixed fees attributable to year 2025 will be prorated up to the anniversary date of the concession handover. In addition, the Parent Company agreed to pay SPAT €5.0 million (US$6.5 million) for two quay cranes payable in three annual installments from the date of the agreement. Fixed and variable fees will be updated annually based on inflation rate of the Euro zone of the previous year. Annual fixed fee is payable in advance in semi-annual installments. The variable fee of €36.8 (US$47.7) per twenty-foot equivalents (TFE) is payable every 15th day of the following month. However, variable fee will be reduced by 20 percent after 12 consecutive months of operations with container traffic of more than 200,000 TFEs.

The total variable fees paid to SPAT, shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income, amounted to US$7.4 million (€6.7 million) in 2016, US$8.0 million (€7.1 million) in 2017 and US$8.4 million (€7.1 million) in 2018. Fixed fees formed part of the capitalized concession rights which are being amortized over the period of the concession. Related concession rights payable amounted to US$14.8 million (€14.1 million), US$15.6 million (€13.0 million) and US$13.6 million (€11.9 million) as at December 31, 2016, 2017 and 2018, respectively. The current portion amounting to US$1.1 million (€1.0 million), US$1.4 million (€1.2 million) and US$1.5 million (€1.3 million) is presented as "Current portion of concession rights payable" and the noncurrent portion amounting to US$13.7 million (€13.0 million), US$14.2 million (€11.9 million) and US$12.1 million (€10.6 million) is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets as at December 31, 2016, 2017 and 2018, respectively.

24.4 Concession Agreement with Autoridad Portuaria de Guayaquil (APG)

In May 2007, ICTSI, through CGSA, entered into a concession agreement with the Port Authority of Guayaquil for the exclusive rendering of port services that includes the exploitation, construction, financing, operation, management and maintenance of container and multipurpose terminals in the Port of Guayaquil, Ecuador for a period of 20 years ending in 2027.

CGSA took over the terminal operations on August 1, 2007. The terminal handles containerized and bulk cargo. ICTSI's technical plan is to convert the port into a modern multipurpose terminal, comprehensive of two main facilities: a dedicated container terminal of about one million TEUs capacity and a break bulk terminal of about three million tons (banana and other fruits are the main cargo component in this field). ICTSI's development plan covers a period of five to seven years for the terminal to reach the said capacities.

Under the concession agreement, CGSA undertook to pay APG the following: (i) upfront fee totaling US$30.0 million payable over five years; (ii) fixed fees of US$2.1 million payable quarterly; and (iii) variable fees of US$10.4 per TEU for containers handled and US$0.50 per ton for noncontainerized general cargo handled payable monthly. Fixed fees and variable fees are subject to annual increase according to index of adjustment factor calculated for the sum of 0.50 consumer price index (CPI) of Ecuador and 0.50 CPI of United States of America. The upfront fee, recorded as concession rights and concession rights payable at inception, is subject to interest based on three-month LIBOR rate.

In October 2014, the Concession Agreement was amended in order to modify the formula of calculation of variable fee from November 2014 at 9.5% of total gross revenues.

The total variable port fees paid by CGSA to APG, shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income, amounted to US$14.4 million in 2016, US$11.2 million in 2017 and US$14.5 million in 2018. Fixed fees formed part of the capitalized concession rights which are being amortized over the period of the concession. Related concession rights payable amounted to US$54.5 million, US$51.4 million and US$48.0 million as at December 31, 2016, 2017 and 2018, respectively. The current portion amounting to US$3.1 million, US$3.4 million and US$3.7 million is presented as "Current portion of concession rights payable" and the noncurrent portion amounting to US$51.4 million, US$48.0 million and US$44.3 million is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets as at December 31, 2016, 2017 and 2018, respectively.

24.5 Concession Agreement with La Plata

ICTSI, through Tecplata, entered into a concession agreement with La Plata on October 16, 2008. The concession is for 30 years starting from taking bare possession of the terminal or until 2038 and renewable for another 30 years with the following considerations: (i) fixed rent fee - payable on a monthly basis and in advance for AR$8.7755 (US$0.23) per square meter (sqm) per month (ii) variable royalty - payable monthly and based on annual traffic volume at the start of commercial operations; and (iii) assured royalty - payable annually once the terminal becomes operative to cover fixed rent fee, variable royalty, tariff for the use of waterways and port and service of containerized cargoes for the amount of US$4.0 million, which is to be adjusted according to the cost of dredging. The port of La Plata shall be operated by ICTSI through Tecplata. Tecplata took over bare possession of the terminal on November 10, 2008. On July 17, 2014, an addendum to the concession agreement was signed which indicated that the terminal is considered in commercial operations for purposes of payment of US$4.0 million assured royalty once the terminal accepts calls from post panamax vessels. The construction of the terminal was completed and Tecplata has obtained all the required permits since 2015 and is ready to operate but still not considered in commercial operations.

In 2016, 2017 and 2018, Tecplata has paid La Plata fixed rent fee amounting to US$1.0 million, US$0.9 million and US$0.8 million, respectively.

The contract contains commitments and restrictions which include works and investments to be completed at different stages of the concession, to wit:, among others: (i) First Stage - construction of a dock with a length of 500 meters, a yard for handling and storage with an area of 227,600 square meters, access pavements and parking lots for trucks, service facilities and internal parking lots, margins protection to avoid erosion, and a 600-meter secondary road for access to the terminal; (ii) Second Stage - extension of the main dock by 300 meters and expansion of the yard by 31,000 square meters; (iii) Third Stage - expansion of the yard for handling and storage by 44,000 square meters and construction of Container Freight Station (CFS) facilities with an area of

10,000 square meters; and (iv) work completion and performance bonds amounting to US$1.0 million and US$2.5 million, respectively. The First Stage was completed with a berth of 600 meters which is 100 meters more than the required. The Second Stage and Third Stage become mandatory in 2028.

24.6 Agreement on Concession of Container and Ro-Ro Terminal Brajdica

In March 2011, ICTSI, through its wholly-owned subsidiary, ICBV, entered into a Share Purchase Agreement (SPA) with Luka Rijeka, a Croatian company, to purchase a 51.0 percent interest in AGCT. AGCT operates the Brajdica Container Terminal in Rijeka, Croatia with a concession period of 30 years until 2041. The concession agreement calls for a payment of fixed port fees in the amount of US$0.60 per sqm of the occupied concession area until second quarter of 2013 and variable port fees equivalent to 1.0 percent of annual gross revenues. After the delivery or handover of the new area, port fees shall be as follows: fixed port fees of €4.0 (US$5.2) per sqm; and variable fees based on annual volume handled. Variable fees shall be calculated in the following manner based on annual throughput: €6.4 (US$8.3) per TEU until 350,000 TEUs of volume handled; €4.8 (US$6.2) per TEU for annual throughput of 350,001 to 400,000 TEUs; and €3.2 (US$4.1) per TEU for volume handled above 400,000 TEUs.

Total variable fees paid by AGCT to the port authority, shown as part of "Port authorities' share in gross revenues" account in consolidated statements of income, amounted to US$1.2 million (HRK8.4 million) in 2016, US$1.5 million (HRK10.0 million) in 2017 and US$1.7 million (HRK10.7 million) in 2018. Fixed fees formed part of the capitalized concession rights which are being amortized over the period of the concession. Related concession rights payable amounted to US$12.1 million (HRK86.9 million), US$13.6 million (HRK84.3 million) and US$12.8 million (HRK82.6 million) as at December 31, 2016, 2017 and 2018, respectively. The current portion amounting to US$0.2 million (HRK1.3 million), US$0.2 million (HRK1.4 million) and US$0.2 million (HRK1.5 million) is presented as "Current portion of concession rights payable" and the noncurrent portion amounting to US$11.9 million (HRK85.6 million), US$13.4 million (HRK82.9 million) and US$12.5 million (HRK81.1 million) is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets as at December 31, 2016, 2017 and 2018, respectively.

24.7 Contract for the Operation and Management on the New Container Terminal 2 (NCT-2 Contract)

On July 27, 2011, SBMA and ICTSI signed the concession agreement for the operation and management of NCT-2 at Cubi Point in Subic, Philippines for 25 years. On August 19, 2011, SBMA approved the assignment of ICTSI's rights, interests and obligations in the NCT-2 contract to ICTSI Subic, which was incorporated on May 31, 2011.

The NCT-2 was constructed by SBMA in accordance with the SBMA Port Master Plan and the Subic Bay Port Development Project. In consideration for the concession, ICTSI Subic shall pay: (i) base rent of US$1.005 per sqm per month with 6.0 percent escalation on the fifth year and every three years thereafter; (ii) fixed fee of US$502,500 every year; and (iii) variable fee of 12.0 percent to 17.0 percent of ICTSI Subic's gross revenue depending on the volume of containers handled at the terminal. Under the NCT-2 Contract, ICTSI Subic shall manage and provide container handling and ancillary services to shipping lines and cargo owners at NCT-2. While SBMA shall provide the equipment at NCT-2, ICTSI Subic shall also provide additional equipment and facilities it may deem necessary to efficiently manage NCT-2. Furthermore, ICTSI Subic is committed to invest a total of ₱658.0 million (approximately US$16.0 million) for the entire duration of the concession agreement.

On August 2, 2012, SBMA issued the Notice to Proceed with the operation and management of the NCT-2 to ICTSI Subic. Consequently, ICTSI Subic recognized the present value of fixed port fees as concession rights and concession rights payable both amounting to US$28.7 million (see Note 5).

Total variable fees paid by ICTSI Subic to SMBA, shown as part of "Port authorities' share in gross revenues" account in consolidated statements of income, amounted to US$0.2 million in 2016, US$0.6 million in 2017 and US$1.2 million in 2018. Fixed fees formed part of the capitalized concession rights which are being amortized over the period of the concession. Related concession rights payable amounted to US$28.1 million, US$27.8 million and US$27.4 million as at December 31, 2016, 2017 and 2018, respectively. The current portion amounting to US$0.3 million, US$0.4 million and US$0.4 million is presented as "Current portion of concession rights payable" and the noncurrent portion amounting to US$27.8 million, US$27.4 million and US$27.0 million is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets as at December 31, 2016, 2017 and 2018, respectively.

24.8 Sub-Concession Agreement (SCA) between ICTSI and Lekki Port

On August 10, 2012, ICTSI and Lekki Port signed the SCA, which grants ICTSI the exclusive right to develop and operate the Deep Water Port in the LFTZ, and to provide certain handling equipment and container terminal services for a period of 21 years from start of commercial operation date. As considerations for the SCA, ICTSI shall: (i) pay royalties calculated as a percentage of Gross Revenue as defined in the SCA; (ii) pay sub-concession fee amounting to US$25.0 million, payable in two equal tranches; (iii) pay infrastructure fee of about US$37.2 million; and (iv) transfer certain equipment as specified in the SCA. The container terminal will have a quay length of 1,200 meters, an initial draft of 14.5 meters with the potential for further dredging to 16 meters, and maximum handling capacity of 2.5 million TEUs. With these features, shipping lines will be able to call with the new regional standard large vessels, turning the port into a seminal destination for the West African region. On November 7, 2012, ICTSI through ICBV, established LICTSLE to operate the Deep Water Port in the LFTZ. In 2012, ICTSI paid US$12.5 million sub-concession fee to Lekki Port, which is recognized as Concession Rights in the consolidated balance sheets (see Note 5). On January 26, 2014, ICBV executed a Share Purchase Agreement with CMA Terminals (CMAT), a member of CMA-CGM Group. Under the said Agreement, ICBV agreed to sell its 25 percent shareholdings in LICTSLE to CMAT, subject to certain conditions precedent to completion.

On May 17, 2017, ICTSI and Lekki Port mutually agreed to terminate the Agreement subject to a payment by Lekki Port of an agreed amount. On May 23, 2017, ICTSI received the agreed amounts of US$12.5 million representing the return of payments made to Lekki Port pursuant to the Agreement and US$7.5 million representing compensation of costs incurred by ICTSI in relation to the project which was recognized as "Other income" in the 2017 consolidated statement of income (see Notes 1.2 and 20.1). The termination of the Agreement was finalized and deemed effective on May 24, 2017.

24.9 Implementation Agreement between Karachi Port Trust (KPT) and Premier Mercantile Services (PVT) Ltd. (PMS)

On June 18, 2002, KPT and PMS signed the Implementation Agreement for the exclusive construction, development, operations and management of a common user container terminal at the Karachi Port for a period of 21 years until 2023. PMS established PICT as the terminal operating company to develop, operate and maintain the site and the terminal in accordance with the Implementation Agreement. The Implementation Agreement sets forth the specific equipment and construction works to be performed based on the terminal's productivity level; calls for the payment of fixed and variable fees; and requires the turnover of specific terminal assets at the end of the term of the Implementation Agreement. Fixed fees are in the form of Lease Payments or Handling, Marshalling and Storage charges ("HMS Charges") at a unit rate of Rs.411 per sqm per annum in respect of the site occupied by PICT and subject to an escalation of 15 percent every three years in accordance with the Lease Agreement between KPT and PICT, which is an integral part of the of the Implementation Agreement. On the other hand, variable fees are in the form of Royalty payments at a rate of US$12.54 per Cross Berth revenue move, subject to an escalation of 5 percent every three years.

Total variable fees paid to KPT, shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income, amounted to US$8.3 million (Rs.866.4 million) in 2016, US$7.6 million (Rs.803.8 million) in 2017 and US$6.4 million (Rs.776.9 million) in 2018. Fixed fees formed part of the capitalized concession rights which are being amortized over the period of the concession. Related concession rights payable amounted to US$7.8 million (Rs.816.9 million), US$6.7 million (Rs.743.5 million) and US$4.7 million (Rs.656.5 million) as at December 31, 2016, 2017 and 2018, respectively. The current portion amounting to US$0.7 million (Rs.73.4 million), US$0.8 million (Rs.87.0 million) and US$0.8 million (Rs.107.2 million) is presented as "Current portion of concession rights payable" and the noncurrent portion amounting to US$7.1 million (Rs.743.5 million), US$5.9 million (Rs.656.5 million) and US$3.9 million (Rs.549.3 million) is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets as at December 31, 2016, 2017 and 2018, respectively.

24.10 Agreement between OPC, the Republic of Honduras and Banco Financiera Commercial Hondurena, S.A

On February 1, 2013, ICTSI was awarded with a 29-year agreement by the Republic of Honduras, acting on behalf of the Commission for the Public-Private Alliance Promotion (COALIANZA), and Banco Financiera Comercial Hondurena, S.A. (FICOHSA Bank) for the design, financing, construction, maintenance, operation and development of the container terminal and general cargo of Puerto Cortés, Republic of Honduras (the "Agreement"). The Agreement was signed on March 21, 2013 and is valid until August 30, 2042. The Container and General Cargo Terminal of Puerto Cortés (the "Terminal") will have 1,100 meters of quay for containers and 400 meters of quay for general cargo, 14 meters of dredge, 62.2 hectares of total surface area, nine ship-to-shore cranes, and a volume capacity of approximately 1.8 million TEUs.

Pursuant to the Agreement, OPC is obliged to pay certain contributions to the following: (a) Municipality of Puerto Cortés - 4% of the gross income without considering the tax over sales, payable monthly; (b) National Port Company - US$100,000 for each hectare occupied of the existing surfaces, from the beginning of the development of the occupied spaces and the new built surfaces referring to the ENP Works known as OPC Works from the date of occupation, payable annually; US$75,000 for each hectare of the new built and/or earned to the sea surfaces referring to the On Demand Mandatory Works from the beginning of the operative exploitation of the occupied surfaces, payable annually; a certain amount for each movement of the container of importation/exportation regardless if it is full or empty, with a right to reimbursement in an amount equivalent to 25% of the imposed amount; for the load not packed in containers - US$1 for each ton of fractioned load that is operated in the Terminal, US$5 for each unit of rolling load that is operated in the Terminal, US$1 for each passenger operated in the Terminal; Upfront payment of US$25.0 million; (c) COALIANZA - 2% of the total of the Reference Investment of the Project, paid on execution date of the Agreement; and (d) Trustee (FICOHSA Bank) - 0.37% of the annual gross income, payable monthly; and US$1,584,835 paid on execution date of the

Agreement. Total payments in relation to this Agreement aggregated US$34.9 million, which are presented as part of "Intangibles" account in the consolidated balance sheets (see Note 5).

On October 29, 2015, the Agreement was amended to incorporate the following, among others: (a) OPC shall carry out the Works of the National Port Company relating to the construction and development of Berth 6 with a length of 550 meters out of the 1,100 meters of quay for containers under the Agreement. OPC shall complete the second phase on June 30, 2023 at the latest; (b) 10% reduction from the original variable and fixed rates related to the annual contribution paid to the National Port Company as well as contributions per movement of container of importation/exportation, ton of load not packed in containers, unit of rolling load and terminal passenger. The reduction in variable and fixed rates were effective upon the commencement of the first phase of berth construction subject to annual escalation based on inflation calculated as prescribed in the amended agreement; (c) reduction in the number of port equipment investment commitment; and (d) modification in the timing of committed investment in infrastructure and equipment.

The total variable port fees paid by OPC shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income amounted to US$10.9 million both in 2016 and 2017 and US$11.5 million in 2018. Fixed fees formed part of the capitalized concession rights which are being amortized over the period of the concession. Related concession rights payable amounted to US$40.2 million, US$40.8 million and US$41.2 million as at December 31, 2016, 2017 and 2018, respectively, and is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets.

24.11 Contract for the Construction and Operation of Three New Quays and Management and Operation of Quay No. 20 in the Port of Umm Qasr in Iraq

ICTSI, through its wholly owned subsidiary, ICTSI Dubai and GCPI signed on April 10, 2014 the Contract in the Port in Iraq. The Contract grants ICTSI the rights to: (a) manage and operate the existing container facility at Berth 20 of the Port for a period of 10 years, (b) build in three phases, under a BOT scheme, a new container and general cargo terminal in the Port for a concession period of 26 years, and (c) provide container and general cargo terminal services in both components. On March 1, 2016, the First Addendum was signed by the parties granting ICTSI, through ICTSI Dubai, the right to manage and operate an additional existing Quay No. 19 for a total of 13 years, with the first three years for the completion of rehabilitation works. Also, the First Addendum extended the original term for the management and operation of Quay No. 20 from 10 to 13 years. On March 26, 2017, the Second Addendum was signed by the parties granting ICTSI, through ICTSI Dubai, the right to manage and operate Quay No. 21 co-terminus with the Contact and the First Addendum. The Second Addendum extended the term for the management and operation of Quay No. 19 and 20 from 13 to 21 years.

ICTSI commenced trial operations at Berth 20 in September 2014 and full-fledged commercial operations in November 2014. ICTSI commenced commercial operations of Berth 19 in June 2016. The rehabilitation works for Berth 21 are on-going and it has started operations in the third quarter of 2018.

Phase 1 of the expansion project (Berth 27) under the BOT scheme has 250 meters of berth with an estimated capacity of 300,000 TEUs. The facility will have 600 meters of quay with an estimated capacity of 900,000 TEUs. Berth 27 was completed and fully operational in the first quarter of 2017.

On October 22, 2017, ICTSI signed an agreement with GCPI for the Phase 2 of expansion development of the Port. The Phase 2 expansion project will involve development of two new berths, Berths 25 and 26, including a 20-hectare yard area. This expansion will increase the Port's container handling capacity by 600,000 TEUs to 1,200,000 TEUs and its capability to handle large container vessels of up to 10,000 TEUs. The development of this phase of the expansion project is on-going and is expected to be completed in the third quarter of 2019.

The total variable port fees paid by ICTSI Iraq computed as a percentage of revenues that varies by type of services and shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income amounted to US$18.1 million in 2016, US$18.9 million in 2017 and US$17.6 million in 2018.

24.12 Terminal Operating Agreement and Subscription and Shareholders Agreement - Lae

*Terminal Operating Agreement (TOA).* In September 2017, ICTSI received a notification from PNG Ports Corporation Limited (PNGPCL), a PNG state-owned enterprise, of the confirmation by the Independent Consumer and Competition Commission in PNG with respect to the 25-year agreement signed by ICTSI's PNG subsidiary, SPICTL, with PNGPCL for the operation, management and development of the international port in Lae in PNG. SPICTL was allowed by PNGPCL to take over the port facilities and begin operations at the Port of Lae in February 2018. The TOA and other related contracts took effect on June 1, 2018 after all the parties have complied with the agreed conditions precedent.

The initial annual rent amounted to PGK22.8 million (US$6.9 million) and is subject to periodic review. The TOA also required the payment of advance rent amounting to PGK57.0 million (US$17.3 million) to be applied equally over the first 10 years of the term of the TOA.

Fixed fees formed part of the capitalized concession rights which are being amortized over the period of the concession. Related concession rights payable amounted to US$45.3 million (PGK152.7 million) as at December 31, 2018 and is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets.

*Subscription and Shareholders Agreement (SSA).* ICTSI, through its subsidiaries, ISPL and SPICTL entered into a SSA with the impacted communities (IC) for the management and governance of and the further transfers and/or issues of shares of SPICTL. The SSA became effective upon the effectivity of the TOA for Lae on June 1, 2018. Within one year from the effectivity date of the SSA and upon the required written notification by ICTSI, through ISPL, the ICs have the right to subscribe up to 30% of the total initial shares of SPICTL. Pre-emptive rights on additional subscriptions are available to all shareholders. As of December 31, 2018, the ICs have not exercised their right to subscribe pending the finalization of the capital structure of SPICTL.

24.13 Terminal Operating Agreement and Subscription and Shareholders Agreement - Motukea

*Terminal Operating Agreement (TOA).* In September 2017, ICTSI received a notification from PNGPCL, a PNG state-owned enterprise, of the confirmation by the Independent Consumer and Competition Commission in PNG with respect to the 25-year agreement signed by ICTSI's PNG subsidiary, MITL, with PNGPCL for the operation, management and development of the international port in Motukea in PNG. MITL was allowed by PNGPCL to take over the port facilities and begin operations at the Port of Motukea in May 2018. The TOA and other related contracts took effect on June 1, 2018 after all the parties have complied with the agreed conditions precedent.

The initial annual rent amounted to PGK16.2 million (US$5.2 million) and is subject to periodic review. The TOA also required the payment of advance rent amounting to PGK43.0 million (US$13.1 million) to be applied equally over the first 10 years of the term of the TOA.

Fixed fees formed part of the capitalized concession rights which are being amortized over the period of the concession. Related concession rights payable amounted to US$34.2 million (PGK115.2 million) as at December 31, 2018 and is presented as "Concession rights payable - net of current portion" in the consolidated balance sheets.

*Subscription and Shareholders Agreement (SSA).* ICTSI, through its subsidiaries, ISPL and MITL entered into a SSA with the impacted communities (IC) for the management and governance of and the further transfers and/or issues of shares of MITL. The SSA became effective upon the effectivity of the TOA for MITL on June 1, 2018. Within one year from the effectivity date of the SSA and upon the required written notification by ICTSI, through ISPL, the ICs have the right to subscribe up to 30% of the total initial shares of MITL. Pre-emptive rights on additional subscriptions are available to all shareholders. As of December 31, 2018, the ICs have not exercised their right to subscribe pending the finalization of the capital structure of MITL.

24.14 Concession Agreement between Sea Ports Corporation of Sudan and ICTSI Middle East DMCC

On January 3, 2019, ICTSI, through its wholly-owned subsidiary ICTSI Middle East DMCC, signed a Concession Agreement with the SPC to operate, manage and develop the SPCT at the port of Port Sudan, Republic of the Sudan for 20 years. Pursuant to the concession agreement, ICTSI is required to pay: (a) an upfront fee of €530.0 million in installments of €410.0 million (US$467.2 million) and five other installments each in the amount of €24.0 million (US$27.3 million) from the third to the seventh operation year; (b) fixed monthly fee of €1.0 million in the first 72 months of the concession term and €1.5 million, subject to adjustments, for the remainder of the term; and (c) royalty fee of 14% of gross revenue during the first six operating years of the concession and 16% of gross revenue starting the seventh operating year.

The port of Port Sudan is the only major modern port in the country and serves as the international gateway for more than 95% of Sudan's cargo flows. In February 2019, ICTSI established AGT, a Sudanese entity, to operate the container terminal. The Group is currently working with SPC for the handover preparations and is expecting to take over the container terminal in the first half of 2019. In January 2019, ICTSI paid the initial installment of upfront fee of €410.0 million (US$467.2 million).

**Agreements outside the Scope of IFRIC 12 and Accounted by the Group in Accordance with IFRIC 4**

Agreements outside the scope of IFRIC 12 are assessed in accordance with IFRIC 4. An arrangement is within the scope of IFRIC 4 if: (a) the fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

24.15 Lease Agreement for the Installation and Exploitation of a Container Terminal for Mixed Private Use of the Port of Suape-Complexo Industrial Portuario (Suape)

On July 2, 2001, TSSA entered into a lease agreement with Suape for the operation and development of a container terminal in a port in Suape, Brazil for a period of 30 years starting from the date of agreement. In consideration for the lease, TSSA shall pay Suape a fee in

Brazilian Reais (R$) consisting of three components: (i) R$8.2 million, payable within 30 days from the date of agreement; (ii) R$3.1 million, payable in quarterly installments; and (iii) an amount ranging from R$15 to R$50 (depending on the type of container and traffic, i.e., full, empty/ removal and transshipment) handled for each container, payable quarterly. For the third component of the fee (which rates per container increase by 100 percent every ten years), if the total amount paid for containers handled in the four quarters of the year is less than the assured minimum amount for such component indicated in the agreement, TSSA will pay the difference to Suape based on a certain formula. The lease fee is subject to readjustment annually, unless there is a change in legislation, which allows a reduction in the frequency of readjustment, based on a certain formula contained in the agreement.

Under the lease agreement, TSSA undertakes to make the investment in works, equipment, systems and others necessary to develop and operate the Suape port within the agreed time frame.

Upon the expiration of the term of the contract or in the event of pre-termination, the building and other structures constructed in the port by TSSA shall become the property of Suape in addition to assets originally leased by Suape to TSSA. TSSA may remove movable goods from the container terminal, unless the parties agree otherwise.

Total variable fees paid to Suape, shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income, amounted to US$16.3 million (R$56.9 million) in 2016, US$21.3 million (R$68.2 million) in 2017 and US$21.6 million (R$79.0 million) in 2018. Total fixed fees paid to Suape, shown as part of "Equipment and facilities-related expenses" account in the consolidated statements of income, amounted to US$3.7 million (R$12.9 million) in 2016, US$4.2 million (R$13.6 million) in 2017 and US$3.8 million (R$14.0 million) in 2018.

Minimum lease payments relating to this agreement are as follows: due in 2019 amounted to US$7.4 million (R$28.6 million); due starting 2020 up to 2023 totaled US$59.1 million (R$229.3 million); and due starting 2024 onwards totaled US$124.6 million (R$483.4 million).

24.16 Contracts with Gdynia Port Authority (the "Harbour")

On May 30, 2003, the Parent Company and the Harbour signed three Agreements, namely Agreement on Commercial Cooperation, Lease Contract and Contract for Sale of Shares, which marked the completion of the privatization of BCT. BCT owns the terminal handling assets and an exclusive lease contract to operate the Gdynia container terminal for 20 years until 2023, extendable for another specified or unspecified period, depending on the agreement.

Under the Agreement on Commercial Cooperation, US$78.0 million is the estimated investment for terminal improvements over the life of the concession, of which €20.0 million is necessary within the first eight-year period. As at December 31, 2018, BCT invested US$110.5 million (€89.0 million), thus exceeding the minimum investment level required.

In the original Lease Contract signed between the Harbour and the original owners of BCT, the Harbour shall lease to BCT its land, buildings and facilities for a period of 20 years for a consideration of Polish zloty (PLN) equivalent of US$0.62 million per month to be paid in advance. Subsequently, twenty-two amendments in the contract were made reducing the monthly rental to US$0.61 million and US$0.55 million in May 2004 and October 2013, respectively. Under the revised Agreement with BCT, the Harbour further reduced the rental fee by US$0.9 million (PLN2.8 million) annually effective January 1, 2005. This amount has been translated into US dollar using the average exchange rate of US dollar effective in the National Bank of Poland as at December 31, 2004, and deducted from the existing rental rate in US dollar.

Total fees paid to the Harbour pertaining to the Lease Contract, shown as part of "Equipment and facilities-related expenses" account in the consolidated statements of income, amounted to US$6.6 million both in 2016 and 2017 and US$6.7 million in 2018.

Minimum lease payments relating to this agreement are as follows: due in 2019 amounted to US$6.6 million; and due starting 2020 up to 2023 totaled US$22.8 million.

24.17 Concession Agreement with Batumi Port Holdings Limited (BPHL)

In September 2007, IGC obtained the concession from BPHL to develop and operate a container terminal and a ferry and dry bulk handling facility in the Port of Batumi in Georgia. BPHL has the exclusive management right over the State-owned shares in Batumi Sea Port Limited (BSP). IGC established BICTL to operate the concession.

In relation to the concession, BICTL, through IGC, entered into a lease and operating agreement with BSP for a 48-year lease over a total area of 13.6 hectares of land in Batumi Port, consisting of Berths 4 and 5 for a container terminal, and Berth 6 as ferry terminal and for dry bulk general cargo. The lease and operating agreement will expire on June 30, 2055. IGC paid BPHL US$31.0 million, shown as "Intangible assets" account in the consolidated balance sheets and amortized up to year 2055, in consideration of the procurement for the lease between BICTL and BSP. Under the lease and operating agreement between BICTL and BPHL, BICTL shall pay BSP an annual rent of US$0.1 million from November 2, 2007 to 2008, US$0.2 million from November 2, 2008 to 2009, US$0.5 million from November 2, 2009 to 2011 and US$0.8 million from November 2, 2011 to expiration date of the contract as stipulated in the agreement.

Minimum lease payments relating to this agreement are as follows: due in 2019 amounted to US$0.6 million; due starting 2020 up to 2023 totaled US$2.9 million; and due starting 2024 onwards totaled US$25.7 million.

Total fixed fees paid to BSP, shown as part of "Equipment and facilities-related expenses" account in the consolidated statements of income, amounted to US$0.6 million in 2016, US$0.7 million both in 2017 and 2018.

24.18 Concession Contract for the Management and Operation of the MCT

On April 25, 2008, Phividec Industrial Authority (PIA) awarded the management and operation of MCT in Misamis Oriental, in the Philippines to ICTSI. The concession contract is for a period of 25 years starting from the date of the agreement. ICTSI established MICTSI to operate the concession. Under the contract, MICTSI shall be responsible for planning, supervising and providing full terminal operations for ships, container yards and cargo handling. MICTSI shall also be responsible for the maintenance of the port infrastructure, facilities and equipment set forth in the contract and shall procure any additional equipment that it may deem necessary for the improvement of MCT's operations. In consideration for the contract, MICTSI shall pay PIA fixed fee of ₱2,230.0 million (US$46.9 million) payable in advance in quarterly installments and variable fees based on percentages of MICTSI's gross revenue ranging from 15 to 18 percent during the term of the contract. The said fixed fees will be subject to renegotiation by both parties after five years and every five years thereafter, taking into consideration variances between the projected and actual cargo volumes. The total variable fees paid to PIA, shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income, amounted to US$2.0 million (₱96.4 million) in 2016, US$2.0 million (₱102.6 million) in 2017 and US$2.2 million (₱114.5 million) in 2018. Total fixed fees paid to PIA, shown as part of "Equipment and facilities-related expenses" account in the consolidated statements of income amounted to US$1.3 million (₱60.0 million) in 2016, US$1.2 million (₱60.0million) in 2017 and US$1.6 million (₱85.0 million) in 2018.

Minimum lease payments relating to this agreement are as follows: due in 2019 amounted to US$1.8 million (₱95.0 million); due starting 2020 up to 2023 totaled US$8.9 million (₱470.0 million); and due starting 2024 onwards totaled US$20.5 million (₱1.1 billion).

24.19 Deed of Usufruct between Tecplata and Compañia Fluvial del Sud, S.A.

In 2008, Tecplata entered into an operating lease agreement with Compañia Fluvial del Sud, S.A. for the use of land and real property in relation to Tecplata's contract to operate the port of La Plata in Argentina. The lease agreement is for 20 years, starting in 2010, subject to renewal for another 20 years at the option of Tecplata. This agreement is accounted for as an operating lease. Consequently, Tecplata capitalized the related rental expense as part of the cost of port facilities and recognized under "Intangibles" account in the consolidated balance sheet during the period of construction until such time that the port facilities will be available for use. On December 20, 2010, Tecplata and Compañia Fluvial del Sud, S.A. executed an amendment to the lease agreement which provided that: (i) in 2010, Tecplata should not have to make any payments in connection with the lease; (ii) from January 2011, Tecplata shall pay a monthly lease of US$17,500 (approximately AR$87,500); and (iii) from the month following the commencement of operations in the terminal, monthly payments shall be US$35,000 (approximately AR$175,000), which was the amount originally agreed upon by both parties. In addition, the accumulated discount as a result of the amendment in 2010 relating to lease payments in 2011, 2012 and 2013 with respect to the original values of the lease amounting approximately US$0.5 million (as at December 31, 2013) would be paid in 36 installments once Tecplata starts operations (the mentioned discount was paid in 2014). Tecplata paid US$0.4 million each in 2016, 2017 and 2018 to Compañia Fluvial del Sud, S.A. included as part of "Equipment and facilities-related expenses" in the consolidated statements of income.

Minimum lease payments relating to this agreement are as follows: due in 2019 amounted to US$0.4 million; due starting 2020 up to 2023 totaled US$1.7 million; and due starting 2024 onwards totaled US$6.3 million.

24.20 Contract Granting Partial Rights and Obligations to Contecon Manzanillo, S.A. de C.V.

In November 2009, ICTSI was declared by the Administracion Portuaria Integral de Manzanillo, S.A., de C.V. (API) the winner of a 34-year concession for the development and operation of the second Specialized Container Terminal (TEC-II) at the Port of Manzanillo. ICTSI established CMSA on January 6, 2010 to operate the Port of Manzanillo. The concession agreement was signed on June 3, 2010. CMSA paid upfront fees of MXN50.0 million (US$4.0 million) to API in two installments: MXN25.0 million (US$2.0 million) on June 3, 2010, the date of signing of the contract; and another MXN25.0 million (US$2.0 million) on September 17, 2010.

Under the terms of the contract granting partial rights and obligations, CMSA will build, equip, operate and develop the terminal that will specialize in the handling and servicing of containerized cargo. Investments in the Port of Manzanillo include maritime works, dredging, quay (including crossbeams and fenders), maneuver yards, storage installations, land access and signals, as well as all those works necessary to fulfill the productivity indexes contained in the contract.

The port facilities will be turned over by API to CMSA in three phases: (a) Phase I, North Area, Position 18: 379,534.217 sqm of the federal land area and 18,000 sqm of the maritime area; (b) Phase II, Centre Area Position 19: 158,329.294 sqm of the federal land area and 18,000 sqm of the maritime area; and (c) Phase III, South Area (Position 20): 186,355.22 sqm of the federal land area and 18,000 sqm of the maritime area. On November 30, 2010, the first phase of the ceded area was formally delivered to CMSA while a portion of the second phase of the ceded area equivalent to 42,000 sqm of the federal land area and 18,000 sqm of the maritime area were delivered in advance to CMSA. The remaining portion of the second phase of the ceded area equivalent to 116,329.294 sqm was delivered to CMSA on June 30, 2017. CMSA will formally request for the delivery of the third phase of the ceded area not later than January 1, 2020.

CMSA shall pay annual fixed fees of MXN163.0 million (US$12.9 million), MXN75.5 million (US$6.0 million) and MXN 83.8 million (US$6.6 million) for the first, second and third phases of the ceded area, respectively. The annual fixed fees shall be paid and adjusted based on CPI on a monthly basis. Further, CMSA shall pay monthly variable fees of US$10.40 (MXN200) per TEU, up to a maximum volume of 1,500,000 TEUs per year. The contract requires the payment of a minimum variable fee calculated based on a certain minimum guaranteed volume per year starting on the sixth year of the contract until the end of the concession.

CMSA started commercial operations in November 2013. The total variable fees paid by CMSA, shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income amounted to US$12.0 million in 2016, US$15.6 million in 2017 and US$15.1 million in 2018. Total fixed fees paid by CMSA, shown as part of "Equipment and facilities-related expenses" account in the consolidated statements of income, amounted to US$10.6 million in 2016, US$13.9 million in 2017 and US$14.2 million in 2018.

Minimum lease payments relating to this agreement are as follows: due in 2019 amounted to US$16.8 million, due starting 2020 up to 2023 totaled US$98.4 million; and due starting 2024 onwards totaled US$679.3 million.

24.21 Lease Agreement between the Port of Portland and ICTSI Oregon

On May 12, 2010, ICTSI Oregon signed a 25-year lease with the Port of Portland for the container/break bulk facility at Terminal 6. Under the terms of the agreement, ICTSI Oregon and ICTSI paid the Port of Portland US$8.0 million (US$2.0 million on May 12, 2010 as a signing deposit; and the remaining US$6.0 million on August 12, 2010) in addition to an annual rent payment of US$4.5 million, subject to any increases in the consumer price index. As terminal volume increases over time, ICTSI will pay the Port of Portland additional incremental revenue per container moved. Furthermore, the Port of Portland shall; (a) demise and lease the terminal land, the improvements, cranes, and all appurtenances pertaining thereto or arising in connection therewith to ICTSI, for and during the term of the lease; (b) grant an exclusive right to conduct stevedoring services at the terminal and to operate, manage, maintain and rehabilitate the port infrastructure, as well as to provide terminal services and collect and retain user fees; and (c) grant a non-exclusive right during the term of the lease to use the common areas in connection with permitted uses of the terminal.

The US$8.0 million upfront fee was allocated to concession rights and property and equipment amounting to US$4.2 million and US$3.8 million, respectively. ICTSI Oregon took over the operations of the Terminal 6 of the Port of Portland on February 12, 2011.

Total fees paid to the Port of Portland pertaining to the lease agreement, shown as part of "Equipment and facilities-related expenses" account in the consolidated statements of income, amounted to US$4.8 million in 2016 and US$59.1 thousand in 2017.

In October 2016, the Board of ICTSI Ltd. has authorized the management of ICTSI Oregon to negotiate with the Port of Portland and reach terms mutually acceptable to both parties with respect to the termination of the lease agreement after two major customers, Hanjin Shipping Co. and Hapag-Lloyd, stopped calling the Port of Portland in March 2015 due to continuing labor disruptions. During the latter part of 2016, the Port of Portland and ICTSI Oregon began discussions of a mutual agreement to terminate the lease agreement. As of December 31, 2016, the Company provided for the amount of probable loss on the pre-termination of the lease agreement based on the Group's best estimate of the probable outcome of the negotiations with the Port of Portland. The estimated amount of probable loss from the pre-termination of the lease agreement charged to the 2016 consolidated statement of income was US$23.4 million, which includes the carrying value of the container handling equipment and spare parts (see Notes 1.2, 9 and 20.3).

On March 8, 2017, ICTSI, through ICTSI Oregon, and the Port of Portland signed a Lease Termination Agreement and both parties have mutually agreed to terminate the 25-year Lease Agreement to operate the container facility at Terminal 6 of the Port of Portland with an effective date of March 31, 2017. The Lease Termination Agreement allowed ICTSI Oregon to be relieved of its long-term lease obligations. In exchange, the Port of Portland received US$11.45 million in cash compensation on March 29, 2017 and container handling equipment, including spare parts and tools on March 31, 2017.

As a result of the Lease Termination Agreement, ICTSI Oregon is no longer engaged in container operations at Terminal 6 or at any other locations. ICTSI Oregon's activities are currently devoted to supporting the on-going legal proceedings.

24.22 Development Agreement between VICT and POMC

On May 2, 2014, ICTSI, through its subsidiary in Australia, VICT, signed a contract in Melbourne with POMC for the design, construction, commissioning, operation, maintaining and financing of the Webb Dock Container Terminal (Terminal) and Empty Container Park (ECP) at Webb Dock East (WDE) in the Port of Melbourne. The Contract grants VICT the rights to: (a) design, build and commission the new Terminal at berths WDE 4 and WDE 5; (b) design, build and commission the new ECP at WDE; and (c) operate the Terminal and ECP until June 30, 2040.

Phase 1 of the Terminal and the ECP with capacities of 350,000 TEUs and 250,000 TEUs, respectively, commenced commercial operations in the second quarter of 2017. Phase 2 of the Terminal commenced commercial operations in the first quarter of 2018 and has increased the capacity to 1,000,000 TEUs.

Total fixed fees paid by VICT, shown as part of "Equipment and facilities-related expenses" account in the consolidated statements of income, amounted to US$34.2 million (AUD44.6 million) in 2017 and US$60.0 million (AUD80.3 million) in 2018.

Minimum lease payments relating to this agreement are as follows: due in 2019 amounted to US$56.6 million (AUD80.3 million); due starting 2020 up to 2023 totaled US$226.5 million (AUD321.3 million); and due starting 2024 onwards totaled US$1.1 billion (AUD1.6 billion). Accrued rent amounted to US$149.6 million (AUD207.5 million), US$100.3 million (AUD128.5 million) and US$147.2 million (AUD208.8 million) as at December 31, 2016, 2017 and 2018, respectively, calculated using the straight-line method from the inception of the contact in June 2014. The noncurrent portion of the accrued rent was included as part of "Other noncurrent liabilities" account while the current portion was included as part of "Accounts payable and other current liabilities" account in the consolidated balance sheets. The current portion of the accrued rental of VICT amounting to US$85.0 million (AUD117.9 million) as at December 31, 2016 and nil as of December 31, 2017 and 2018 (see Notes 16 and 18).

24.23 Concession to Construct and Operate a Maritime Container Terminal in the Port of Tuxpan

On May 27, 2015, ICTSI, through its subsidiary, ICTSI Tuxpan B.V., acquired from Grupo TMM S.A.B and Immobiliaria TMM S.A. de C.V 100 percent of the capital stock of TMT for US$54.5 million. TMT is a company duly incorporated in accordance with the laws of Mexico with a concession to construct and operate a maritime container terminal in the Port of Tuxpan, Mexico and is the owner of the real estate where the maritime container terminal will be constructed. The concession agreement is valid until May 25, 2021, subject to extension for another 20 years. The concession covers an area of 29,109.68 square meters, which is adjacent to the 43 hectares land owned by TMT. Under the concession agreement, TMT is liable and committed to: (1) pay fixed fee of MXN23.24 plus VAT, per square meter of assigned area; and (2) pay minimum guaranteed fee starting January 2018 ranging from MXN145.33 (US$9.51) per TEU to MXN340.60 (US$22.29) per TEU for containerized cargo and MXN3.37 (US$0.22) per ton to MXN5.62 (US$0.37) per ton for general cargo, based on agreed minimum volume. As of March 5, 2019, management is currently working on a development plan on TMT.

The total variable fees paid by TMT, shown as part of "Port authorities' share in gross revenues" account in the consolidated statement of income, amounted to US$0.3 million (MXN5.1 million) in 2018. Total fixed fees paid by TMT pertaining to the concession agreement, shown as part of "Equipment and facilities-related expenses" account in the consolidated statements of income, amounted to US$0.4 million (MXN8.3 million) in 2016, US$0.5 million (MXN8.6 million) in 2017 and US$0.5 million (MXN9.1 million) in 2018.

Minimum lease payments relating to this agreement are as follows: due in 2019 amounted to US$1.0 million (MXN20.0 million) and due in 2020 totaled US$1.0 million (MXN20.0 million).

**Agreements outside the Scope of IFRIC 12 and IFRIC 4**

24.24 Shareholders' Agreement (Agreement) with AG&P

On September 30, 1997, IWI CTHI entered into an Agreement with AG&P forming BIPI. BIPI developed the property acquired from AG&P at Bauan, Batangas into an international commercial port duly licensed as a private commercial port by the PPA.

Simultaneous with the execution of the Agreement, AG&P executed a Deed of Conditional Sale in favor of IWI CTHI conveying to the latter a parcel of land for a total purchase price of ₱632.0 million (equivalent to US$12.0 million as at December 31, 2018). The said land was transferred by IWI CTHI to BIPI under a tax-free exchange of asset for shares of stock.

24.25 Cooperation Agreement for the Procurement, Installation and Operation of Container Handling Equipment under a Revenue Sharing Scheme at the Makassar Container Terminal Port of Makassar, South Sulawesi, Indonesia

MTS has an existing agreement with PT Pelabuhan Indonesia IV (Pelindo), the Indonesian government-owned corporation that owns and operates the Makassar Container Terminal, for the procurement, installation and operation of Container Handling Equipment (CHE) at the Makassar Container Terminal under a revenue sharing scheme for ten years until 2013, renewable for another 10 years by mutual agreement. In December 2012, MTS extended the joint operation contract, which will originally expire on September 30, 2013, until February 1, 2023. Under the agreement, MTS provides and operates CHE at the Port of Makassar. For the services provided, MTS is paid by Pelindo 60 percent of the gross revenue based on the published tariff for the operation of CHE owned by MTS. MTS' share in gross revenues included under "Gross revenues from port operations" account in the consolidated statements of income amounted to US$2.7 million (IDR35.7 billion) in 2016, US$3.0 million (IDR40.0 billion) in 2017 and US$3.2 million (IDR45.6 billion) in 2018.

24.26 Long-term Contract for the Operations of Cargo Handling Services at Makar Wharf

On February 20, 2006, the PPA granted SCIPSI a ten-year contract for the exclusive management and operation of arrastre, stevedoring, and other cargo handling services, except porterage, at Makar Wharf, Port of General Santos, General Santos City in the Philippines that expired on February 19, 2016. Thereafter, the PPA granted SCIPSI a series of hold-over authority on a temporary basis over the cargo handling services at Makar Wharf, Port of General Santos. On February 22, 2018, the PPA issued AO No. 04-2018 directing all Port Managers of the PPA to grant hold-over authorities to cargo handling service providers with contracts due to expire in 2018, for six months, unless earlier terminated by the PPA or upon award of a new terminal management contract in accordance with PPA AO No. 03-2016. On June 21, 2018, the hold-over authority was issued by the PPA with a validity of six months starting February 25, 2018 until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. On October 19, 2018, the hold-over authority was issued by the PPA with a validity of six months starting August 25, 2018 or until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. As of March 5, 2019, SCIPSI has not received a new hold-over authority.

The total variable fees paid by SCIPSI to PPA computed as a percentage of revenues and shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income amounted to US$1.3 million (₱61.5 million) in 2016, US$1.3 million (₱63.9 million) in 2017 and US$1.4 million (₱75.0 million) in 2018.

24.27 Long-term Contract for the Operations of Cargo Handling Services at Sasa Wharf

On April 21, 2006, the PPA granted DIPSSCOR a ten-year contract for cargo handling services at Sasa Wharf, Port of Davao in the Philippines that expired on April 20, 2016. Thereafter, the PPA granted DIPSSCOR a series of hold-over authority on a temporary basis over the cargo handling services at Sasa Wharf, Port of Davao. On February 22, 2018, the PPA issued AO No. 04-2018 directing all Port Managers of the PPA to grant hold-over authorities to cargo handling service providers with contracts due to expire in 2018, for six months, unless earlier terminated by the PPA or upon award of a new terminal management contract in accordance with PPA AO No. 03-2016 entitled "Port Terminal Management Regulatory Framework". On June 11, 2018, the hold-over authority was issued by the PPA with a validity of six months starting February 26, 2018 until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. On November 12, 2018, the hold-over authority was issued by the PPA with a validity of six months starting August 26, 2018 or until the award of a new contract by the PPA, whichever is earlier, unless cancelled or revoked for reason by the PPA during the validity of the hold-over authority. As of March 5, 2019, DIPSSCOR has not received a new hold-over authority.

The total variable fees paid by DIPSSCOR to PPA computed as a percentage of revenues and shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income amounted to US$1.4 million (₱66.3 million) in 2016, US$1.4 million (₱71.6 million) in 2017 and US$1.5 million (₱80.1 million) in 2018.

24.28 Joint Venture Contract on Yantai Rising Dragon International Container Terminal, Ltd. (YRDICTL) and YICT

In January 2007, the Group (through IHKL) entered into a joint venture contract with YPG and SDIC Communications, Co. on YRDICTL to operate and manage the Yantai port in Shandong Province, China. The registered capital of YRDICTL is RMB600.0 million (equivalent to US$99.1 million as at December 31, 2013) and the term of the joint venture is 30 years, and may be extended upon agreement of all parties. The joint venture became effective on February 28, 2007.

In 2010, YPG and SDIC invested its 40 percent stock holdings in YRDICTL into YPH. As such, the non-controlling shareholder of the Company was changed from YPG and SDIC to YPH.

Pursuant to a joint venture agreement, the Board of YRDICTL shall be comprised of five members, three of which the Group has the right to elect. The land operated by YRDICTL was contributed as an in-kind capital contribution by YPG for a period of 30 years.

On July 1, 2014, the Group, through its subsidiary IHKL, acquired 51 percent of the total equity interest of YICT and the Group sold its 60 percent ownership interest in YRDICTL to YPH. The Group entered into a joint venture agreement on YICT with DP World and YPH for a period of 29 years until September 29, 2043, and may be extended upon agreement of all parties. The objective of these transactions is to consolidate and optimize the overall port operations within the Zhifu Bay Port Area in Yantai, China. YICT became the only foreign container terminal within the Zhifu Bay Port Area. DP World China (Yantai) and YPH owns 12.5 percent and 36.5 percent ownership interest in YICT, respectively, with ICTSI as the majority shareholder.

Pursuant to the said joint venture agreement, the Board of YICT shall be comprised of six members, three of which the Group has the right to elect. The Chairman of the Board shall be appointed by the Group and the said Chairman shall be entitled to a casting vote in the event of equality of votes. The Group is also entitled to appoint the General Manager and Financial Controller. The land operated by YICT was contributed by YPH and is valid until August 28, 2043.

YICT is authorized by YPH to collect, on its behalf, the port charges (including port charges levied on cargoes and facilities security fees) in accordance with the state regulations and shall, after retaining 50% of the port charges levied on cargoes (as the fees for maintaining the facilities within the port owned by YICT) and 80% of the facilities security fees (as the fees for maintaining and improving the security facilities within the terminal owned by YICT) collected, pay to YPH the remaining parts no later than the fifteenth ($15^{th}$) day of the following month.

The total variable fees paid by YICT to YPH, shown as part of "Port authorities' share in gross revenues" account in the consolidated statements of income, amounted to US$2.1 million (RMB13.7 million) in 2016, US$2.1 million (RMB14.2 million) in 2017 and US$2.2 million (RMB14.8 million) in 2018.

24.29 Cooperation Agreement for Operation of Terminal Area III of the Tanjung Priok Port at Jakarta, Indonesia between PT Pelabuhan Indonesia II (Pelindo) and OJA

OJA has existing cooperation agreements with Pelindo under a revenue sharing scheme covering the terminal operations of berths 300, 301, 302 and 303 located in Terminal Area III (referred to as "Cooperation Area") of the Tanjung Priok Port, Jakarta, Indonesia. OJA and Pelindo share a fixed percentage based on various activities or services with container handling equipment and other facilities provided and operated by OJA in the Cooperation Area including stevedoring, lift-on/lift off, reefer container plugging and monitoring, trucking, and container customs inspection. The cooperation agreement was signed on March 7, 2011 and expired on March 7, 2013. On June 5, 2013, OJA signed a 15-year Cooperation Agreement with Pelindo for international container stevedoring services wherein the parties will share a fixed percentage of revenues. Pending the fulfillment of certain conditions, the 15-year term of the Cooperation Agreement has not yet commenced as of March 5, 2019. The refrigerated container plugging and monitoring and inspection of container customs are being renewed yearly.

OJA's share in gross revenues included under "Gross revenues from port operations" account in the consolidated statements of income amounted to US$8.4 million (IDR112.4 billion) in 2016, US$9.7 million (IDR129.7 billion) in 2017 and US$7.8 million (IDR111.6 billion) in 2018.

24.30 Shareholders' Agreement on IDRC

On January 23, 2014, the Group, through its subsidiary, ICTSI Cooperatief, forged a business partnership with SIMOBILE for the establishment and formation of a joint venture company, IDRC. IDRC, which is then 60 percent-owned by ICTSI Cooperatief, will build a new terminal along the river bank of the Congo River in Matadi and manage, develop and operate the same as a container terminal, as well as provide exclusive container handling services and general cargo services therein.

At incorporation, the share capital of IDRC amounted to US$12.5 million represented by 12,500 ordinary voting shares. IDRC was incorporated for an initial term of 99 years, subject to early dissolution or prorogation. ICTSI contributed US$2.0 million cash upon incorporation and the US$5.5 million cash in tranches while SIMOBILE contributed land valued at US$5.0 million. On May 19, 2015, ICTSI, through its subsidiary, ICTSI Cooperatief, and its joint venture partner, SIMOBILE, transferred their respective 8% and 2% ownership interest in IDRC to SCTP SA in exchange for the latter's contribution of technical knowledge, skills and substantial experience in the port and port system in DRC and operation of railroad system and undertaking to facilitate the activities of IDRC and to assist in its relations with the public authorities. SIMOBILE transferred to its subsidiary, SIP Sprl, its 10% ownership in IDRC. Thereafter, IDRC is owned 52% by ICTSI, 28% by SIMOBILE, 10% by SIP Sprl and 10% by SCTP SA.

Pursuant to the shareholders' agreement, the Board of IDRC shall be comprised of six members, four of which will be appointed by the Group.

Phase 1 of the facility consists of two berths that can handle 175,000 TEUs and 350,000 metric tons. The capacity and berth length can, subject to demand, be doubled in Phase 2. Phase 1 was completed in the fourth quarter of 2016. Initial operations started in the third quarter of 2016 while commercial operations started in January 2017.

**Other Contracts and Agreements**

24.31 Services Agreement ("Agreement") with the Government of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam (the Government)

On May 21, 2009, ICTSI entered into an Agreement with the Government for the operation and maintenance of the Muara Container Terminal in Brunei Darussalam. The Agreement was valid for a period of four years from commencement date or May 22, 2009. The term was extendible for a period of one year at a time, for a maximum of two years subject to the mutual agreement of the parties. In consideration for the services, the Government paid the operator US$7.0 million for the first year, US$6.9 million for the second year, US$7.3 million for the third year, and US$7.7 million for the fourth year. On the optional fifth and sixth years, the operation fees were US$8.1 million and US$8.5 million, respectively. The operation fees for each year were paid in 12 equal monthly installments. Since 2012, the Agreement had been extended yearly for a period of one year or until May 20, 2017 as an interim operator. However, as part of the Government's ongoing overall restructuring, state-owned enterprise Darusalam Assets Sdn Bhd will take over the Muara Container Terminal operations from the Brunei Ports Department effective February 21, 2017. The future plans for Muara Container Terminal contemplate its integration with the development of a Special Economic Zone, which is not ICTSI's core competency and will require huge investments on the part of NMCTS. As part of ICTSI's efforts at rationalising its portfolio to achieve the best possible sources of long-term growth and return for its shareholders, ICTSI, through NMCTS, is no longer interested in signing a new contract with the state-owned enterprise Darusalam Assets Sdn Bhd. Thus, the Agreement was pre-terminated effective February 21, 2017.

The Agreement contained commitments and restrictions which included, among others, accomplishment of service levels consisting of crane productivity, haulage turnaround time, equipment availability, reefer services and submission of calculation and documents for billing, as well as penalties for failure to meet the service level requirements.

The existing contracts and agreements entered into by the Group contain commitments and restrictions which include, among others, the prohibition of the change in subsidiaries' shareholders without the prior consent of the port authority, maintenance of minimum capitalization and certain financial ratios, investment in the works stipulated in the investment program, provisions for insurance, submission of performance bonds, non-compete arrangements, productivity targets and other related matters.

## 25. Contingencies and Contingent Liabilities

Due to the nature of the Group's business, it is involved in various legal proceedings, both as plaintiff and defendant, from time to time. The majority of outstanding litigation involves subrogation claims under which insurance companies have brought claims against the operator, shipping lines and/or brokerage firms for reimbursement of their payment of insurance claims for damaged equipment, facilities and cargoes. ICTSI is not engaged in any legal or arbitration proceedings (either as plaintiff or defendant), including those which are pending or known to be contemplated and its Board has no knowledge of any proceedings pending or threatened against the Group or any facts likely to give rise to any litigation, claims or proceedings which might materially affect its financial position or business. Management and its legal counsels believe that the Group has substantial legal and factual bases for its position and is of the opinion that losses arising from these legal actions and proceedings, if any, will not have a material adverse impact on the Group's consolidated financial position and results of operations.

MICT
The MICT Berth 6 Project is a port development project being undertaken by the Company with the approval of the PPA and in compliance with the Company's commitment under its concession contract with the PPA. The City Council of Manila issued Resolution No. 141 dated September 23, 2010, adopting the Committee Report of the ad hoc committee that investigated the reclamation done in Isla Puting Bato in Manila, which stated that the project should have had prior consultation with the City of Manila, approval and ordinance from the City of Manila, and consent from the City Mayor. The Company and its legal counsels' position is that Resolution No. 141 of the City Council of Manila is purely recommendatory and is not the final word on the issue whether the MICT Berth 6 Project is validly undertaken or not.

On November 26, 2010, the PPA, through the Office of the Solicitor General, filed a petition for *certiorari* and prohibition with application for the issuance of a temporary restraining order and/or writ of preliminary injunction assailing City Council Resolution No. 141 before the Supreme Court. The Supreme Court granted a temporary restraining order ("TRO") enjoining the Mayor of Manila and the City Council of Manila from stopping or suspending the implementation of the MICT Berth 6 Project of the PPA. The TRO is still valid and continuing until further orders from the Supreme Court. The Supreme Court also granted the Company's motion to intervene in the case of PPA vs. City of Manila and City Council of Manila. The parties filed their respective comments and replies before the Supreme Court. As of March 5, 2019, the parties still await the Supreme Court's resolution on this case.

Notwithstanding the foregoing legal proceedings, the MICT Berth 6 Project was completed and inaugurated by the President of the Republic of the Philippines in July 2012.

In 2013, a case was filed by Malayan Insurance Co., Inc. (MICO) against ICTSI before the Regional Trial Court of Manila, Branch 55, for damages allegedly sustained by the assured cargo of Philippine Long Distance Telephone Company (PLDT) consisting of telecommunications equipment. The amount of claim is ₱223.8 million (approximately US$4.5 million) plus legal interest and attorney's fees of ₱1.0 million (US$20.1 thousand).

PLDT initially filed a claim against ICTSI, claiming that the cargo had been dropped while inside a container at the terminal of ICTSI and holding the latter responsible for the value of the equipment. ICTSI did not pay the claim, arguing that there is no evidence that the cargo had been damaged. ICTSI further argued that the containerized equipment was never dropped to the ground but was merely wedged in between containers while being moved in the container yard. The case is currently on trial.

PICT
In 2007, the Trustees of the Port of Karachi (KPT) filed a civil suit against the PICT in the Honorable High Court of Sindh (HCS) claiming a sum of approximately US$2.2 million along with the interest, as default payment of wharfage and penalty thereon, for the alleged mis-declaration of the category of goods on the import of Ship to Shore Cranes and Rubber Tyre Gantry Cranes in 2004. The HCS has rendered a judgement and decree in favor of PICT and ordered that KPT is not entitled to the amount of wharfage charges claimed by it. In June 2017, KPT filed an appeal against the aforesaid judgment before the Divisional Bench of HCS. Upon advice of PICT's legal advisor, management believes that there is no merit in this claim.

Also in 2007, PICT has filed an interpleader civil suit before HCS against the Deputy District Officer, Excise and Taxation (DDO) and the Trustees of KPT in respect of demand raised by the DDO on PICT to pay property tax out of the Handling, Marshalling and Storage (HMS) Charges payable to KPT amounting to approximately US$0.2 million for the period from 2003 to 2007. In compliance with the Order of HCS, PICT deposited the amount with Nazir of HCS, out of amount withheld by PICT from HMS charges billed by KPT. In 2014, another demand was made by DDO amounting to approximately US$0.7 million for the period from 2008 to 2014. On an application filed by PICT for directions, HCS ordered for deposit of the aforementioned amount out of HMS charges billed by KPT and PICT subsequently complied with the order of HCS. In 2015, HCS issued further orders directing PICT to deposit the remaining HMS charges due and payable with Nazir of HCS in quarterly installments and PICT complied accordingly. The decision of the suit is still pending, and PICT's legal advisor believes that there may be no adverse implication for depositing the payments with Nazir of HCS due to KPT in view of complying with the HCS's order.

While completing the tax audit proceedings for the tax year 2013, the Deputy Commissioner Inland Revenue (DCIR) modified the deemed assessment of PICT and made certain disallowances/additions on the taxable income and raised an income tax demand of approximately US$0.9 million. PICT filed an appeal before the Commissioner Inland Revenue - Appeals (CIR-A) who partially decided the appeal in favor of PICT. Consequently, PICT made the payment of approximately US$0.71 million, in respect of issues confirmed by the CIR(A), and filed a second appeal before the Appellate Tribunal Inland Revenue, which is now pending for adjudication. Upon advice of PICT's tax advisor, management believes that the issues involved in the appeal is expected to be decided in favor of PICT.

In 2017, the Assistant Commissioner Sindh Revenue Board (AC-SRB) under Sindh Sales Tax on Services Act, 2011 raised a demand of approximately US$3.7 million along with penalty and default surcharge, for the tax periods January 2013 to December 2014 on exempt services provided by PICT. PICT filed an Appeal with Commissioner Appeals - SRB which is pending for hearing. The tax advisor of PICT is of the view that PICT has strong defense and appeal will be decided in favor of PICT.

In 2017, the Additional Commissioner Inland Revenue (ACIR) modified the deemed assessment of PICT for the tax year 2016 by passing an order under section 122(5A) of the Income Tax Ordinance, 2001 and made certain additions/disallowances to the taxable income and tax credits claimed by PICT and raised an income tax demand of approximately US$1.59 million. PICT filed an appeal before the Commissioner Inland Revenue - Appeals (CIR-A) who had decided the appeal partly in favor of PICT. Being aggrieved by the decision of CIR-A, PICT as well as the tax department filed the appeals before Appellate Tribunal Inland Revenue (ATIR) which are pending for adjudication. PICT has also sought stay from HCS against the demand created by ACIR after appeal effect proceedings. HCS vide its final order directed the ACIR not to take any coercive recovery measures until the finalization of appeal before the ATIR which is pending adjudication. The tax advisor of PICT is of the view that the issues involved in the appeal will be decided in favor of PICT.

TSSA

In 2008, a civil suit was filed by former customer Interfood Comercio (Interfood) against TSSA for damages to perishable cargo amounting to BRL7.0 million (approximately US$3.0 million). Interfood's cargo (garlic and birdseed) was declared improper for human and animal consumption due to long storage period at TSSA before it was claimed and such cargo was destroyed by Brazilian customs authorities. The lower court and Court of Appeals ruled in favor of Interfood. The case has been pending in the Supreme Court. An amount of BRL12.0 million (approximately US$3.1 million) in TSSA's bank account has been garnished by the lower court. The provision aggregating BRL13.8 million (US$4.2 million), BRL13.8 million (US$4.2 million) and BRL13.8 million (US$3.6 million) were recognized as part of "Accounts payable and other current liabilities" account in the consolidated balance sheets as at December 31, 2016, 2017 and 2018, respectively. In July 2016, the State Court rendered a decision against TSSA. The said judgment, however, is still subject to a last appeal with the Supreme Court in Brasilia.

TICT
On December 28, 2012, TICT filed a Notice of Termination of its 10-year Investment Agreement with Tartous Port General Company (TPGC) on the grounds of "unforeseen change of circumstances" and "Force Majeure". In early 2013, TPGC submitted to arbitration TICT's termination notice. On April 1, 2014, the arbitration panel decided in favor of TPGC. While the award has become executory on April 20, 2015, management and its legal counsels believe that TPGC will not be able to successfully enforce the award outside of Syria.

BICTL
In 2015, BICTL filed a case against Revenue Service with the Tbilisi City Court for the cancellation of the tax assessment in the amount of US$860.7 thousand (GEL2.3 million). The case involves Value-Added Tax on fees collected by BICTL for services rendered in relation to the export of scrap materials. The Revenue Service alleged that such fees are subject to VAT while BICTL believes that it has good legal basis to treat the services as a VAT zero-rated sale of services. In March 2016, the Tbilisi City Court rendered a decision in favor of Revenue Service. BICTL has appealed the said decision with the appellate court. The Tbilisi Court of Appeals considered BICTL's arguments and position. On May 16, 2018, the said court partially satisfied BICTL's claim and major part of the penalty was cancelled.

ICTSI Oregon
Due to the labor disruption caused by the International Longshore and Warehouse Union (ILWU) in Portland commencing in June 2012, ICTSI Oregon has filed two separate counter-claims in federal court against the ILWU seeking monetary damages. The first is a claim for damages caused by the ILWU's unlawful secondary activity under the National Labor Relations Act. The second is an antitrust claim brought against the ILWU and the Pacific Maritime Association (PMA). The antitrust claim was initially dismissed by the federal court. The judge granted ICTSI Oregon permission to appeal the dismissal to the United States Court of Appeals for the Ninth Circuit. In July 2017, the Ninth Circuit upheld the dismissal of the claim. ICTSI Oregon filed a petition for writ of certiorari with the United States Supreme Court seeking to reverse the Ninth Circuit's decision. This petition was denied. Accordingly, the antitrust claim has been finally disposed of.

ICTSI Oregon's second counterclaim against ILWU is a claim for money damages caused by the ILWU's unlawful secondary activity under the National Labor Relations Act. In connection with that claim, the National Labor Relations Board (NLRB) sought and obtained two federal court injunctions against the ILWU, prohibiting illegal work stoppages as well as a finding of contempt of court against the union for injunction violations. The federal district court initially stayed ICTSI Oregon's damage claim for unlawful secondary activity pending completion of administrative proceedings before the NLRB. The NLRB's administrative proceedings were completed in a manner favorable to ICTSI Oregon in 2015. However, the ILWU appealed to the United States Court of Appeals for the District of Columbia Circuit in Washington D.C. On November 6, 2017, the US Court of Appeals rejected the ILWU's appeals and upheld two NLRB decisions declaring that the ILWU engaged in deliberate work stoppages and slowdowns, made false safety claims, and engaged in other illegal coercive conduct against ICTSI Oregon and its customers.

As a result of the US Court of Appeals decisions, the federal district court in Oregon lifted the stay and has scheduled a trial of ICTSI Oregon's damage claim commencing in the latter part of 2019. This is a substantial claim, seeking a multi-million dollar judgment against the ILWU.

ICTSI also had brought a breach of fiduciary duty claim against the PMA in federal court. Based on a settlement between ICTSI and PMA, that claim was voluntarily dismissed in 2018.

SPIA

In February 2018, Conalvias Construcciones S.A.S., (Conalvias) filed an arbitration case at the Arbitration Center of the Chamber of Commerce of Bogota against SPIA for the unlawful termination of the Construction of Paving Works and Utilities contract ("the Contract"), and for several breaches committed by SPIA under the Contract. The arbitration case is on-going and SPIA has filed a counterclaim against Conalvias for damages incurred as a result of contractual breaches committed by Conalvias. The counterclaim filed by SPIA will be amended to indicate the amount of damages once the full assessment of the claim is completed.

## 26. Financial Instruments

### 26.1 Fair Values

Set out below is a comparison of carrying amounts and fair values of the Group's financial instruments by category whose fair value is different from its carrying amount as at December 31:

| | 2016 | | 2017 | | **2018** | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | **Carrying Amount** | **Fair Value** |
| **Financial Liabilities** | | | | | | |
| Other financial liabilities: | | | | | | |
| Long-term debt | US$1,344,765,928 | US$1,429,709,827 | US$1,432,417,876 | US$1,547,607,808 | **US$1,271,335,292** | **US$1,318,503,380** |
| Concession rights payable | 490,461,436 | 548,769,262 | 480,181,116 | 510,902,353 | **541,269,412** | **556,134,127** |
| | US$1,835,227,364 | US$1,978,479,089 | US$1,912,598,992 | US$2,058,510,161 | **US$1,812,604,704** | **US$1,874,637,507** |

Carrying values of cash and cash equivalents, receivables, accounts payable and other current liabilities and loans payable approximate their fair values due to the short-term nature of the transactions.

The fair values of the US dollar-denominated notes and US dollar-denominated medium term notes are based on quoted prices. The fair value of other fixed interest-bearing loans and concession rights payable were estimated at the present value of all future cash flows discounted using the applicable rates for similar types of loans ranging from 1.23 percent to 12.63 percent in 2016, 1.43 percent to 12.23 percent in 2017 and 1.26 percent to 12.90 percent in 2018.

For variable interest-bearing loans repriced monthly or quarterly, the carrying amount approximates the fair value due to the regular repricing of interest rates.

The fair values of derivative assets and liabilities, specifically forward contracts and prepayment options, are calculated using valuation techniques with inputs and assumptions that are based on market observable data and conditions. For cross-currency swap, interest rate swaps, currency forwards and other structured derivatives, fair values are based on counterparty bank valuation.

26.2 Fair Value Hierarchy

The following tables below present the fair value hierarchy of the Group's financial instruments as of December 31:

| 2016 | Amount | Quoted prices in active market (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Assets Measured at Fair Value: | | | | |
| Derivative assets | US$8,036,235 | US$– | US$8,036,235 | US$– |
| Derivative liabilities | 2,802,017 | – | 2,802,017 | – |
| AFS investments | 12,392,769 | 12,392,769 | – | – |
| Liabilities for which Fair Values are Disclosed: | | | | |
| Other financial liabilities: | | | | |
| Long-term debt | 1,429,709,827 | 1,018,581,996 | – | 411,127,831 |
| Concession rights payable | 548,769,262 | – | – | 548,769,262 |

| 2017 | Amount | Quoted prices in active market (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Assets Measured at Fair Value: | | | | |
| Derivative assets | US$5,074,653 | US$– | US$5,074,653 | US$– |
| Derivative liabilities | 4,374,838 | – | 4,374,838 | – |
| AFS investments | 12,639,082 | 12,639,082 | – | – |
| Liabilities for which Fair Values are Disclosed: | | | | |
| Other financial liabilities: | | | | |
| Long-term debt | 1,547,607,808 | 1,047,984,942 | – | 499,622,866 |
| Concession rights payable | 510,902,353 | – | – | 510,902,353 |

| **2018** | **Amount** | **Quoted prices in active market (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
|---|---|---|---|---|
| **Assets Measured at Fair Value:** | | | | |
| Derivative assets | **US$579,321** | **US$–** | **US$579,321** | **US$–** |
| Derivative liabilities | **2,835,502** | **–** | **2,835,502** | **–** |
| Financial assets at FVOCI | **13,032,349** | **13,032,349** | **–** | **–** |
| **Liabilities for which Fair Values are Disclosed:** | | | | |
| Other financial liabilities: | | | | |
| Long-term debt | **1,318,503,380** | **984,325,835** | **–** | **334,177,545** |
| Concession rights payable | **556,134,127** | **–** | **–** | **556,134,127** |

In 2016, 2017 and 2018, there were no transfers between *Level 1* and *Level 2* fair value measurements and no transfers into and out of *Level 3* fair value measurements.

26.3 Derivative Financial Instruments

ICTSI enters into derivative transactions as economic hedges of certain underlying exposures arising from its foreign currency-denominated loans, revenues and expenses. Such derivatives, which include interest rate swaps and currency forwards, are accounted for either as cash flow hedges or transactions not designated as hedges.

26.4 Derivative Instruments Accounted for as Cash Flow Hedges

*Interest Rate Swap*. In 2014, AGCT entered into an interest rate swap transaction to hedge the interest rate exposure on its floating rate Euro-denominated loan maturing in 2023. A notional amount of EUR5.1 million (US$6.2 million) and EUR3.8 million (US$4.6 million) out of the total EUR10.6 million (US$12.8 million) floating rate loan was swapped to fixed rate. Under the interest rate swap, AGCT pays fixed interest of 6.19 percent for EUR5.1 million and 5.55 percent for EUR3.8 million and receives floating rate of one-month EURIBOR plus 4.20 bps on the notional amount. Starting July 2016, the fixed interest for EUR5.1 million and EUR3.8 million was reduced to 5.39 percent and 4.75 percent, respectively, and AGCT receives floating rate of one-month EURIBOR plus 3.40 bps on the notional amount. The market valuation loss on the outstanding interest rate swap amounted to EUR0.5 million (US$0.5 million), EUR0.3 million (US$0.4 million), EUR0.2 million (US$0.3 million) as at December 31, 2016, 2017 and 2018. The effective portion of the change in the fair value of the interest rate swap amounting to EUR0.4 million (US$0.4 million), net of EUR0.1 million (US$0.1 million) deferred tax, EUR0.2 million (US$0.3 million), net of EUR0.1 million (US$0.1 million) deferred tax and EUR0.2 million (US$0.2 million), net of EUR40.1 thousand (US$46.0 thousand) deferred tax, for the years ended December 31, 2016, 2017 and 2018, respectively, was taken to equity under other comprehensive loss (see Note 14.7).

In August 2016, VICT entered into interest rate swap transactions to hedge the interest rate exposures on its floating rate AUD-denominated loans maturing in 2023, 2026 and 2031. A total notional amount of AUD320.4 million floating rate loan was swapped to fixed rate. Under the interest rate swap arrangements, VICT pays annual fixed interest of a range of 2.10 to 2.5875 percent and receives floating rate of six-month Bank Bill Swap Bid Rate (BBSY) basis points on the notional amount. In March 2017, VICT entered into additional interest rate swap transactions to hedge an additional AUD5.5 million and AUD12.4 million of its AUD-denominated loans maturing in 2026 and 2031, respectively. VICT pays an annual fixed interest of 2.885 to 2.9730 percent for the loans maturing in 2026 and 2031, respectively. The market valuation gain on the outstanding interest rate swaps amounted to AUD9.8 million (US$7.1 million) and AUD4.6 million (US$3.6 million) as of December 31, 2016 and 2017, respectively, and the market valuation loss on the outstanding interest rate swaps amounted to AUD1.5 million (US$1.1 million) as of December 31, 2018. The effective portion of the change in the fair value of the interest rate swap amounting to AUD6.9 million (US$5.1 million), net of AUD2.9 million (US$2.0 million), AUD3.2 million (US$2.3 million), net of AUD1.4 million (US$1.3 million) and AUD1.0 million (US$0.9 million), net of AUD0.5 million (US$0.2 million) deferred tax for the years ended December 31, 2016, 2017 and 2018, respectively, was taken to equity under other comprehensive loss (see Note 14.7).

In January 2016, CMSA entered into interest rate swap transactions to hedge the interest rate exposure on its floating rate US$-denominated floating rate loan maturing in 2027. A total notional amount of US$181.0 million floating rate loan was swapped to fixed rate. Under the interest rate swap arrangements, CMSA pays annual fixed interest of an average 2.44 percent and receives floating rate of six-month LIBOR on the notional amount. In May 2018, ICTSI entered into offsetting interest rate swaps in order to manage the changes in and lock the fair values on the planned pre-termination of CMSA's outstanding interest rate swaps in anticipation of the prepayment of the underlying loan.

On May 14, 2018, CMSA and ICTSI terminated all outstanding interest rate swaps due to the prepayment of the underlying US$-denominated floating rate loan. The amount deferred in equity representing the effective portion of the change in fair value of the swap amounting to US$3.9 million at the time of prepayment was transferred to the profit and loss and recognized under "Other income" account in the 2018 consolidated statement of income.

In November 2016, ICTSI entered into an interest rate swap transaction to hedge the interest rate exposures of the CGSA's floating rate US$-denominated floating rate loan maturing in 2021. A total notional amount of US$32.5 million floating rate loan was swapped to fixed rate. Under the interest rate swap arrangements, ICTSI pays annual fixed interest of 3.045 percent and receives floating rate of six-month LIBOR plus 160 basis points on the notional amount. As of December 31, 2016, 2017 and 2018, the market valuation gain on the outstanding interest rate swaps amounted to US$0.1 million, US$0.3 million and US$0.3 million, respectively. The effective portion of the change in the fair value of the interest rate swap amounting to US$78.5 thousand, net of US$33.6 thousand deferred tax, US$0.2 million, net of US$0.1 million deferred tax and US$0.2 million, net of US$0.1 million deferred tax for the years ended December 31, 2016, 2017 and 2018, respectively, was taken to equity under other comprehensive loss (see Note 14.7).

*Net Investment Hedging.* In March 2017, ICTSI entered into a cross currency swap that converts the US dollar bond with a coupon of 7.375 percent maturing on March 17, 2020 to a Euro liability that has a coupon of 5.05 percent with the same maturity. The EUR15.0 million cross currency swap was designated as a net investment hedge to offset the movement of the Group's Euro net investment in its subsidiary in Madagascar, MICTSL. As of December 31, 2017 and 2018, the market valuation loss on the outstanding cross currency swap amounted to EUR1.8 million (US$2.2 million) and EUR1.1 million (US$1.2 million). The effective portion of the fair value of the cross currency swap amounting EUR1.3 million (US$1.5 million), net of EUR0.5 million (US$0.7 million) deferred tax and EUR0.7 million (US$0.8 million), net of EUR0.4 million (US$0.4 million) deferred tax for the years ended December 31, 2017 and 2018, respectively, was taken to equity under other comprehensive loss (see Note 14.7).

*Translation Hedging.* As of December 31, 2018, ICTSI designated EUR138.3 million (US$158.5 million) of its Euro-denominated cash equivalents as cash flow hedges to hedge the variability of an upcoming Euro-denominated transaction that would arise as a result of changes in the EUR:USD exchange rate.

The related foreign currency translation loss on the Euro-denominated cash equivalents designated as cash flow hedges aggregating to US$10.2 million was taken to equity under other comprehensive loss. No ineffectiveness was recognized in the consolidated statements of income for the year ended December 31, 2018.

On January 8, 2019, the Euro-denominated cash equivalents were terminated for settlement of the initial up-front fee payable to SPC (see Note 24.14). The related foreign currency loss of US$10.6 million remains in equity under other comprehensive income.

26.5 <u>Other Derivative Instruments Not Designated as Hedges</u>

*Currency Forwards.* In 2017, ICTSI entered into USDPHP forwards to hedge Philippine Peso disbursements. As of December 2018, there were no outstanding USDPHP forward contracts.

26.6 Fair Value Changes on Derivatives

The net movements in fair value changes of ICTSI's derivative instruments are as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Balance at beginning of year | (US$223,063) | US$5,234,218 | **US$699,815** |
| Net changes in fair value of derivatives: | | | |
| Designated as accounting hedges | 6,133,973 | (4,534,403) | **(2,955,996)** |
| Not designated as accounting hedges | (331,154) | – | **–** |
| | 5,579,756 | 699,815 | **(2,256,181)** |
| Less fair value of settled instruments | 345,538 | – | **–** |
| Balance at end of year | US$5,234,218 | US$699,815 | **(US$2,256,181)** |

The net movement in fair value changes of freestanding derivative instruments designated as cash flow hedges are presented in the consolidated statements of comprehensive income as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Balance at beginning of year | (US$494,308) | US$3,682,715 | **US$247,337** |
| Changes in fair value of cash flow hedges of designated derivatives | 6,133,973 | (4,534,403) | **(2,955,996)** |
| Transferred to construction in-progress | (345,539) | – | **–** |
| Tax effects | (1,611,411) | 1,099,025 | **1,174,533** |
| Balance at end of year (see Note 14.7) | US$3,682,715 | US$247,337 | **(US$1,534,126)** |

The net changes in fair value of the derivatives not designated as accounting hedges and the change in fair value of cash flow hedges transferred to profit or loss are presented in the consolidated statements of income under "Other expense" account amounting to US$0.3 million in 2016.

Fair value changes on freestanding derivatives as at December 31 are presented as follows:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Derivative assets (see Note 9) | US$8,036,235 | US$5,074,653 | **US$579,321** |
| Derivative liabilities (see Note 16) | (2,802,017) | (4,374,838) | **(2,835,502)** |
| Total | US$5,234,218 | US$699,815 | **(US$2,256,181)** |

## 27. **Financial Risk Management Objectives and Policies**

The principal financial instruments of the Group comprise mainly of bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise working capital and major capital investment financing for the Group's port operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

ICTSI has port operations and development projects in 19 countries as at December 31, 2018. Short-term treasury activities are carried out at the subsidiary level, however, overall policy decisions concerning the Group's financial risks are centralized at the Parent Company in Manila. The Board reviews and approves the Group's policies for managing each of these risks, as summarized below, as well as authority limits. Treasury operations are regularly reviewed annually by Internal Audit to ensure compliance with the Group's policies.

ICTSI finances its business activities through a mix of cash flows from operations and long-term loans from banks. It is the Group's policy to minimize the use of short-term loans. The Group's borrowings are in US Dollar, Philippine Peso, Euro, Chinese Renminbi, Pakistani Rupee and

Australian Dollar at fixed and floating rates of interest. The Group minimizes its currency exposure by matching its currency of borrowing to the currency of operations and functional currency at the relevant business unit whenever possible. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

In the context of PFRS 7, the main risks arising from the normal course of the Group's business are interest rate risk, liquidity risk, foreign currency risk and credit risk.

Working Capital Management
The Parent Company has minimal working capital requirements due to the short cash collection cycle of its business. Working capital requirements are well within the credit facilities established which are adequate and available to the Parent Company to meet day-to-day liquidity and working capital requirements. The credit facilities are regularly reviewed by the Treasury Group to ensure that they meet the objectives of the Group. Most of the foreign operating subsidiaries currently do not access short-term credit facilities as their respective cash flows are sufficient to meet working capital needs.

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank loans and is addressed by a periodic review of the Group's debt mix with the objective of reducing interest cost and maximizing available loan terms.

The following table sets out the carrying amount, by maturity, of the Group's liabilities that are exposed to interest rate risk as at December 31:

| 2016 | Less than 1 Year to 2 years | >2 Years to 3 years | >3 Years to 4 years | >4 Years to 5 years | Over 5 Years | | Total | Net Debt* |
|---|---|---|---|---|---|---|---|---|
| | | | | | | *(In Original Currency)* | *(In US Dollar)* | |
| Liabilities | | | | | | | | |
| Long-term Debt | | | | | | | | |
| Floating Rate: | | | | | | | | |
| US$ Loan | – | – | 15,000,000 | – | – | 15,000,000 | US$15,000,000 | US$15,000,000 |
| Interest rate | LIBOR + 1.95% spread | | | | | | | |
| US$ Loan | 3,000,000.00 | – | – | – | – | 3,000,000 | 3,000,000 | 3,000,000 |
| Interest rate | LIBOR + 1.60% spread | | | | | | | |
| PKR loan | 298,755,468 | – | – | – | – | 298,755,468 | 2,862,465 | 2,862,465 |
| Interest rate | KIBOR+0.75% spread | | | | | | | |

| 2017 | Less than 1 Year to 2 years | >2 Years to 3 years | >3 Years to 4 years | >4 Years to 5 years | Over 5 Years | | Total | Net Debt* |
|---|---|---|---|---|---|---|---|---|
| | | | | | | *(In Original Currency)* | *(In US Dollar)* | |
| Liabilities | | | | | | | | |
| Long-term Debt | | | | | | | | |
| Floating Rate: | | | | | | | | |
| US$ Loan | 3,920,000 | 20,580,000 | – | – | – | 24,500,000 | US$24,500,000 | US$24,500,000 |
| Interest rate | LIBOR + 1.15% spread | | | | | | | |
| RMB Loan | 10,000,000 | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 | 90,000,000 | 13,831,684 | 13,831,684 |
| Interest rate | PBOC standard rate less 5% | | | | | | | |

**Net of Debt Issuance Costs*

| **2018** | **Less than 1 Year to 2 years** | **>2 Years to 3 years** | **>3 Years to 4 years** | **>4 Years to 5 years** | **Over 5 Years** | | **Total** | **Net Debt*** |
|---|---|---|---|---|---|---|---|---|
| | | | | | | ***(In Original Currency)*** | ***(In US Dollar)*** | |
| **Liabilities** | | | | | | | | |
| Long-term Debt | | | | | | | | |
| Floating Rate: | | | | | | | | |
| US$ Loan | **29,500,000** | **–** | **–** | **–** | **–** | **29,500,000** | **US$29,500,000** | **US$29,500,000** |
| Interest rate | **LIBOR + 1.15% spread** | | | | | | | |
| RMB Loan | **–** | **10,000,000** | **20,000,000** | **20,000,000** | **–** | **50,000,000** | **7,269,027** | **7,269,027** |
| Interest rate | **PBOC standard rate less 5%** | | | | | | | |

Re-pricing of floating rate financial instruments is mostly done monthly, quarterly or semi-annually. Interest on fixed rate financial instruments is fixed until maturity of the instrument. Financial instruments not included in the above tables are either noninterest-bearing, therefore not subject to interest rate risk or has minimal interest rate exposure due to the short-term nature of the account (i.e., cash equivalents).

The sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of ICTSI's income before income tax (through the impact on unhedged floating rate borrowings), at December 31 are as follows (amounts in millions unless otherwise indicated):

| | | Effect on Profit Before Tax | | |
|---|---|---|---|---|
| | Increase/Decrease in Interest Rates (%) | 2016 | 2017 | **2018** |
| Loans | +1.0 | (US$0.2) | (US$0.3) | **(US$0.4)** |
| | -1.0 | 0.2 | 0.3 | **0.4** |

Liquidity Risk
The Group monitors and maintains a certain level of cash and cash equivalents and bank credit facilities deemed adequate by management to finance the Group's operations, ensure continuity of funding and to mitigate the effects of fluctuations in cash flows. The Group's policy is that not more than 25 percent of borrowings should mature in any 12-month period. Five percent, five percent and four percent of the Group's total borrowings, gross of debt issuance costs as at December 31, 2016, 2017 and 2018, respectively, will mature in the ensuing 12 months. The Group is re-assessing its policy in mitigating liquidity risk in line with the current developments and demands of its rapidly growing business.

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31 based on contractual undiscounted payments (amounts in millions unless otherwise indicated).

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 Months | 3 to 6 Months | >6 to 12 Months | >1 to 5 Years | More than 5 Years | Total |
| Long-term debt | US$34.4 | US$7.5 | US$47.2 | US$666.5 | US$1,178.8 | US$1,934.4 |
| Accounts payable and other current liabilities* | 245.0 | 11.4 | 8.9 | – | – | 265.3 |
| Other noncurrent liabilities* | – | – | – | 76.7 | 6.7 | 83.4 |
| Loans payable | 21.6 | – | 15.0 | – | – | 36.6 |
| Derivative liabilities | 0.3 | – | 2.4 | 0.1 | – | 2.8 |
| Concession rights payable | 11.4 | 12.2 | 22.7 | 235.0 | 627.2 | 908.5 |
| Total | US$312.7 | US$31.1 | US$96.2 | US$978.3 | US$1,812.7 | US$3,231.0 |

**Excludes statutory liabilities, noncurrent potion of derivative liabilities and provisions for claims and losses*

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 Months | 3 to 6 Months | >6 to 12 Months | >1 to 5 Years | More than 5 Years | Total |
| Long-term debt | US$37.8 | US$8.7 | US$52.4 | US$1,077.4 | US$777.9 | US$1,954.2 |
| Accounts payable and other current liabilities* | 130.3 | 40.6 | 13.9 | – | – | 184.8 |
| Other noncurrent liabilities* | – | – | – | 58.6 | 58.3 | 116.9 |
| Loans payable | 61.2 | – | – | – | – | 61.2 |
| Derivative liabilities | 1.9 | – | – | 2.5 | – | 4.4 |
| Concession rights payable | 11.4 | 12.4 | 23.1 | 236.2 | 725.0 | 1,008.1 |
| Total | US$242.6 | US$61.7 | US$89.4 | US$1,374.7 | US$1,561.2 | US$3,329.6 |

**Excludes statutory liabilities, noncurrent potion of derivative liabilities and provisions for claims and losses*

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Less than 3 Months** | **3 to 6 Months** | **>6 to 12 Months** | **>1 to 5 Years** | **More than 5 Years** | **Total** |
| Long-term debt | **US$6.0** | **US$19.9** | **US$31.5** | **US$679.8** | **US$578.5** | **US$1,315.7** |
| Concession rights payable | **11.3** | **12.3** | **22.8** | **187.2** | **579.1** | **812.7** |
| Accounts payable and other current liabilities* | **170.8** | **22.9** | **20.9** | **–** | **–** | **214.6** |
| Other noncurrent liabilities* | **–** | **–** | **–** | **56.5** | **104.7** | **161.2** |
| Loans payable | **4.0** | **31.7** | **–** | **–** | **–** | **35.7** |
| Derivative liabilities | **–** | **–** | **–** | **1.5** | **1.3** | **2.8** |
| Total | **US$192.1** | **US$86.8** | **US$75.2** | **US$925.0** | **US$1,263.6** | **US$2,542.7** |

**Excludes statutory liabilities, noncurrent potion of derivative liabilities and provisions for claims and losses*

The financial liabilities in the above tables are gross undiscounted cash flows. However, those amounts may be settled using cash on hand and in banks, aggregating US$248.6 million, US$212.8 million and US$139.1 million as at December 31, 2016, 2017 and 2018, respectively. Furthermore, cash equivalents, amounting to US$76.5 million, US$66.6 million and US$307.9 million as at December 31, 2016, 2017 and 2018, respectively, may also be used to manage liquidity.

Changes in liabilities arising from financing activities

| | December 31, 2016 | Cash flows | Foreign exchange movement | Translation Adjustment | Changes in fair values | Others* | December 31, 2017 |
|---|---|---|---|---|---|---|---|
| Long-term debt | US$1,409,576,378 | US$63,439,071 | (US$317,909) | US$18,450,108 | US$– | US$– | US$1,491,147,648 |
| Loans payable | 36,598,275 | 21,874,571 | – | 605,205 | – | 2,109,051 | 61,187,102 |
| Concession rights payable | 490,461,436 | (13,481,693) | (180,975) | 3,502,723 | – | (120,375) | 480,181,116 |
| Dividends payable | 3,203,531 | (112,503,197) | – | 12,632 | – | 111,746,198 | 2,459,164 |
| Derivative liability | – | – | – | – | 4,374,838 | – | 4,374,838 |
| Accrued interest | 22,905,888 | (93,095,820) | (279,785) | 179,839 | – | 93,787,091 | 23,497,213 |
| Total liabilities from financing activities | US$1,962,745,508 | (US$133,767,068) | (US$778,669) | US$22,750,507 | US$4,374,838 | US$207,521,965 | US$2,062,847,081 |

** Others includes reclassifications, accrual of dividends and accrual of interest from interest-bearing loans.*

| | **December 31, 2017** | **Cash flows** | **Foreign exchange movement** | **Translation Adjustment** | **Changes in fair values** | **Others*** | **December 31, 2018** |
|---|---|---|---|---|---|---|---|
| Long-term debt | **US$1,491,147,648** | **(US$147,120,969)** | **(US$78,215)** | **(US$28,245,836)** | **US$–** | **US$–** | **US$1,315,702,628** |
| Loans payable | **61,187,102** | **(22,611,652)** | **–** | **(748,001)** | **–** | **(2,109,052)** | **35,718,397** |
| Concession rights payable | **480,181,116** | **(45,106,484)** | **(661,779)** | **(4,403,103)** | **–** | **111,259,662** | **541,269,412** |
| Dividends payable | **2,459,164** | **(114,731,592)** | **–** | **(281,331)** | **–** | **113,634,676** | **1,080,917** |
| Derivative liability | **4,374,838** | **–** | **–** | **(118,482)** | **2,793,953** | **(4,214,807)** | **2,835,502** |
| Accrued interest | **23,497,213** | **(95,204,244)** | **44** | **(468,603)** | **–** | **94,942,933** | **22,767,343** |
| Total liabilities from financing activities | **US$2,062,847,081** | **(US$424,774,941)** | **(US$739,950)** | **(US$34,265,356)** | **US$2,793,953** | **US$313,513,412** | **US$1,919,374,199** |

** Others includes capitalization of fixed fees under IFRIC 12, reclassifications, accrual of dividends and accrual of interest from interest-bearing loans.*

Foreign Currency Risk

As a result of operations in subsidiaries whose functional currency is not the US dollar, the Group's consolidated balance sheets can be affected significantly by movements in the subsidiaries' functional currency and US dollar exchange rates (see Note 1.3).

In respect of financial assets and liabilities held in currencies other than the functional currencies of the Parent Company and the operating subsidiaries, the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot/forward rates where necessary to address short-term imbalances.

The Group recognized in the consolidated statements of income net foreign exchange loss amounting to US$0.2 million in 2016 and US$1.6 million in 2018 and net foreign exchange gain amounting to US$0.2 million in 2017 arising from net foreign currency-denominated financial assets and liabilities as at December 31, 2016, 2017 and 2018, respectively, which resulted mainly from the movements of Philippine peso, Brazilian real, Mexican peso and Colombian peso against the US dollar and Malagasy ariary against Euro.

The following table shows the Group's significant foreign currency-denominated financial assets and liabilities and their US Dollar equivalents at December 31:

| | 2016 | | 2017 | | **2018** | |
|---|---|---|---|---|---|---|
| | Foreign Currency | US Dollar | Foreign Currency | US Dollar | **Foreign Currency** | **US Dollar** |
| **Current Financial Assets** | | | | | | |
| Cash and cash equivalents: | | | | | | |
| EUR | 16,463,959 | US$17,315,145 | 12,293,881 | US$14,758,804 | **213,954,993** | **US$245,342,191** |
| Philippine peso | 950,897,686 | 19,125,054 | 1,148,871,876 | 23,009,651 | **3,093,628,295** | **58,836,597** |
| AUD | 140,817,070 | 101,500,944 | 15,772,555 | 12,316,788 | **13,119,603** | **9,248,008** |
| RMB | 23,469,361 | 3,379,318 | 22,448,497 | 3,450,006 | **54,956,682** | **7,989,632** |
| MXN | 3,470,302 | 167,427 | 17,650,885 | 897,853 | **156,636,561** | **7,971,164** |
| PGK | – | – | – | – | **26,833,063** | **7,964,224** |
| MGA | 6,058,886 | 1,801 | 7,809,848 | 2,408 | **23,753,405,826** | **6,792,956** |
| PKR | 462,705,166 | 4,433,316 | 162,816,359 | 1,470,789 | **424,947,479** | **3,039,682** |
| IDR | 21,387,090,632 | 1,587,404 | 27,069,628,442 | 1,997,022 | **24,704,560,188** | **1,716,787** |
| BRL | 4,745,355 | 1,457,777 | 4,136,316 | 1,248,699 | **3,670,933** | **945,824** |
| HRK | 2,552,159 | 355,607 | 2,823,546 | 455,984 | **3,169,459** | **490,438** |
| PLN | 454,107 | 108,449 | 525,125 | 150,720 | **2,092,191** | **559,828** |
| ARS | 678,162 | 42,705 | 185,893 | 9,982 | **9,329,237** | **247,671** |
| BND | 4,610,355 | 3,183,727 | 130,273 | 97,400 | **–** | **–** |
| Receivable: | | | | | | |
| Philippine peso | 201,463,663 | 4,051,964 | 240,006,619 | 4,806,862 | **614,488,899** | **11,686,742** |
| BRL | 32,383,802 | 9,948,329 | 35,469,070 | 10,707,644 | **38,053,710** | **9,804,625** |
| PKR | 608,022,824 | 5,825,647 | 883,443,443 | 7,980,519 | **1,101,583,695** | **7,879,712** |
| AUD | | | | | **10,754,822** | **7,581,074** |
| RMB | 32,554,261 | 4,687,439 | 37,828,954 | 5,813,757 | **39,307,057** | **5,714,481** |
| IDR | 4,194,324,435 | 311,313 | 3,493,435,916 | 257,723 | **71,522,854,562** | **4,970,317** |
| PGK | | | | | **14,766,769** | **4,382,871** |
| MXN | 4,543,855 | 219,222 | 5,812,506 | 295,666 | **73,765,812** | **3,753,909** |
| EUR | 9,186,168 | 9,661,093 | 11,333,654 | 13,606,052 | **1,774,644** | **2,034,984** |
| MGA | 2,116,720 | 629 | 3,164,275 | 976 | **6,367,904,259** | **1,821,082** |
| PLN | 736,070 | 175,786 | 1,087,604 | 312,162 | **4,086,074** | **1,093,352** |
| HRK | 1,095,441 | 152,634 | 1,643,263 | 265,376 | **1,611,405** | **249,347** |
| BND | 2,658,675 | 1,835,975 | – | – | **–** | **–** |
| | | 191,518,750 | | 109,094,465 | | **565,800,627** |
| **Current Financial Liabilities** | | | | | | |
| Accounts payable and other current liabilities: | | | | | | |
| Philippine peso | 212,639,689 | US$4,276,744 | 175,501,430 | US$3,514,950 | **7,277,391,689** | **US$138,406,080** |
| MXN | 18,162,594 | 876,269 | 27,643,794 | 1,406,165 | **989,382,822** | **50,349,246** |
| AUD | 142,570,858 | 102,765,075 | 18,632,861 | 14,550,401 | **21,082,301** | **14,860,914** |
| BRL | 21,786,975 | 6,692,976 | 23,658,372 | 7,142,150 | **51,571,721** | **13,287,571** |
| PKR | 1,133,443,198 | 10,859,856 | 1,146,856,805 | 10,360,043 | **1,635,347,661** | **11,697,766** |
| MGA | 5,910,849 | 1,757 | 7,463,117 | 2,301 | **24,879,751,965** | **7,115,067** |
| IQD | – | – | – | – | **6,536,932,513** | **5,480,868** |
| PLN | 2,506,764 | 598,659 | 3,315,168 | 951,513 | **16,807,113** | **4,497,247** |
| GEL | 411,392 | 154,804 | 3,481,585 | 1,340,979 | **11,379,902** | **4,254,169** |
| PGK | – | – | – | – | **10,995,059** | **3,263,404** |
| RMB | 14,883,954 | 2,143,118 | 22,285,923 | 3,425,020 | **18,190,558** | **2,644,553** |
| HRK | 4,842,152 | 674,686 | 6,619,636 | 1,069,028 | **11,160,234** | **1,726,922** |
| IDR | 3,222,902,552 | 239,212 | 4,684,475,982 | 345,590 | **11,578,983,459** | **804,655** |
| EUR | 9,827,499 | 10,335,580 | 1,043,706 | 1,252,969 | **403,130** | **462,269** |
| BND | 620,532 | 428,515 | – | – | **–** | **–** |

| | 2016 | | 2017 | | **2018** | |
|---|---|---|---|---|---|---|
| | Foreign Currency | US Dollar | Foreign Currency | US Dollar | **Foreign Currency** | **US Dollar** |
| **Noncurrent Financial Liabilities** | | | | | | |
| Other noncurrent liabilities: | | | | | | |
| AUD | 89,588,968 | US$64,575,728 | 128,525,531 | US$100,365,587 | **209,923,421** | **US$147,975,019** |
| USD | – | – | – | – | **15,809,627** | **15,809,627** |
| PLN | 16,728,916 | 3,995,156 | 14,651,405 | 4,205,219 | **44,503,147** | **11,908,152** |
| Philippine peso | 9,712,524 | 195,344 | 12,950,585 | 259,375 | **51,226,640** | **974,261** |
| MXN | 372,892 | 17,990 | 689,659 | 35,081 | **13,104,784** | **666,897** |
| IDR | 3,568,854,267 | 264,889 | 698,049 | 51 | **8,727,320,178** | **606,485** |
| EUR | 94,281 | 99,156 | 86,144 | 103,416 | **331,576** | **380,219** |
| MGA | 217,212 | 65 | 193,616 | 60 | **700,568,053** | **200,347** |
| Long-term debt | | | | | | |
| AUD | 249,856,742 | 180,096,739 | 336,143,728 | 262,494,638 | **354,714,813** | **250,038,472** |
| RMB | – | – | 90,000,000 | 13,831,684 | **50,000,000** | **7,269,027** |
| EUR | 7,379,167 | 7,760,670 | 5,078,571 | 6,096,825 | **5,411,905** | **6,205,831** |
| PKR | 298,755,468 | 2,862,465 | – | – | **–** | **–** |
| Concession rights payable | | | | | | |
| EUR | 14,063,368 | 14,790,444 | 13,018,930 | 15,629,226 | **11,861,501** | **13,601,583** |
| HRK | 86,896,574 | 12,107,812 | 84,270,397 | 13,609,121 | **82,604,968** | **12,782,202** |
| PKR | 816,915,915 | 7,827,116 | 743,524,014 | 6,716,550 | **656,513,953** | **4,696,110** |
| PGK | – | – | – | – | **267,847,531** | **79,498,861** |
| | | 441,446,954 | | 455,850,127 | | **811,463,824** |
| Net foreign currency-denominated financial liabilities | | (US$249,928,204) | | (US$346,656,504) | | **(US$245,663,197)** |

In translating the foreign currency-denominated monetary assets and liabilities into US dollar amounts, the Group used the exchange rates as shown in the table of exchange rates (see Note 3.3).

The following tables present the impact on the Group's income before income tax (due to change in the fair value of foreign currency-denominated financial assets and liabilities) and equity (due to translation hedging), of changes in the exchange rate between the foreign currencies and the US dollar (holding all other variables held constant) as at December 31 (amounts in millions unless otherwise indicated):

| | 2016 | |
|---|---|---|
| | Effect on Profit Before Tax | Effect on Equity |
| Change in US dollar to other foreign currency exchange rates: | | |
| 5% appreciation | US$0.9 | (US$0.8) |
| 5% depreciation | (1.0) | 0.9 |

| | 2017 | |
|---|---|---|
| | Effect on Profit Before Tax | Effect on Equity |
| Change in US dollar to other foreign currency exchange rates: | | |
| 5% appreciation | US$2.1 | (US$1.3) |
| 5% depreciation | (2.3) | 1.4 |

| | **2018** | |
|---|---|---|
| | **Effect on Profit Before Tax** | **Effect on Equity** |
| Change in US dollar to other foreign currency exchange rates: | | |
| 5% appreciation | **US$0.6** | **(US$0.6)** |
| 5% depreciation | **(0.6)** | **0.7** |

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to float interest rates of the debt and derivatives and the proportion of the financial instruments in foreign currencies are all constant and on the basis of hedge designation in place at each balance sheet date.

Credit Risk
The Group trades only with recognized, creditworthy third parties and the exposure to credit risk is monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Since the Group trades only with recognized third parties, collateral is not required in respect of financial assets. Moreover, counterparty credit limits are reviewed by management on an annual basis. The limits are set to minimize the concentration of risks and mitigate financial losses through potential counterparty failure.

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, and available-for-sale investments, 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.

As at December 31, 2016, 2017 and 2018, about 32 percent, 45 percent and 75 percent, respectively, of cash and cash equivalents of the Group is with Philippine local banks. Investments of funds are made only with counterparties approved by the Board. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets.

At December 31, the following tables provide credit information and maximum exposure of ICTSI's financial assets (amounts in millions unless otherwise indicated):

| | 2016 | | | |
|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but Not Impaired | Impaired | Total |
| Loans and Receivables | | | | |
| Cash and cash equivalents: | | | | |
| Cash in banks | US$247.1 | US$– | US$– | US$247.1 |
| Cash equivalents | 76.5 | – | – | 76.5 |
| Receivables | | | | |
| Trade | 46.8 | 36.6 | 10.1 | 93.5 |
| Advances and nontrade | 9.3 | 7.2 | 0.4 | 16.9 |
| AFS Investments | 13.1 | – | – | 13.1 |
| Derivative Assets | 8.0 | – | – | 8.0 |
| | US$400.8 | US$43.8 | US$10.5 | US$455.1 |

| | 2017 | | | |
|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but Not Impaired | Impaired | Total |
| Loans and Receivables | | | | |
| Cash and cash equivalents: | | | | |
| Cash in banks | US$209.8 | US$– | US$– | US$209.8 |
| Cash equivalents | 66.6 | – | – | 66.6 |
| Receivables | | | | |
| Trade | 66.0 | 34.7 | 7.0 | 107.7 |
| Advances and nontrade | 8.5 | 3.7 | 0.5 | 12.7 |
| AFS Investments | 13.3 | – | – | 13.3 |
| Derivative Assets | 5.1 | – | – | 5.1 |
| | US$369.3 | US$38.4 | US$7.5 | US$415.2 |

| | 2018 | | | |
|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | **Past Due but Not Impaired** | **Impaired** | **Total** |
| **Loans and Receivables** | | | | |
| Cash and cash equivalents: | | | | |
| Cash in banks | **US$137.5** | **US$–** | **US$–** | **US$137.5** |
| Cash equivalents | **307.9** | **–** | **–** | **307.9** |
| Receivables | | | | |
| Trade | **71.4** | **34.8** | **7.5** | **113.7** |
| Advances and nontrade | **10.4** | **3.8** | **0.5** | **14.7** |
| **Financial Assets at FVOCI** | **13.7** | **–** | **–** | **13.7** |
| **Derivative Assets** | **0.6** | **–** | **–** | **0.6** |
| | **US$541.5** | **US$38.6** | **US$8.0** | **US$588.1** |

At December 31, the credit quality per class of financial assets that were neither past due nor impaired follow (amounts in millions unless otherwise indicated):

| | 2016 | | | |
|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | |
| | Grade A | Grade B | Grade C | Total |
| Loans and Receivables | | | | |
| Cash and cash equivalents: | | | | |
| Cash in banks | US$247.1 | US$– | US$– | US$247.1 |
| Cash equivalents | 76.5 | – | – | 76.5 |
| Receivables: | | | | |
| Trade | 36.3 | 5.5 | 5.0 | 46.8 |
| Advances and nontrade | 9.2 | 0.1 | – | 9.3 |
| AFS Investments | 13.1 | – | – | 13.1 |
| Derivative Assets | 8.0 | – | – | 8.0 |
| | US$390.2 | US$5.6 | US$5.0 | US$400.8 |

| | 2017 | | | |
|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | |
| | Grade A | Grade B | Grade C | Total |
| Loans and Receivables | | | | |
| Cash and cash equivalents: | | | | |
| Cash in banks | US$209.8 | US$– | US$– | US$209.8 |
| Cash equivalents | 66.6 | – | – | 66.6 |
| Receivables: | | | | |
| Trade | 35.0 | 24.3 | 6.7 | 66.0 |
| Advances and nontrade | 5.5 | 3.0 | – | 8.5 |
| AFS Investments | 13.3 | – | – | 13.3 |
| Derivative Assets | 5.1 | – | – | 5.1 |
| | US$335.3 | US$27.3 | US$6.7 | US$369.3 |

| | 2018 | | | |
|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | | | |
| | **Grade A** | **Grade B** | **Grade C** | **Total** |
| **Loans and Receivables** | | | | |
| Cash and cash equivalents: | | | | |
| Cash in banks | **US$137.5** | **US$–** | **US$–** | **US$137.5** |
| Cash equivalents | **307.9** | **–** | **–** | **307.9** |
| Receivables: | | | | |
| Trade | **51.0** | **16.8** | **3.6** | **71.4** |
| Advances and nontrade | **7.3** | **3.1** | **–** | **10.4** |
| **Financial Assets at FVOCI** | **13.7** | **–** | **–** | **13.7** |
| **Derivative Assets** | **0.6** | **–** | **–** | **0.6** |
| | **US$518.0** | **US$19.9** | **US$3.6** | **US$541.5** |

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, derivative financial assets and AFS Investments - based on the credit standing of the counterparty.

Receivables - Grade A receivables pertain to those receivables from clients or 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.

At December 31, the aging analyses of the receivables that were past due but not impaired follow (amounts in millions unless otherwise indicated):

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Past Due but Not Impaired | | | | |
| | 1 to 30 Days | 31 to 60 Days | 61 to 120 Days | More than 120 Days | Total |
| Trade | US$29.4 | US$4.4 | US$2.8 | US$– | US$36.6 |
| Advances and nontrade | 6.5 | – | 0.4 | 0.3 | 7.2 |
| | US$35.9 | US$4.4 | US$3.2 | US$0.3 | US$43.8 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Past Due but Not Impaired | | | | |
| | 1 to 30 Days | 31 to 60 Days | 61 to 120 Days | More than 120 Days | Total |
| Trade | US$20.7 | US$6.6 | US$7.4 | US$– | US$34.7 |
| Advances and nontrade | 2.5 | 0.2 | 0.3 | 0.7 | 3.7 |
| | US$23.2 | US$6.8 | US$7.7 | US$0.7 | US$38.4 |

| | **2018** | | | | |
|---|---|---|---|---|---|
| | **Past Due but Not Impaired** | | | | |
| | **1 to 30 Days** | **31 to 60 Days** | **61 to 120 Days** | **More than 120 Days** | **Total** |
| Trade | **US$23.4** | **US$5.2** | **US$4.2** | **US$2.0** | **US$34.8** |
| Advances and nontrade | **–** | **1.5** | **0.2** | **2.1** | **3.8** |
| | **US$23.4** | **US$6.7** | **US$4.4** | **US$4.1** | **US$38.6** |

Capital Management

The primary objective of the Group's 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 the total equity and debt as its capital. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares and raise additional debt through either the bond or loan markets or prepay existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2016, 2017 and 2018.

The Group monitors capital using gearing ratio. Gearing ratio is total debt over net worth (total equity) where total debt includes long-term debt and loans payable. Some creditor banks compute gearing ratio as total debt less cash and cash equivalents over net worth for the computation of the Group's financial covenants.

The Group's policy is to keep the gearing ratio within two times.

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Long-term debt | US$1,344,765,928 | US$1,432,417,876 | **US$1,271,335,292** |
| Loans payable | 36,598,275 | 61,187,102 | **35,718,397** |
| Total debt (a) | 1,381,364,203 | 1,493,604,978 | **1,307,053,689** |
| Net worth or total equity (b) | 1,766,079,998 | 1,872,567,958 | **2,229,199,586** |
| Gearing ratio (a/b) | 0.78 times | 0.80 times | **0.59 times** |

## 28. Earnings Per Share Computation

The following table presents information necessary to calculate earnings per share:

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Net income attributable to equity holders of the parent | US$180,015,587 | US$182,141,250 | **US$221,493,804** |
| Adjustment for the effect of cumulative distribution on subordinated perpetual capital securities (see Note 14.6) | (46,276,661) | (41,578,980) | **(63,903,980)** |
| Net income attributable to equity holders of the parent, as adjusted (a) | US$133,738,926 | US$140,562,270 | **US$157,589,824** |
| Common shares outstanding at beginning of year | 2,045,177,671 | 2,045,177,671 | **2,045,177,671** |
| Weighted shares held by subsidiaries | (734,970) | (734,970) | **(734,970)** |
| Weighted treasury shares | (11,998,887) | (17,612,022) | **(12,705,706)** |
| Weighted average shares outstanding (b) | 2,032,443,814 | 2,026,830,679 | **2,031,736,995** |
| Effect of dilutive stock grants | 17,130,267 | 10,982,205 | **4,630,729** |
| Weighted average shares outstanding adjusted for potential common shares (c) | 2,049,574,081 | 2,037,812,884 | **2,036,367,724** |
| Basic earnings per share (a/b) | US$0.066 | US$0.069 | **US$0.078** |
| Diluted earnings per share (a/c) | US$0.065 | US$0.069 | **US$0.077** |

## FINANCIAL SOUNDNESS INDICATORS

## INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES
**Financial Soundness Indicators**

| | As of and for the Year Ended December 31 | |
|---|---|---|
| | 2017 | **2018** |
| **Liquidity ratios** | | |
| Current ratio[(a)] | 1.24 | **1.54** |
| Interest rate coverage ratio[(b)] | 5.76 | **6.34** |
| **Solvency ratios** | | |
| Debt to equity ratio[(c)] | 0.80 | **0.59** |
| Asset to equity ratio[(d)] | 2.33 | **2.11** |
| **Profitability ratio** | | |
| EBITDA margin[(e)] | 46.4% | **46.3%** |

[(a)] *Current assets over current liabilities*

[(b)] *EBITDA over interest expense and financing charges on borrowings*

[(c)] *Interest-bearing debt over total equity*

[(d)] *Total assets over total equity*

[(e)] *EBITDA over gross revenues from port operations*

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule A. Financial Assets**
**December 31, 2018**

| Financial Assets | Name of Issuing Entity and Association of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount Shown in the Balance Sheet | Valued Based on Market Quotation at End of Reporting Period | Income Received and Accrued |
|---|---|---|---|---|---|
| Financial Assets at FVPL | | | | | |
| Freestanding Derivatives | N/A | N/A | US$579,322 | N/A | US$– |
| Loans and Receivables | | | | | |
| Cash and Cash Equivalents | N/A | N/A | 447,079,325 | N/A | 4,368,706 |
| Receivables | N/A | N/A | 124,403,784 | N/A | – |
| AFS investments | | | | | |
| Quoted Equity Shares | N/A | N/A | 13,032,348 | US$13,032,348 | 4,011 |
| Unquoted Equity Shares | N/A | N/A | 689,776 | N/A | – |
| | | | US$585,784,555 | | US$4,372,717 |

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**
**December 31, 2018**

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Deductions | | Current | Not Current | Balance at End of Period |
|---|---|---|---|---|---|---|---|
| | | | Amounts Collected | Amounts Written Off | | | |

**THERE ARE NONE**

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements**
**December 31, 2018**

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Deductions | | | Current | Not current | Balance at End of Period |
|---|---|---|---|---|---|---|---|---|
| | | | Amounts collected | Amounts Written Off | Others | | | |
| Cavite Gateway Terminal, Inc. | US$10,741,001 | US$17,018,722 | (sUS$1,709,359) | US$– | US$(460,433) | US$– | US$25,589,931 | US$25,589,931 |
| ICTSI Warehousing, Inc. | 22,456,386 | – | (595,316) | – | (1,136,106) | – | 20,724,964 | 20,724,964 |
| Abbotsford Holdings, Inc. | 11,913,382 | 22,396 | – | – | (711,687) | – | 11,224,091 | 11,224,091 |
| ICTSI Ltd. | 10,935,814 | 581,528 | (1,509,323) | – | (508,124) | – | 9,499,895 | 9,499,895 |
| ICTSI Capital B.V. | 7,644,443 | 964,644 | – | – | (76,928) | – | 8,532,159 | 8,532,159 |
| IW Cargo Handlers, Inc. | 2,091,071 | 302,552 | – | – | (116,353) | – | 2,277,270 | 2,277,270 |
| ICTSI South Pacific Limited | 21,791 | 1,328,843 | – | – | (13,436) | – | 1,337,198 | 1,337,198 |
| ICTSI Asia Pacific Business Services, Inc. | 687,166 | 147,207 | – | – | (68,780) | – | 765,593 | 765,593 |
| Victoria International Container Terminal Limited | 684,597 | 57,243 | (1,584) | – | (36,283) | – | 703,973 | 703,973 |
| Laguna Gateway Inland Container Terminal, Inc. | 285,294 | 1,062,731 | (802,397) | – | 2,908 | – | 548,536 | 548,536 |
| TecPlata S.A. | 382,020 | 12,017 | – | – | (16,943) | – | 377,094 | 377,094 |
| ICTSI Ltd. RHQ | 363,035 | 52,814 | – | – | (71,110) | – | 344,739 | 344,739 |
| Manila North Harbour Port, Inc. | 8,218 | 336,146 | (35,786) | – | 11,545 | – | 320,123 | 320,123 |
| Intermodal Terminal Holdings, Inc. | 315,696 | – | – | – | (15,919) | – | 299,777 | 299,777 |
| Contecon Manzanillo S.A. | 300,890 | 27,323 | – | – | (39,056) | – | 289,157 | 289,157 |
| Mindanao International Container Terminal Services, Inc. | 319,950 | 105,001 | (139,568) | – | (28,278) | – | 257,105 | 257,105 |
| Subic Bay International Terminal Holdings, Inc. | 5,692 | 128,509 | – | – | 5,319 | – | 139,520 | 139,520 |
| PT PBM Olah Jasa Andal | 97,782 | 1,661 | – | – | (1,897) | – | 97,546 | 97,546 |
| Operadora Portuaria Centroamericana, S.A. de C.V. | 94,295 | 4,688 | – | – | (6,674) | – | 92,309 | 92,309 |
| Pakistan International Container Terminal Limited | 65,455 | 6,023 | – | – | (5,824) | – | 65,654 | 65,654 |
| Cordilla Properties Holdings, Inc. | 310,574 | – | (277,546) | – | 16,454 | – | 49,482 | 49,482 |
| PT Makassar Terminal Services | 42,866 | 143 | – | – | (204) | – | 42,805 | 42,805 |
| Hijo International Port Services, Inc. | 25,051 | 482 | – | – | 16 | – | 25,549 | 25,549 |
| ICTSI Africa Pty Ltd. | 23,195 | 1,592 | – | – | (2,319) | – | 22,468 | 22,468 |

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Deductions | | | Current | Not current | Balance at End of Period |
|---|---|---|---|---|---|---|---|---|
| | | | Amounts collected | Amounts Written Off | Others | | | |
| Davao Integrated Port and Stevedoring Services Corp. | 4,042 | 10,928 | (2,171) | – | 5,018 | – | 17,817 | 17,817 |
| Global Container Capital B.V. | 13,333 | 1,582 | – | – | (2,187) | – | 12,728 | 12,728 |
| South Cotabato Integrated Ports Services, Inc. | 785,979 | – | (787,537) | – | 8,554 | – | 6,996 | 6,996 |
| Bauan International Port, Inc. | 5,025 | 41,034 | (51,631) | – | 11,298 | – | 5,726 | 5,726 |
| ICTSI DR Congo S.A. | 200 | 2,229 | – | – | 74 | – | 2,503 | 2,503 |
| Subic Bay International Terminal Corp. | 4,179 | – | (1,497) | – | (421) | – | 2,261 | 2,261 |
| Yantai International Container Terminals, Limited | 2,193 | 1,403 | – | – | (1,421) | – | 2,175 | 2,175 |
| ICTSI Oregon, Inc. | 844 | – | – | – | (1) | – | 843 | 843 |
| Batumi International Container Terminal, LLC. | 115,181 | 18,122 | (132,809) | – | (22) | – | 472 | 472 |
| Prime Staffing & Selection Bureau | 445 | 75 | – | – | (52) | – | 468 | 468 |
| SPIA Spain SL | 18 | – | – | – | (1) | – | 17 | 17 |
| PT ICTSI Jasa Prima Tbk. | 10 | – | – | – | – | – | 10 | 10 |
| CMSA B.V. | 64,063,342 | – | – | – | (64,063,342) | – | – | – |
| South Pacific International Container Terminal Limited | – | 318,109 | (2,147) | – | 490 | – | 316,452 | 316,452 |
| Motukea International Terminal Limited | – | 51,639 | (3,315) | – | 541 | – | 48,865 | 48,865 |
| | US$134,810,455 | US$22,607,386 | (US$6,051,986) | US$- | (US$67,321,584) | US$– | US$84,044,271 | US$84,044,271 |

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule D. Intangible Assets – Other Assets**
**December 31, 2018**

| Description | Beginning Balance | Additions at Cost | Charged to Cost and Expenses | Charged to Other Accounts | Other Changes Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|---|

See Notes 5 and 9 to the Audited Consolidated Financial Statements

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule E. Long-term Debt**
**December 31, 2018**

| Title of Issue and Type of Obligation | Amount Authorized by Indenture | Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Balance Sheet | Amount Shown Under Caption "Noncurrent Portion of Long-term Debt" in Related Balance Sheet | Remarks |
|---|---|---|---|---|
| ITBV - US dollar-denominated medium-term note | | US$– | US$757,902,011 | |
| ICTSI - US dollar-denominated notes | | – | 179,255,736 | |
| OPC - US dollar-denominated loan | | 16,320,000 | 13,180,000 | See Notes 15 to the Audited Consolidated Financial Statements |
| CGSA - US dollar-denominated loan | | 7,647,059 | 9,558,823 | |
| IDRC - Secured USD term Loan | | 6,770,833 | 17,187,500 | |
| VICT - Secured AUD term Loan | | 18,461,930 | 231,576,542 | |
| YICT - Secured RMB term loan | | – | 7,269,025 | |
| AGCT - Secured Euro term loan | | 1,648,519 | 4,557,314 | |
| | | US$50,848,341 | US$1,220,486,951 | |

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule F. Indebtedness to Related Parties (Long-term Loans from Related Companies)**
**December 31, 2018**

| Name of Related Party | Balance at Beginning of Period | Balance at End of Period |
| --- | --- | --- |

**THERE ARE NONE**

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule G. Guarantees of Securities of Other Issuers**
**December 31, 2018**

| Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed | Title of Issue of Each Class of Securities Guaranteed | Total Amount Guaranteed and Outstanding | Amount Owned by Person for which this Statement is Filed | Nature of Guarantee |
|---|---|---|---|---|

**THERE ARE NONE**

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule H. Capital Stock**
**December 31, 2018**

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding As Shown Under Related Balance Sheet Caption | Number of Shares Reserved for Options, Warrants, Conversion, and Other Rights | Number of Shares Held By | | |
|---|---|---|---|---|---|---|
| | | | | Subsidiaries | Directors, Officers and Employees | Others |
| **Preferred Shares** | | | | | | |
| Preferred A Shares | 993,000,000 | 3,800,000 | – | 3,800,000 | – | – |
| Preferred B Shares | 700,000,000 | 700,000,000 | – | – | 700,000,000 | – |
| **Common Shares** | 4,227,397,381 | 2,011,001,931 | 34,175,740 | 734,970 | 992,207,034 | 1,018,059,927 |

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**

**Schedule I. Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements**

**December 31, 2018**

| Name and Designation of Creditor | Balance at Beginning of Period | Additions | Deductions | | Current | Not current | Balance at End of Period |
|---|---|---|---|---|---|---|---|
| | | | Amounts paid | Others | | | |
| Royal Capital B.V. | US$716,772,938 | US$109,496,506 | (US$102,878,727) | US$100,000,122 | US$8,573,716 | US$814,817,123 | US$823,390,839 |
| ICTSI Treasury B.V. | 801,544,432 | 92,364,141 | (91,143,050) | – | 4,168,225 | 798,597,298 | 802,765,523 |
| ICTSI Global Finance B.V. | 172,089,827 | 8,667,598 | (8,436,264) | – | 9,837,833 | 162,483,328 | 172,321,161 |
| International Container Terminal Holdings, Inc. | 9,319,206 | 1,218,816 | – | 80,131 | – | 10,618,153 | 10,618,153 |
| ICTSI Ltd. Regional Operating Headquarters | 1,221,963 | – | (125,711) | (102,228) | – | 994,024 | 994,024 |
| Adriatic Gate Container Terminal Terminal Services, Ltd. | 363,556 | – | – | 1,301 | – | 364,857 | 364,857 |
| Tecon Suape, S.A. | 185,009 | – | – | 2,414 | – | 187,423 | 187,423 |
| Madagascar International Container Terminal Services, Ltd. | 127,279 | 452 | – | 7,052 | – | 134,783 | 134,783 |
| Baltic Container Terminal Ltd. | 58,719 | – | – | 1,435 | – | 60,154 | 60,154 |
| Contecon Guayaquil S.A. | 43,430 | – | – | 413 | – | 43,843 | 43,843 |
| ICTSI (M.E.) DMCC | 44,295 | – | (24,050) | 6,492 | – | 26,737 | 26,737 |
| Sociedad Puerto Industrial Aguadulce, S.A. | 867 | – | – | 80 | – | 947 | 947 |
| Basra Gateway Terminal | – | 9,788 | (9,066) | – | – | 722 | 722 |
| Container Terminal Systems Solutions, Inc | – | 73 | – | (7) | – | 66 | 66 |
| ICTSI Global Cooperatief U.A. | (668,000) | 3,000,000 | (2,154) | 8 | – | 2,329,854 | 2,329,854 |
| ICTSI Project Delivery Services Co. Pte. Ltd. | (713) | (938) | 2,493 | – | – | 842 | 842 |
| | US$1,701,102,808 | US$214,756,436 | (US$202,616,529) | US$99,997,213 | US$22,579,774 | US$1,790,660,154 | US$1,813,239,928 |

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule J. Parent Company Retained Earnings Available for Dividend Declaration**
**December 31, 2018**

| | | | **Amount** |
|---|---|---|---|
| Unappropriated parent company retained earnings, beginning | | | **US$110,384,508** |
| Reconciliation: | | | |
| Add (Less): | | | |
| | Unrealized foreign exchange gain - net | | **(1,353,374)** |
| | Deferred tax assets | | **(48,385,715)** |
| | Mark-to-market gain on derivatives | | **(29,696,793)** |
| | Treasury shares | | **(14,124,743)** |
| | Effect to retained earnings of adoption of PAS 19R | | **(156,917)** |
| Unappropriated parent company retained earnings, as adjusted, beginning | | | **16,666,966** |
| Parent company net income actually earned/realized during the period | | **100,291,086** | |
| Less: | Non-actual/unrealized income net of tax: | | |
| | Mark-to-market gain on derivatives | **(39,488,184)** | |
| Parent company net income actually earned/realized during the period | | | **60,802,902** |
| Add (Less): | | | |
| | Dividend declaration during the period | | **(97,584,250)** |
| | Reversal of appropriated retained earnings | | **150,000,000** |
| | Decrease in deferred tax assets (excluded those recognized in OCI) | | **(12,242,272)** |
| | Purchase of treasury shares | | **(45,329,627)** |
| | Issuance of treasury shares | | **2,277,081** |
| Unappropriated parent company retained earnings ,as adjusted, ending | | | **US$74,590,800** |

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES**
**Schedule K. List of Effective Standards and Interpretations as of December 31, 2018**

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as at December 31, 2018** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>**Conceptual Framework Phase A: Objectives and qualitative characteristics** | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | | | ✓ |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Amendments to PFRS 1: Borrowing Costs | | | ✓ |
| | Amendments to PFRS 1: Meaning of Effective PFRS | | | ✓ |
| | Amendments to PFRS 1: Deletion of short-term exemptions for first-time adopters | | | ✓ |
| **PFRS 2** | Share-based Payment | ✓ | | |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | ✓ | | |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | ✓ | | |
| | Amendments to PFRS 2: Definition of Vesting Conditions | ✓ | | |
| | Amendment to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions | ✓ | | |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| | Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination | ✓ | | |
| | Amendments to PFRS 3: Scope Exceptions for Joint Arrangements | ✓ | | |
| | Amendments to PFRS 3, Definition of a Business | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PFRS 4 | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendment to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4 | | | ✓ |
| PFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | ✓ | | |
| | Amendments to PFRS 5: Changes in Methods of Disposal | ✓ | | |
| PFRS 6 | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| PFRS 7 | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| | Amendments to PFRS 7: Servicing Contracts | ✓ | | |
| | Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | ✓ | | |
| PFRS 8 | Operating Segments | ✓ | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | ✓ | | |
| PFRS 9 | Financial Instruments | ✓ | | |
| | Amendments to PFRS 9: Prepayment Features with Negative Compensation | Not early adopted | | |
| PFRS 10 | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10: Investment Entities | ✓ | | |
| | Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Not early adopted | | |
| | Amendments to PFRS 10: Applying the Consolidation Exception | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓ |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 12: Investment Entities | ✓ | | |
| | Amendments to PFRS 12: Applying the Consolidation Exception | | | ✓ |
| | Amendments to PFRS 12 – Clarification of the Scope of the Standard | ✓ | | |
| **PFRS 13** | Fair Value Measurement (2013 Version) | ✓ | | |
| | Amendments to PFRS 13: Short-term Receivables and Payables | ✓ | | |
| | Amendments to PFRS 13: Portfolio Exception | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts | | | ✓ |
| **PFRS 15** | Revenue from Contracts with Customers | ✓ | | |
| **PFRS 16** | Leases | Not early adopted | | |
| **PFRS 17** | Insurance Contracts | Not early adopted | | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1: Clarification of the Requirements for Comparative Presentation | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| | Amendment to PAS 7: Disclosure Initiative | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| | Amendment to PAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses | ✓ | | |
| | Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity | Not early adopted | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | | | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Amendment to PAS 16: Classification of Servicing Equipment | ✓ | | |
| | Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation | ✓ | | |
| | Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation | ✓ | | |
| | Amendment to PAS 16: Bearer Plants | | | ✓ |
| **PAS 17** | Leases | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | | | ✓ |
| | Amendments to PAS 19: Regional market issue regarding discount rate | ✓ | | |
| | Amendments to PAS 19: Plan Amendment, Curtailment or Settlement | Not early adopted | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | ✓ | | |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |
| | Amendments to Borrowing Costs Eligible for Capitalization | Not early adopted | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27 (Amended)** | Separate Financial Statements | ✓ | | |
| | Amendments to PAS 27: Investment Entities | ✓ | | |
| | Amendments to PAS 27: Equity Method Separate Financial Statements | ✓ | | |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Not early adopted | | |
| | Amendments to PAS 28: Long-term Interests in Joint Ventures and Associates | Not early adopted | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PAS 28: Applying the Consolidation Exception | | | ✓ |
| | Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle) | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | ✓ | | |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 32: Classification of Rights Issues | ✓ | | |
| | Amendment to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments | ✓ | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| | Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities | ✓ | | |
| | Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim Financial Report' | ✓ | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization | ✓ | | |
| | Amendments to PAS 38: Clarification of Acceptable Methods of Amortization | ✓ | | |
| **PAS 40** | Investment Property | ✓ | | |
| | Amendment to PAS 40: Investment Property | ✓ | | |
| | Amendment to PAS 40: Transfers of Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| | Amendment to PAS 41: Bearer Plants | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | ✓ | | |

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as at December 31, 2018** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | | | ✓ |
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |
| **IFRIC 8** | *Scope of PFRS 2* | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | ✓ | | |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | ✓ | | |
| **IFRIC 11** | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | ✓ | | |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement | ✓ | | |
| **IFRIC 15** | Agreements for Construction of Real Estate | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | ✓ | | |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | ✓ | | |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | ✓ | | |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | ✓ | | |
| **IFRIC 22** | Foreign Currency Transactions and Consideration and Advance Consideration | ✓ | | |
| **IFRIC 23** | Uncertainty Over Income Tax Treatments | Not early adopted | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | ✓ | | |
| **SIC-12** | Consolidation - Special Purpose Entities | ✓ | | |
| | Amendment to SIC - 12: Scope of SIC 12 | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as at December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | ✓ | | |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | ✓ | | |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures. | ✓ | | |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | ✓ | | |

# INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES
## Schedule L. Map of Subsidiaries
December 31, 2018