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SEC Registration Number

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S	E	R	V	I	C	E	S	,	I	N	C	.	A	N	D	S	U	B	S	I	D	I	A	R	I	E	S		

(Company's Full Name)

I	C	T	S	I	A	d	m	i	n	i	s	t	r	a	t	i	o	n	B	u	i	l	d	i	n	g	,	M	I
C	T	S	o	u	t	h	A	c	c	e	s	s	R	o	a	d	,	M	a	n	i	l	a						

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

<b>Jose Joel M. Sebastian</b>
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(Contact Person)

<b>245-4101</b>
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(Company Telephone Number)

1	2	3	1
<i>Month</i>	<i>Day</i>		
(Fiscal Year)			

S	E	C	17	Q
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(Form Type)

0	4	<b>Every 3<sup>rd</sup> Thursday</b>
<i>Month</i>	<i>Day</i>	
(Annual Meeting)		

<b>N/A</b>
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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

<b>N/A</b>
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Amended Articles Number/Section

<b>1,802</b>
<b>as of September 30, 2009</b>

Total No. of Stockholders

Total Amount of Borrowings	
<b>US\$360.1M</b>	<b>US\$69.9M</b>
Domestic	Foreign

To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2009**
2. Commission identification number: **147212**
3. BIR Tax Identification No. **000-323-228**
1. Exact name of issuer as specified in its charter:  
**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.**
5. Province, Country or other jurisdiction of incorporation or organization: **Philippines**
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of issuer's principal office: **ICTSI Administration Building, MICT South Access Road, Manila** Postal Code: **1012**
8. Registrant's telephone number, including area code : **(632) 245-4101**
9. Former name, former address, and former fiscal year : **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA.

Title of Each Class	Number of shares outstanding as of September 30, 2009
Common	<b>1,923,935,360</b> Shares

11. Are any or all of the Securities listed on a Stock Exchange?  
Yes  No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

**Philippine Stock Exchange**

**Common shares**

12. Indicate by check mark whether the issuer:
  - a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports).  
Yes  No
  - (b) has been subject to such filing for the past 90 days. Yes  No

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## **PART 1 – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

The unaudited consolidated financial statements as of September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008 and the audited consolidated balance sheet as of December 31, 2008 and the related notes to unaudited consolidated financial statements of International Container Terminal Services, Inc. and Subsidiaries (collectively referred to as “the Group”) are filed as part of this Form 17-Q on pages 2 to 22.

Operating segments are also reported in the notes to unaudited consolidated financial statements.

There are no other material events subsequent to the end of this interim period that had not been reflected in the unaudited consolidated financial statements filed as part of this report.

# **International Container Terminal Services, Inc. and Subsidiaries**

## **Consolidated Financial Statements**

September 30, 2009 (unaudited) and December 31, 2008 (audited)  
and Three and Nine Months Ended September 30, 2009 and 2008 (unaudited)

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(In Thousands)

	September 30, 2009 (Unaudited)	December 31, 2008* (Audited)	
	In US Dollar	In Philippine Peso	
<b>ASSETS</b>			
<b>Noncurrent Assets</b>			
Intangibles - net (Notes 6 and 18)	US\$601,833	US\$562,547	P26,732,230
Property and equipment - net (Notes 7 and 18)	305,555	274,146	13,027,414
Investment properties - net	29,290	29,514	1,402,502
Deferred tax assets - net	34,916	34,017	1,616,487
Other noncurrent assets	52,154	51,508	2,447,683
<b>Total Noncurrent Assets</b>	<b>1,023,748</b>	<b>951,732</b>	<b>45,226,316</b>
<b>Current Assets</b>			
Cash and cash equivalents	131,702	222,825	10,588,660
Receivables - net	32,907	25,279	1,201,277
Spare parts and supplies	12,388	10,016	475,971
Prepaid expenses and other current assets	34,011	28,559	1,357,066
Derivative assets	201	3,766	178,946
<b>Total Current Assets</b>	<b>211,209</b>	<b>290,445</b>	<b>13,801,920</b>
	<b>US\$1,234,957</b>	<b>US\$1,242,177</b>	<b>P59,028,236</b>
<b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity Attributable to Equity Holders of the Parent</b>			
Capital stock:			
Preferred stock	US\$72	US\$72	P3,800
Common stock	66,401	66,401	1,991,665
Additional paid-in capital (Note 10)	289,498	290,052	12,277,157
Excess of acquisition cost over the carrying value of minority interests	(1,299)	(1,299)	(561,039)
Cost of shares held by subsidiaries (Note 10)	(119,005)	(115,193)	(4,336,656)
Treasury shares (Note 10)	(3,878)	(5,536)	(270,374)
Retained earnings (Note 10)	253,776	232,443	11,084,897
Other comprehensive loss (Note 10)	(53,139)	(68,246)	(1,258,784)
<b>Total equity attributable to equity holders of the parent</b>	<b>432,426</b>	<b>398,694</b>	<b>18,930,666</b>
<b>Equity Attributable to Minority Interests</b>	<b>47,434</b>	<b>49,430</b>	<b>2,364,166</b>
<b>Total Stockholders' Equity</b>	<b>479,860</b>	<b>448,124</b>	<b>21,294,832</b>
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion (Note 8)	391,128	421,100	20,010,668
Concession rights payable - net of current portion (Note 6)	189,298	204,667	9,725,778
Deferred tax liabilities (Note 2)	36,963	33,123	1,573,988
Pension liabilities	803	1,007	47,834
<b>Total Noncurrent Liabilities</b>	<b>618,192</b>	<b>659,897</b>	<b>31,358,268</b>
<b>Current Liabilities</b>			
Loans payable (Note 8)	32,177	27,314	1,297,963
Accounts payable and other current liabilities	61,578	58,050	2,758,590
Current portion of long-term debt (Note 8)	6,677	9,630	457,603
Current portion of concession rights payable (Note 6)	17,414	19,585	930,662
Income tax payable	13,324	11,258	534,993
Derivative liabilities	5,735	8,319	395,325
<b>Total Current Liabilities</b>	<b>136,905</b>	<b>134,156</b>	<b>6,375,136</b>
	<b>US\$1,234,957</b>	<b>US\$1,242,177</b>	<b>P59,028,236</b>

\* Amounts in Philippine peso were translated into US dollar presentation currency (see Note 2.3).

See accompanying Notes to Unaudited Consolidated Financial Statements.

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.  
AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

(In Thousands, Except Per Share Data)

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2009	2008 <sup>*</sup>		2009	2008 <sup>*</sup>	
	In US Dollar	In Philippine Peso		In US Dollar	In Philippine Peso	
<b>INCOME</b>						
Gross revenues from port operations (Note 5)	<b>US\$110,469</b>	US\$125,080	₱5,683,224	<b>US\$299,254</b>	US\$352,253	₱15,224,717
Foreign exchange gain	<b>1,958</b>	10,318	927,676	<b>19,140</b>	33,842	1,462,666
Interest income	<b>638</b>	1,124	50,252	<b>2,789</b>	2,485	107,409
Other income	<b>106</b>	329	15,244	<b>857</b>	1,139	49,249
	<b>113,171</b>	136,851	6,676,396	<b>322,040</b>	389,719	16,844,041
<b>EXPENSES</b>						
Port authorities' share in gross revenues	<b>15,672</b>	16,635	755,850	<b>41,787</b>	46,845	2,024,704
Manpower costs	<b>20,568</b>	22,374	1,020,047	<b>60,449</b>	65,826	2,845,063
Depreciation and amortization	<b>15,079</b>	12,290	615,648	<b>42,310</b>	39,814	1,720,821
Administrative and other operating expenses	<b>12,842</b>	13,352	608,168	<b>34,688</b>	38,834	1,678,433
Equipment and facilities-related expenses	<b>12,202</b>	16,881	751,591	<b>33,272</b>	45,822	1,980,480
Interest expense and financing charges on borrowings (Note 8)	<b>6,440</b>	5,840	260,366	<b>18,258</b>	12,362	534,305
Interest expense on concession rights payable	<b>5,803</b>	8,971	303,414	<b>17,167</b>	19,029	822,474
Foreign exchange loss	<b>2,837</b>	15,210	1,145,451	<b>14,150</b>	44,126	1,669,225
Other expenses (Note 9)	<b>27</b>	240	11,055	<b>2,799</b>	788	271,983
	<b>91,470</b>	111,793	5,471,590	<b>264,880</b>	313,446	13,547,488
<b>CONSTRUCTION REVENUE (EXPENSE)</b>						
Construction revenue	<b>19,078</b>	35,735	1,655,963	<b>60,075</b>	72,499	3,133,470
Construction expense	<b>(19,078)</b>	(35,735)	(1,655,963)	<b>(60,075)</b>	(72,499)	(3,133,470)
	<b>-</b>	-	-	<b>-</b>	-	-
<b>INCOME BEFORE INCOME TAX</b>	<b>21,701</b>	25,058	1,204,806	<b>57,160</b>	76,273	3,296,553
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>						
Current	<b>7,736</b>	10,628	485,219	<b>18,324</b>	31,853	1,376,679
Deferred	<b>458</b>	793	30,859	<b>3,572</b>	(4,826)	(208,584)
	<b>8,194</b>	11,421	516,078	<b>21,896</b>	27,027	1,168,095
<b>NET INCOME</b>	<b>US\$13,507</b>	US\$13,637	₱688,728	<b>US\$35,264</b>	US\$49,246	₱2,128,458
<b>ATTRIBUTABLE TO:</b>						
Equity holders of the parent	<b>US\$14,012</b>	US\$14,700	₱734,247	<b>US\$37,174</b>	US\$52,391	₱2,264,374
Minority interests	<b>(505)</b>	(1,063)	(45,519)	<b>(1,910)</b>	(3,145)	(135,916)
	<b>US\$13,507</b>	US\$13,637	₱688,728	<b>US\$35,264</b>	US\$49,246	₱2,128,458
<b>Earnings Per Share (Note 13)</b>						
Basic	<b>US\$0.007</b>	US\$0.008	₱0.386	<b>US\$0.020</b>	US\$0.028	₱1.191
Diluted	<b>0.007</b>	0.007	0.372	<b>0.019</b>	0.027	1.147

\* Amounts in Philippine peso were translated into US dollar presentation currency (see Note 2.3).

See accompanying Notes to Unaudited Consolidated Financial Statements.

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.  
AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In Thousands)

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2009	2008*		2009	2008*	
	In US Dollar	In Philippine Peso		In US Dollar	In Philippine Peso	
<b>NET INCOME FOR THE PERIOD</b>	<b>US\$13,507</b>	US\$13,637	₱688,728	<b>US\$35,264</b>	US\$49,246	₱2,128,458
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>						
Exchange differences on translation of foreign operations	<b>18,269</b>	(19,407)	(795,852)	<b>20,475</b>	15,769	681,561
Net change in unrealized mark-to-market values of derivatives	<b>(8,111)</b>	5,295	218,946	<b>(7,914)</b>	(2,849)	(123,141)
Net unrealized mark-to-market gain on available-for-sale investments	–	–	128	<b>86</b>	110	4,745
Income tax relating to components of other comprehensive income	<b>2,433</b>	(1,588)	(65,684)	<b>2,374</b>	855	36,942
	<b>12,591</b>	(15,700)	(642,462)	<b>15,021</b>	13,885	600,107
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<b>US\$26,098</b>	(US\$2,063)	₱46,266	<b>US\$50,285</b>	US\$63,131	(₱2,728,565)
<b>ATTRIBUTABLE TO:</b>						
Equity holders of the parent	<b>US\$25,341</b>	US\$4,131	₱314,009	<b>US\$52,281</b>	US\$69,339	₱2,996,891
Minority interests	<b>757</b>	(6,194)	(267,743)	<b>(1,996)</b>	(6,208)	(268,326)
	<b>US\$26,098</b>	(US\$2,063)	₱46,266	<b>US\$50,285</b>	US\$63,131	₱2,728,565

\* Amounts in Philippine peso were translated into US dollar presentation currency (see Note 2.3).

See accompanying Notes to Unaudited Consolidated Financial Statements.

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.  
AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(In Thousands)

	Attributable to Equity Holders of the Parent										Minority Interests	Total Stockholders' Equity
	Preferred Stock	Common Stock	Additional Paid-in Capital	Excess of Acquisition Cost over the Carrying Value of Minority Interests	Preferred Shares Held by a Subsidiary	Common Shares Held by Subsidiaries	Treasury Shares	Retained Earnings	Other Compre- hensive Income	Total		
	<i>In US Dollar</i>											
Balance at January 1, 2009	US\$72	US\$66,401	US\$290,052	(US\$1,299)	(US\$72,492)	(US\$42,701)	(US\$5,536)	US\$232,443	(US\$68,246)	US\$398,694	US\$49,430	US\$448,124
Share-based payments	-	-	1,104	-	-	-	-	-	-	1,104	-	1,104
Additional shares held by subsidiaries	-	-	-	-	-	(3,812)	-	-	-	(3,812)	-	(3,812)
Cancellation of treasury shares	-	-	(1,658)	-	-	-	1,658	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(15,841)	-	(15,841)	-	(15,841)
Total comprehensive income (loss) for the period	-	-	-	-	-	-	-	37,174	15,107	52,281	(1,996)	50,285
<b>Balance at September 30, 2009</b>	<b>US\$72</b>	<b>US\$66,401</b>	<b>US\$289,498</b>	<b>(US\$1,299)</b>	<b>(US\$72,492)</b>	<b>(US\$46,513)</b>	<b>(US\$3,878)</b>	<b>US\$253,776</b>	<b>(US\$53,139)</b>	<b>US\$432,426</b>	<b>US\$47,434</b>	<b>US\$479,860</b>
Balance at January 1, 2008, as previously reported	US\$72	US\$65,538	US\$293,127	(US\$8,314)	(US\$72,492)	(US\$164,565)	(US\$7,126)	US\$184,014	(US\$38,944)	US\$251,310	US\$82,174	US\$333,484
Translation difference arising from change in functional currency of the parent (Note 2)	-	-	-	-	-	-	-	-	(53,654)	(53,654)	-	(53,654)
Balance at January 1, 2008, as adjusted	72	65,538	293,127	(8,314)	(72,492)	(164,565)	(7,126)	184,014	(92,598)	197,656	82,174	279,830
Share-based payments	-	454	3,007	-	-	-	-	-	-	3,461	-	3,461
Additional shares held by subsidiaries	-	-	-	-	-	(11,967)	-	-	-	(11,967)	-	(11,967)
Cancellation of treasury shares	-	-	(1,521)	-	-	-	1,521	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(15,418)	-	(15,418)	(463)	(15,881)
Increase in share of minority interests	-	-	-	4,951	-	-	-	-	-	4,951	2,163	7,114
Total comprehensive income (loss) for the period	-	-	-	-	-	-	-	52,391	16,949	69,340	(6,208)	63,132
<b>Balance at September 30, 2008</b>	<b>US\$72</b>	<b>US\$65,992</b>	<b>US\$294,613</b>	<b>(US\$3,363)</b>	<b>(US\$72,492)</b>	<b>(US\$176,532)</b>	<b>(US\$5,605)</b>	<b>US\$220,987</b>	<b>(US\$75,649)</b>	<b>US\$248,023</b>	<b>US\$77,666</b>	<b>US\$325,689</b>
	<i>In Philippine Peso</i>											
Balance at January 1, 2008	₱3,800	₱1,969,815	₱12,147,034	(₱403,504)	(₱3,800,000)	(₱19,439)	(₱336,096)	₱9,150,439	(₱1,890,361)	₱16,821,688	₱2,645,656	₱19,467,344
Share-based payments	-	19,638	129,980	-	-	-	-	-	-	149,618	-	149,618
Additional shares held by subsidiaries	-	-	-	-	-	(517,217)	-	-	-	(517,217)	-	(517,217)
Cancellation of treasury shares	-	-	(65,722)	-	-	-	65,722	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(666,360)	-	(666,360)	(20,000)	(686,360)
Increase in share of minority interests	-	-	-	213,977	-	-	-	-	-	213,977	93,475	307,452
Total comprehensive income (loss) for the period	-	-	-	-	-	-	-	2,264,374	732,517	2,996,891	(268,326)	2,728,565
<b>Balance at September 30, 2008</b>	<b>₱3,800</b>	<b>₱1,989,453</b>	<b>₱12,211,292</b>	<b>(₱189,527)</b>	<b>(₱3,800,000)</b>	<b>(₱536,656)</b>	<b>(₱270,374)</b>	<b>₱10,748,453</b>	<b>(₱1,157,844)</b>	<b>₱18,998,597</b>	<b>₱2,450,805</b>	<b>₱21,449,402</b>

\* Amounts for the nine months ended September 30, 2008, in Philippine peso, were translated into US dollar presentation currency (see Note 2.3).

See accompanying Notes to Unaudited Consolidated Financial Statements.

# INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	For the Nine Months Ended September 30		
	2009	2008*	
	In US Dollar	In Philippine Peso	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	US\$57,160	US\$76,273	₱3,296,553
Adjustments for:			
Depreciation and amortization	42,310	39,814	1,720,821
Interest expense on concession rights payable and borrowings (Note 8)	35,425	12,362	534,305
Unrealized foreign exchange loss (gain)	(4,087)	8,200	354,393
Interest income	(2,789)	(2,485)	(107,409)
Share-based payments	1,104	–	–
Unrealized mark-to-market loss on derivatives (Note 9)	590	5,505	237,924
Provisions for:			
Doubtful accounts	293	61	2,652
Inventory obsolescence	61	–	–
Dividend income	(202)	(49)	(2,114)
Gain on sale of property and equipment	(80)	(391)	(16,886)
Equity in net earnings of an associate	–	(120)	(5,200)
Operating income before changes in working capital	129,785	139,169	6,015,039
Increase in:			
Receivables	(6,632)	(10,810)	(467,231)
Spare parts and supplies	(1,851)	(1,810)	(78,234)
Prepaid expenses and other current assets	(1,173)	(8,696)	(375,864)
Increase (decrease) in:			
Accounts payable and other current liabilities	(2,569)	(10,750)	(464,622)
Pension liabilities	(211)	897	38,781
Cash generated from operations	117,349	108,000	4,667,869
Income taxes paid	(16,370)	(22,381)	(967,347)
Net cash provided by operating activities	100,979	85,619	3,700,522
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Intangible assets and property and equipment	(94,496)	(107,832)	(4,660,609)
Subsidiary, net of cash acquired	–	212	9,150
Increase in other noncurrent assets	(16,944)	(35,720)	(1,543,871)
Interest received	2,861	2,487	107,505
Proceeds from sale of property and equipment	579	658	28,438
Dividends received	202	49	2,114
Change in minority interest	–	2,220	95,964
Net cash used in investing activities	(107,798)	(137,926)	(5,961,307)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Long-term borrowings	216,801	74,838	3,234,590
Short-term borrowings	6,257	105,814	4,573,368
Subscriptions and issuance of capital stock	–	1,202	51,961
Payments of:			
Long-term borrowings	(258,965)	(1,313)	(56,728)
Interest on borrowings and concession rights payable	(37,791)	(13,466)	(582,013)
Short-term borrowings	(1,444)	(24,554)	(1,061,231)
Dividends	(15,938)	(15,418)	(666,360)
Acquisition of common shares held by a subsidiary	(3,812)	(11,967)	(517,217)
Net cash provided by (used in) financing activities	(94,892)	115,136	4,976,371
<b>TRANSLATION ADJUSTMENT ARISING FROM CHANGE IN FUNCTIONAL CURRENCY OF THE PARENT (Note 2)</b>	–	(16,243)	–
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	10,588	6,645	287,200
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(91,123)	53,231	3,002,786
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	222,825	86,358	3,564,863
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	US\$131,702	US\$139,589	₱6,567,649

\* Amounts in Philippine peso were translated into US dollar presentation currency (see Note 2.3).

See accompanying Notes to Unaudited Consolidated Financial Statements.

**INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.  
AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Financial Statements**

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**1. Corporate Information**

1.1 General

International Container Terminal Services, Inc. (ICTSI, the Company 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 Company is ICTSI Administration Building, MICT South Access Road, Manila. ICTSI's shares are publicly traded in the Philippine Stock Exchange (PSE).

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. Currently, the Group's operations are situated in 13 countries: the Philippines, Brazil, Poland, Madagascar, Japan, Indonesia, Syria, China, Ecuador, Colombia, Georgia, Brunei and Argentina. ICTSI's concession for the Manila International Container Terminal (MICT) was extended up to 2038 subject to the completion of agreed additional investments in port equipment and infrastructure prior to 2013.

Concessions for port operations entered into by ICTSI and subsidiaries in 2009 and 2008 are summarized below:

*Muara Container Terminal, Brunei.* In May 2009, ICTSI, through ICTSI Far East Pte. Ltd. (IFEPL), signed a Service Agreement and a Hand-Over Agreement for the operation and maintenance of Muara Container Terminal (Muara Terminal) in Brunei Darussalam. Under these agreements, ICTSI shall operate and maintain Muara Terminal for four years, which may be extended for one year at a time, for a maximum of two years. Muara Terminal is located at Muara Port, which is the main trade gateway for Brunei Darussalam, situated at the estuary of the Brunei River about 15 kilometers from the capital, Bandar Seri Begawan. ICTSI established New Muara Container Terminal Services Sdn Bhd (NMCTS) to develop, manage and operate Muara Terminal. NMCTS took over terminal operations on May 22, 2009.

*Pulau Muara Besar Container Terminal, Brunei.* In October 2008, ICTSI signed a Memorandum of Understanding with Brunei Economic Development Board (BEDB) for the design, construction and development of the new Pulau Muara Besar (PMB) Container Terminal in Brunei Darussalam. BEDB will award a Concession Agreement to ICTSI or its subsidiary to operate the PMB Container Terminal once it is completed and ready for commercial operations. Commercial operations in PMB have not yet started as of September 30, 2009.

*Port of La Plata, Argentina.* In November 2008, ICTSI, through ICTSI Ltd., acquired the concession to develop and manage the container terminal in the Port of La Plata, Argentina, through the acquisition of Edanfer S.A., a major stockholder of Tecplata, S.A. (Tecplata). Tecplata was granted the concession to build and operate an all-purpose port terminal at the port of La Plata by the Consorcio de Gestion del Puerto La Plata. Tecplata has not yet started commercial operations as of September 30, 2009.

*Makar Wharf, Port of General Santos City.* In July 2008, ICTSI acquired additional shares of South Cotabato Integrated Port Services, Inc. (SCIPSI) to increase its ownership to 50.08% from 35.70% and obtain control. SCIPSI has a ten-year contract with Philippine Ports Authority (PPA) up to 2016 for the exclusive management and operation of arrastre, stevedoring, bagging and crated cargo handling services at Makar Wharf, Port of General Santos in General Santos City.

*Mindanao Container Terminal, Phividec Industrial Estate, Misamis Oriental.* On April 25, 2008, ICTSI was awarded by the Phividec Industrial Authority the concession to operate and manage the Mindanao Container Terminal (MCT) for a period of 25 years until 2033. On May 14, 2008, ICTSI established Mindanao International Container Terminal Services, Inc. (MICTSI) to manage and operate MCT. MICTSI took over the terminal operations on June 26, 2008.

### 1.3 Subsidiaries

The subsidiaries include:

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership					
				2009		2008		2007	
				Direct	Indirect	Direct	Indirect	Direct	Indirect
International Container Terminal Holdings, Inc. (ICTHI) and Subsidiaries	Cayman Islands	Holding Company	US Dollar	100.00	-	100.00	-	100.00	-
Container Terminal Systems Solutions, Inc. (CTSSI)	Mauritius	Software Developer	US Dollar	-	100.00	-	100.00	-	100.00
ICTSI Ltd. and Subsidiaries	Bermuda	Holding Company	US Dollar	-	100.00	-	100.00	-	100.00
Baltic Container Terminal Ltd. (BCT)	Poland	Port Management	US Dollar	-	100.00	-	100.00	-	100.00
Tecon Suape, S.A. (TSSA)	Brazil	Port Management	Brazilian Reals	-	100.00	-	100.00	-	100.00
ICTSI Georgia Corporation (IGC)	Cayman Islands	Holding Company	US Dollar	-	100.00	-	100.00	-	100.00
Batumi International Container Terminal LLC (BICTL)	Georgia	Port Management	US Dollar	-	100.00	-	100.00	-	100.00
ICTSI Far East Pte. Ltd.	Singapore	Holding Company	US Dollar	-	100.00	-	100.00	-	100.00
NMCTS <sup>(a)</sup>	Brunei	Port Management	Brunei Dollar	-	100.00	-	-	-	-
PT Makassar Terminal Services, Inc. (MTS)	Indonesia	Port Management	Indonesian Rupiah	-	95.00	-	95.00	-	95.00
C. Ultramar, S.A. (CUSA)	Panama	Holding Company	US Dollar	-	100.00	-	100.00	-	100.00
Future Water, S.A. (FWSA)	Panama	Holding Company	US Dollar	-	100.00	-	100.00	-	100.00
Kinston Enterprise Corporation (KEC)	Panama	Holding Company	US Dollar	-	100.00	-	100.00	-	100.00
Sociedad Puerto Industrial de Aguadulce S.A. (SPIA)	Colombia	Port Management	Colombian Peso	-	91.17	-	91.17	-	79.11
International Ports of South America and Logistics SA (IPSAL) <sup>(b, c, d)</sup>	Uruguay	Holding Company	US Dollar	-	100.00	-	100.00	-	-
Tecplata <sup>(b, c)</sup>	Argentina	Port Management	Argentine Peso	-	75.00	-	75.00	-	-
ICTSI (Hongkong) Limited	Hongkong	Holding Company	US Dollar	-	100.00	-	100.00	-	100.00
Yantai Rising Dragon International Container Terminal Ltd. (YRDICTL)	China	Port Management	Renminbi	-	60.00	-	60.00	-	60.00
PT Container Terminal Systems Solutions Indonesia (PT CTSSI)	Indonesia	Software Developer	US Dollar	-	100.00	-	100.00	-	100.00
Australian International Container Terminals Limited (AICTL) <sup>(c)</sup>	Australia	Port Management	Australian Dollar	-	70.00	-	70.00	-	70.00
Pentland International Holdings, Ltd. (PIHL) <sup>(c)</sup>	British Virgin Island	Holding Company	US Dollar	-	100.00	-	100.00	-	99.90
Madagascar International Container Terminal Services, Ltd. (MICTSL)	Madagascar	Port Management	Malagasy Ariary	100.00	-	100.00	-	100.00	-
ICTSI Capital BV	Netherlands	Holding Company	US Dollar	100.00	-	100.00	-	100.00	-
Tartous International Container Terminal (TICT)	Syria	Port Management	Syrian Pound	100.00	-	100.00	-	100.00	-
Contecon Guayaquil, S.A. (CGSA)	Ecuador	Port Management	US Dollar	99.90	0.01	99.90	0.01	51.00	49.90

(Forward)

	Place of Incorporation	Nature of Business	Functional Currency	Percentage of Ownership					
				2009		2008		2007	
				Direct	Indirect	Direct	Indirect	Direct	Indirect
ICTSI Brazil	Bermuda	Holding Company	US Dollar	-	<b>100.00</b>	-	100.00	-	100.00
ICTSI Poland	Bermuda	Holding Company	US Dollar	-	<b>100.00</b>	-	100.00	-	100.00
Container Terminal de Venezuela Conterven CA (CTVCC)	Venezuela	Holding Company	US Dollar	-	<b>95.00</b>	-	95.00	-	95.00
Naha International Container Terminal, Inc. (NICTI)	Japan	Port Management	Japanese Yen	<b>60.00</b>	-	60.00	-	60.00	-
MICTSI <sup>(e)</sup>	Philippines	Port Management	Philippine Peso	<b>100.00</b>	-	100.00	-	-	-
Abbotstford Holdings, Inc. (AHI)	Philippines	Holding Company	Philippine Peso	<b>100.00</b>	-	100.00	-	100.00	-
Davao Integrated Port and Stevedoring Services Corporation (DIPSSCOR)	Philippines	Port Management	Philippine Peso	-	<b>96.95</b>	-	96.95	-	96.95
ICTSI Warehousing, Inc. (IWI) and Subsidiaries	Philippines	Warehousing	Philippine Peso	<b>100.00</b>	-	100.00	-	100.00	-
IW Cargo Handlers, Inc. (IW Cargo)	Philippines	Port Equipment Rental	US Dollar	-	<b>100.00</b>	-	100.00	-	100.00
Container Terminal Systems Solutions Philippines, Inc. (CTSSI Phils.)	Philippines	Software Developer	US Dollar	-	<b>100.00</b>	-	100.00	-	100.00
Bauan International Ports, Inc. (BIP)	Philippines	Port Management	Philippine Peso	-	<b>60.00</b>	-	60.00	-	60.00
Prime Staffing and Selection Bureau, Inc. <sup>(c)</sup>	Philippines	Manpower Recruitment	Philippine Peso	<b>100.00</b>	-	100.00	-	100.00	-
Subic Bay International Terminal Holdings, Inc. (SBITH)	Philippines	Holding Company	US Dollar	<b>83.33</b>	-	83.33	-	83.33	-
Subic Bay International Terminal Corporation (SBITC)	Philippines	Port Management	US Dollar	-	<b>83.33</b>	-	83.33	-	70.83
Cordilla Properties Holdings Inc. (Cordilla) <sup>(b)</sup>	Philippines	Holding Company	Philippine Peso	<b>100.00</b>	-	100.00	-	-	-
SCIPSI <sup>(f)</sup>	Philippines	Port Management	Philippine Peso	<b>35.70</b>	<b>14.38</b>	35.70	14.38	35.70	-
Cebu International Container Terminal, Inc. (CICTI) <sup>(c)</sup>	Philippines	Port Management	Philippine Peso	<b>51.00</b>	-	51.00	-	51.00	-

<sup>(a)</sup> Established in 2009.

<sup>(b)</sup> Acquired in 2008.

<sup>(c)</sup> Not yet started commercial operations.

<sup>(d)</sup> Formerly, Edanjer S.A (see Note 1.2).

<sup>(e)</sup> Established in 2008.

<sup>(f)</sup> Formerly an associate.

## 2. Basis of Preparation

### 2.1 Basis of Preparation

The unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2009 have been prepared in accordance with PAS 34, *Interim Financial Reporting*. The unaudited condensed consolidated financial statements are presented in United States dollar (US dollar, USD or US\$) (see Notes 2.2 and 2.3 below) and all values are rounded to the nearest thousands except when otherwise indicated.

The unaudited condensed consolidated financial statements do not include all information and disclosures required in the annual audited consolidated financial statements, and should be read in conjunction with the Group's annual audited consolidated financial statements as at and for the year ended December 31, 2008.

### 2.2 Change in Functional Currency

The Parent Company reassessed its functional currency and found that there were mixed indications of its functional currency. Following PAS 21, *The Effects of Changes in Foreign Exchange Rates*, when the indicators to determine an entity's functional currency are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Management believes that the combined factors of ICTSI, having (i) a significant portion of its revenue from port operations and costs and expenses in Manila denominated in US dollar; (ii) predominantly US dollar-denominated investing and financing activities towards the end of 2008; and (iii) significant US dollar-denominated concession fee commitments and forecasted US dollar investments and expansion projects, should make the US dollar as its functional currency effective January 1, 2009.

The change in functional currency of the Parent Company from Philippine peso (₱) to US dollar was adopted prospectively and the unaudited consolidated financial statements as at and for the three and nine months ended September 30, 2009 are presented in US dollar. Consequently, the comparative audited consolidated financial statements as at December 31, 2008 and the unaudited consolidated financial statements for the three and nine months ended September 30, 2008, expressed in Philippine peso, have been translated into US dollar in accordance with the translation procedures enumerated in Note 2.3 below.

The change in functional currency of the Parent Company resulted in : (i) translation of the unaudited consolidated financial statements for the three and nine months ended September 30, 2008 and the audited consolidated balance sheet as at December 31, 2008 into the US dollar presentation currency in accordance with the translation procedures enumerated in Note 2.3 below; (ii) recognition of translation difference arising from the change in functional currency of the Parent Company in the unaudited consolidated statement of changes in stockholders' equity for the nine months ended September 30, 2008 amounting to US\$53.7 million; (iii) recognition of net unrealized foreign exchange gain of US\$2.7 million; and (iv) recognition of the related net deferred income tax amounting to US\$0.8 million for the nine months ended September 30, 2009.

Had the Parent Company reassessed its functional currency to still be the Philippine peso, the unaudited consolidated net income for the three and nine months ended September 30, 2009 would have been ₱604.3 million (US\$12.6 million) and ₱1,596.6 million (US\$33.3 million), lower by ₱45.3 million (US\$0.9 million) or 7 percent and ₱93.5 million (US\$2.0 million) or 6 percent, respectively, of the reported unaudited net income in US dollar for the same period in 2009, primarily because of the effect of unrealized foreign exchange gains and losses arising from the restatement of the Parent Company's net US dollar-denominated monetary assets and US dollar-denominated concession rights payable, respectively .

The impact on the unaudited consolidated statements of income in 2009 would be as follows (amounts in thousands):

	For the Three Months Ended September 30			
	₱ as the Functional Currency	In US\$*	Impact of Change in Functional Currency	US\$ as the Functional Currency
<b>INCOME</b>				
Gross revenues from port operations	₱5,315,892	US\$110,502	(US\$33)	US\$110,469
Foreign exchange gain	(72,551)	(1,549)	3,507	1,958
Interest and other income	35,997	744	–	744
	5,279,338	109,697	3,474	113,171
<b>EXPENSES</b>				
Port authorities' share in gross revenues	753,872	15,672	–	15,672
Manpower costs	989,973	20,568	–	20,568
Depreciation and amortization	725,523	15,079	–	15,079
Administrative and other operating expenses	617,734	12,842	–	12,842
Equipment and facilities-related expenses	587,052	12,202	–	12,202
Foreign exchange loss	36,017	727	2,110	2,837
Interest and other expenses	590,817	12,270	–	12,270
	4,300,988	89,360	2,110	91,470
<b>CONSTRUCTION REVENUE (EXPENSE)</b>				
Construction revenue	918,624	19,078	–	19,078
Construction expense	(918,624)	(19,078)	–	(19,078)
	–	–	–	–
<b>INCOME BEFORE INCOME TAX</b>	978,350	20,337	1,364	21,701
<b>PROVISION FOR INCOME TAX</b>				
Current	371,906	7,736	–	7,736
Deferred	2,132	38	420	458
	374,038	7,774	420	8,194
<b>NET INCOME</b>	₱604,312	US\$12,563	US\$944	US\$13,507
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the parent	₱628,687	US\$13,068	US\$944	US\$14,012
Minority interests	(24,375)	(505)	–	(505)
	₱604,312	US\$12,563	US\$944	US\$13,507
<b>Earnings Per Share</b>				
Basic	₱0.333	US\$0.007	US\$–	US\$0.007
Diluted	0.322	0.007	–	0.007

\* Converted using the prevailing Php to US\$ average rates of exchange for the three months ended September 30, 2009 for each transaction.

	For the Nine Months Ended September 30			
	₱ as the Functional Currency	In US\$*	Impact of Change in Functional Currency	US\$ as the Functional Currency
<b>INCOME</b>				
Gross revenues from port operations	₱14,341,259	US\$299,219	US\$35	US\$299,254
Foreign exchange gain	687,987	14,355	4,785	19,140
Interest income and other income	174,768	3,646	–	3,646
	15,204,014	317,220	4,820	322,040
<b>EXPENSES</b>				
Port authorities' share in gross revenues	2,002,828	41,787	–	41,787
Manpower costs	2,897,268	60,449	–	60,449
Depreciation and amortization	2,027,854	42,310	–	42,310
Administrative and other operating expenses	1,662,496	34,688	–	34,688
Equipment and facilities-related expenses	1,594,701	33,272	–	33,272
Foreign exchange loss	580,090	12,103	2,047	14,150
Interest and other expenses	1,832,066	38,224	–	38,224
	12,597,303	262,833	2,047	264,880
<b>CONSTRUCTION REVENUE (EXPENSE)</b>				
Construction revenue	2,879,320	60,075	–	60,075
Construction expense	(2,879,320)	(60,075)	–	(60,075)
	–	–	–	–
<b>INCOME BEFORE INCOME TAX</b>	2,606,711	54,387	2,773	57,160
<b>PROVISION FOR INCOME TAX</b>				
Current	878,266	18,324	–	18,324
Deferred	131,813	2,750	822	3,572
	1,010,079	21,074	822	21,896
<b>NET INCOME</b>	₱1,596,632	US\$33,313	US\$1,951	US\$35,264
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the parent	₱1,688,191	US\$35,223	US\$1,951	US\$37,174
Minority interests	(91,559)	(1,910)	–	(1,910)
	₱1,596,632	US\$35,223	US\$1,951	US\$35,264
<b>Earnings Per Share</b>				
Basic	₱0.894	US\$0.019	(US\$0.001)	US\$0.020
Diluted	0.863	0.018	(0.001)	0.019

\* Converted using the prevailing Php to US\$ average rates of exchange for the nine months ended September 30, 2009 for each transaction.

### 2.3 Translation of 2008 Condensed Consolidated Financial Statements to US Dollar Presentation Currency

The audited consolidated balance sheet as at December 31, 2008 and the unaudited consolidated financial statements for the three and nine months ended September 30, 2008, expressed in Philippine peso, have been translated into US dollar presentation currency following the translation procedures in PAS 21 to show comparative US dollar information as follows:

- a. all assets and liabilities at the exchange rate prevailing at the balance sheet date;
- b. stockholders' equity items at historical exchange rates;
- c. revenue and expense items at the average rate during the period, which approximates the exchange rate prevailing at the time of transactions; and
- d. all resulting exchange differences are recognized as translation difference arising from change in functional currency of the parent as a separate component of other comprehensive income (loss).

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## **3. Summary of Significant Accounting Policies**

### 3.1 Basis of Consolidation

*Subsidiaries.* Subsidiaries are entities controlled by the Parent Company. The unaudited consolidated financial statements include the accounts of ICTSI and its subsidiaries where the Parent Company has effective control. In assessing effective control, the existence and effect of potential voting rights that are currently exercisable or convertible are considered. 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.

*Minority Interests.* Minority interests represent the portion of profit or loss and net assets in MTS, AICTL, SBITHI, BIPI, NICTI, CICTI, DIPSSCOR, YRDICTL, SPIA, SCIPSI and Tecplata, not held by the Group and are presented separately in the unaudited consolidated statement of income and within the equity section in the unaudited consolidated balance sheet, separate from parent shareholders' equity.

Acquisition, transfer and sale of minority interest are accounted for using the Entity Concept Method. Under the Entity Concept Method, the Group considers the acquisition of a minority interest as an equity transaction. No gain or loss is recognized in an acquisition of a minority 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 minority interests" account within the equity section of the unaudited consolidated balance sheet.

*Transactions Eliminated on Consolidation.* All significant intragroup balances, transactions, income and expenses, and profits and losses resulting from intragroup transactions are eliminated.

*Accounting Policies of Subsidiaries.* The financial statements of subsidiaries are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances.

*Functional and Presentation Currency.* As discussed in Note 2.1 above, the unaudited consolidated financial statements are presented in US dollar, which is ICTSI's functional and presentation currency effective January 1, 2009. 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, and items included in the financial statements of each entity are measured using that functional currency (see Note 1.3).

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 Philippine Dealing System (PDS) closing rate or Bangko Sentral ng Pilipinas (BSP) rate or Bloomberg closing rate at balance sheet date and, their statement of income are translated at the PDS, BSP or Bloomberg weighted average daily exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of other comprehensive income, under "Cumulative translation adjustments" account. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the unaudited consolidated statement of income.

The following rates of exchange have been adopted by the Group in translating foreign currency income statement and balance sheet items as of and for the nine months ended September 30:

	2009		2008	
	Closing	Average	Closing	Average
Foreign currency to 1 unit of				
US Dollar (USD or US\$):				
Argentine Peso (ARS)	<b>3.84</b>	<b>3.70</b>	–	–
Australian Dollar (AUD)	<b>1.13</b>	<b>1.33</b>	1.26	1.10
Brazilian Reals (BRL or R\$)	<b>1.77</b>	<b>2.08</b>	1.90	1.69
Brunei Dollar (BND)	<b>1.41</b>	<b>1.47</b>	–	–
Chinese Renminbi (RMB)	<b>6.83</b>	<b>6.83</b>	6.85	6.99
Colombian Peso (COP)	<b>1,919.72</b>	<b>2,216.94</b>	2,192.16	1,860.39
Georgian Lari (GEL)	<b>1.67</b>	<b>1.67</b>	1.41	1.47
Indonesian Rupiah (IRP)	<b>9,665.00</b>	<b>10,712.00</b>	9,506.00	9,245.00
Japanese Yen (JPY)	<b>89.70</b>	<b>94.88</b>	106.11	105.85
Malagasy Ariary (MGA)	<b>2,025.00</b>	<b>1,975.14</b>	1,670.00	1,676.97
Philippine Peso (PHP or ₱)	<b>47.39</b>	<b>47.93</b>	47.05	43.22
Syrian Pound (SYP)	<b>46.05</b>	<b>46.53</b>	51.02	51.06

### 3.2 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 new Philippine Financial Reporting Standard (PFRS) and amended Philippine Accounting Standards (PAS) mandatory for financial years beginning on or after January 1, 2009.

- Amendment to PAS 1, *Amendment on Statement of Comprehensive Income*, requires that the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity. In addition, the amendment to PAS 1 provides for the introduction of new statement of comprehensive income that combines all items of income and expense recognized in the statement of income together with other "comprehensive income." The revisions specify what is included in other comprehensive income, such as gains and losses on available-for-sale assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income.

Adoption of the amendments to PAS 1 resulted in the inclusion of unaudited consolidated

statement of comprehensive income that is linked to the unaudited consolidated statement of income. The unaudited consolidated statement of comprehensive income includes line items that present the amounts of each component of other comprehensive income classified by nature, gross of related income tax and an allocation of total comprehensive income attributable to equity holders of the parent and minority interests .

- PAS 23, *Amendment - Borrowing Costs*, which has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The Group capitalizes borrowing costs if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs should commence when: (i) expenditures for the asset and borrowing costs are being incurred; and (ii) activities 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 for each part ceases.

For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

Port facilities and equipment under construction or development presented under “Intangibles” account in the consolidated balance sheet are considered as qualifying assets. Adoption of this standard did not result in the restatement of the consolidated financial statements in prior years as it has been the Group’s policy to capitalize borrowing costs relating to qualifying assets (see Note 6).

- PAS 27, *Consolidated and Separate Financial Statements*, which has been amended to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. Adoption of this revised standard did not impact the consolidated financial statements of the Group.
- PFRS 8, *Operating Segments*, which requires an entity to report financial and descriptive information about its reportable segments. The Group reports geographical segments since management believes that this information is relevant to the nature of the Group’s business. Adoption of this new standard resulted in the regrouping of geographical operating segments into: (i) Asia; (ii) Europe, Middle East and Africa (EMEA); and (iii) Americas. Previously, operating segments were reported as domestic and foreign. The 2008 presentation was revised to conform to the new presentation of geographical segments.

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#### 4. Business Combinations and Acquisitions

##### Acquisition Recognized at Provisional Values

*Edanfer and Tecplata.* In August 2008, ICTSI, through ICTSI Ltd., acquired Edanfer S.A., a major stockholder of Tecplata. Tecplata was awarded the concession to build and operate an all-purpose port terminal at the port of La Plata by the Consorcio de Gestion del Puerto La Plata on November 10, 2008. The cost of acquisition is comprised of cash consideration amounting to US\$45.0 million and directly attributable costs amounting to US\$0.2 million. The entire consideration amounting to US\$45.2 million was treated as goodwill as the Group

is currently performing a valuation for the identifiable assets and liabilities and contingent liabilities of Tecplata at the date of acquisition.

As discussed in Note 1, Tecplata has not yet started commercial operations as of September 30, 2009.

The fair values of identifiable assets and liabilities of Tecplata on acquisition were provisional. The Group is in the process of determining the fair values of other assets and liabilities including contingent liabilities on this acquisition. Fair value adjustments will be made as soon as the Group completes the valuation of certain property and equipment and intangible assets and the accounting for other assets and liabilities and contingent liabilities of Tecplata at the date of acquisition.

*SCIPSI.* In July 2008, ICTSI acquired additional interest in SCIPSI, a former associate, through the acquisition of 100% ownership in Cordilla, which owned 14.38% interest in SCIPSI. Thereafter, ICTSI obtained control over SCIPSI. The acquisitions of shares in stages are accounted for separately using the cost of the transaction and fair value information at the date of each exchange transaction.

The total consideration paid for by ICTSI amounted to US\$0.5 million (₱18.3 million). The Group recognized the entire excess of total consideration over the fair values of SCIPSI's identifiable assets and liabilities as goodwill aggregating US\$0.4 million (₱14.7 million) in the consolidated balance sheets.

There were no business combinations or acquisitions within the nine months ended September 30, 2009.

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## 5. Operating Segments

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 business into three geographical segments:

- Asia - includes MICT, BIPI, DIPSSCOR, SCIPSI, SBITC and MICTSI in the Philippines, YRDICTL in China, MTS in Indonesia, NICTI in Japan, and NMCTS in Brunei, ICTHI, ICTSI Ltd and holding companies with regional area headquarters in the Philippines (see Note 1.3)
- EMEA - includes BCT in Poland, MICTSL in Madagascar, TICT in Syria, and BICTL in Georgia (see Note 1.3)
- Americas - includes TSSA in Brazil, CGSA in Ecuador, SPIA in Colombia and Tecplata in Argentina (see Note 1.3)

The tables below present financial information on geographical segments:

2009								
	As of and for the Three Months Ended September 30				As of and for the Nine Months Ended September 30			
	Asia	EMEA	Americas	Consolidated	Asia	EMEA	Americas	Consolidated
	<i>In US Dollar</i>							
Gross revenues	US\$56,260	US\$16,069	US\$38,140	US\$110,469	US\$151,561	US\$43,302	US\$104,391	US\$299,254
Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) <sup>a</sup>	26,340	5,649	17,196	49,185	70,400	13,005	45,653	129,058
Net income attributable to equity holders of the parent	7,735	(1,151)	7,428	14,012	22,942	(4,832)	19,064	37,174
Other information:								
Segment assets	US\$560,410	US\$144,758	US\$494,873	US\$1,200,041	US\$560,410	US\$144,758	US\$494,873	US\$1,200,041
Segment liabilities	514,450	68,960	121,400	704,810	514,450	68,960	121,400	704,810

<sup>a</sup> Detailed discussion on EBITDA and its components is included in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report

2008 (see Note 2.3)								
	As of and for the Three Months Ended September 30				As of and for the Nine Months Ended September 30			
	Asia	EMEA	Americas	Consolidated	Asia	EMEA	Americas	Consolidated
	<i>In US Dollar</i>							
Gross revenues	US\$58,660	US\$27,987	US\$38,433	US\$125,080	US\$166,639	US\$78,222	US\$107,392	US\$352,253
EBITDA <sup>a</sup>	27,780	12,286	15,772	55,838	78,808	35,016	41,102	154,926
Net income attributable to equity holders of the parent	8,888	4,378	1,434	14,700	22,759	16,768	12,864	52,391
Other information:								
Segment assets	US\$515,367	US\$166,497	US\$375,937	US\$1,057,801	US\$515,367	US\$166,497	US\$375,937	US\$1,057,801
Segment liabilities	387,552	70,966	135,605	594,123	387,552	70,966	135,605	594,123

2008								
	As of and for the Three Months Ended September 30				As of and for the Nine Months Ended September 30			
	Asia	EMEA	Americas	Consolidated	Asia	EMEA	Americas	Consolidated
	<i>In Philippine Peso</i>							
Gross revenues	P2,667,068	P1,270,913	P1,745,243	P5,683,224	P7,202,294	P3,380,833	P4,641,590	P15,224,717
EBITDA <sup>a</sup>	1,276,239	558,745	712,584	2,547,568	3,406,140	1,513,427	1,776,470	6,696,037
Net income attributable to equity holders of the parent	453,985	204,338	75,924	734,247	983,649	724,730	555,995	2,264,374
Other information:								
Segment assets	P24,248,021	P7,833,684	P17,687,836	P49,769,541	P24,248,021	P7,833,684	P17,687,836	P49,769,541
Segment liabilities	8,959,591	3,338,950	6,380,215	18,678,756	8,959,591	3,338,950	6,380,215	18,678,756

Segment assets and liabilities do not include assets and liabilities arising from current and deferred provisions for or benefit from income tax.

## 6. Concession Rights and Concession Rights Payable

Concession rights are presented as part of intangibles in the consolidated balance sheet. Concession rights include upfront fee payments recognized on the concession contracts, cost of port infrastructure constructed and port equipment purchased, and present value of future fixed fee considerations in exchange for the license or right to operate ports. Concession rights are amortized over the term of the concession agreements.

Upon recognition of the fair value of fixed fee on concession contracts, the Group also recognized the corresponding concession rights payable.

Additions to concession rights in 2009 pertain to acquisitions of port facilities and equipment and construction of various civil works.

Maturities of concession rights payable arising from the capitalization of fixed portion of port fees and upfront fees as at September 30, 2009 are as follows (amounts in thousands):

	Amount
2009	US\$2,721
2010	21,646
2011	23,304
2012	24,734
2013 onwards	134,307
Total	US\$206,712

Capitalized borrowing costs amounted to US\$3.8 million as at September 30, 2009 (see Note 8) and US\$2.9 million (P130.7 million) as at December 31, 2008 with capitalization rates ranging from 5.91% to 8.31% and 6.46% to 11.91%, respectively.

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## 7. Property and Equipment

Major additions to property and equipment include the transfer of transportation equipment and port facilities not accounted for as intangibles under International Financial Reporting Interpretation Committee (IFRIC) 12, *Service Concession Arrangements*, from advances to suppliers and contractors upon delivery of such transportation equipment and completion of port facilities in 2009 amounting to US\$18.5 million.

There were no major disposals or write-downs of property and equipment for the nine months ended September 30, 2009.

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## 8. Long-term Debt and Loans Payable

On May 20, 2009, ICTSI signed a three-year unsecured Term Loan Facility with a consortium of seven international banks for US\$150.0 million to partly refinance ICTSI Capital BV's US\$250.0 million Revolving and Term Loan Facility which then had an outstanding balance of US\$176.0 million. The Term Loan Facility, which bears an interest of 3.80 percent over the LIBOR, was fully drawn in June 2009.

ICTSI Capital BV obtained the Revolving and Term Loan Facility from a consortium of 21 international banks for a maximum credit facility of US\$250.0 million in 2007. The Revolving and Term Loan Facility had an interest of 0.80 percent over the LIBOR, subject for an increase depending on the Debt to EBITDA ratio for the relevant period and is payable in December 2010. However, on March 20 and 23, 2009, ICTSI Capital BV prepaid the Revolving and Term Loan Facility aggregating US\$74.0 million and on June 15 and 19, 2009, finally settled the remaining US\$176.0 million as discussed in the preceding paragraph. The related unamortized debt issuance cost upon final settlement amounting to US\$2.2 million was recognized as part of "Interest expense and financing charges on borrowings" account in the unaudited consolidated statement of income for the nine months ended September 30, 2009.

On April 15, 2009, ICTSI signed a five-year unsecured Term Loan Facility with Metropolitan Bank and Trust Company (MBTC Term Loan Facility) for US\$40.0 million for the financing of capital expenditures and general corporate purposes including the refinancing of existing obligations. The loan bears an interest of 3.50 percent over the LIBOR. The facility was fully drawn in April 2009.

On March 16, 2009, ICTSI availed the remaining US\$41.4 million (P2.0 billion) from its Term Loan Facility with Development Bank of the Philippines and Land Bank of the Philippines

(DBP-LBP Term Loan Facility). Proceeds from the DBP-LBP Term Loan Facility were used to finance various capital expenditures of the Group including the construction of Berth 6 at MICT and refinancing of existing obligations. As of September 30, 2009, ICTSI has fully availed the DBP-LBP Term Loan Facility aggregating US\$124.1 million (₱6.0 billion). Interest on the loan shall be the higher of (1) the sum of three months PDST -F Rate and 1.75% per annum (p.a.) spread, or (2) the BSP Reverse Repo Rate. DBP-LBP Term Loan Facility is unsecured.

In January, March, May and September 2009, certain peso-denominated term loans obtained by ICTSI from Philippine-based commercial banks, payable quarterly maturing in 2010 and 2011, were prepaid aggregating US\$9.3 million (₱443.9 million). These loans have interest rate fixed at 14.0 percent and 15.0 percent. As of September 30, 2009, outstanding balance amounted to US\$0.08 million (₱4.0 million).

Unamortized debt issuance cost related to the Group's outstanding long-term debt amounted to US\$7.2 million as at September 30, 2009. Weighted average interest rate on long-term loans for the nine months ended September 30, 2009 and 2008 was 5.8 percent and 5.9 percent, respectively.

Except for the additional availment of short-term loans by YRDICTL in 2009 amounting to US\$5.7 million (RMB39 million), the outstanding short-term loans as at December 31, 2008 were renewed or extended in 2009 to finance various working capital requirements of the Group. YRDICTL also used the proceeds from its short-term loans to finance various working capital requirements. These short-term loans are subject to repricing and bear interest ranging from 4.86 percent to 8.50 percent for the nine months ended September 30, 2009.

Total interest expense for the nine months ended September 30, 2009 amounted to US\$17.4 million, net of capitalized borrowing costs amounting to US\$3.8 million (see Note 6).

There were no material changes in the covenants related to the Group's loans and long-term debts. As at September 30, 2009, the Group is in compliance with its loan covenants.

Maturities of long-term debt, net of debt issue costs, as at September 30, 2009 are as follows (amounts in thousands):

	Amount
2009	US\$3,242
2010	6,427
2011	104,241
2012	140,694
2013 and onwards	143,201
<b>Total</b>	<b>US\$397,805</b>

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## 9. Financial Instruments

In 2009, ICTSI entered into floating-to-fixed and fixed-to-fixed cross-currency swap transactions to partially hedge both the foreign currency and interest rate exposures of its Philippine peso-denominated term loan facilities with carrying value of US\$141.5 million (₱6,705.0 million). The Philippine peso interest rate was fixed at an average US dollar rate of 5.33 percent p.a. The cross-currency swaps qualified under hedge accounting. As of September 30, 2009, the unrealized mark-to-market loss on these cross-currency swaps amounted to US\$3.4 million, which was shown in the unaudited consolidated balance sheet as derivative liabilities with an offsetting entry to cumulative translation adjustments.

Also in September 2009, ICTSI entered into a collar structure wherein it sold an option to sell US\$Php and at the same time bought an option to buy US\$Php . Outstanding options amounted to US\$10.0 million as at September 30, 2009. This collar structure does not impact the unaudited consolidated financial statements for the nine months ended September 30, 2009.

Also in 2009, ICTSI recycled the unrealized mark -to-market loss on its interest rate swap to the unaudited consolidated statement of income shown under “Other expenses” account amounting to US\$1.5 million for the nine months ended September 30, 2009. This interest rate swap has been terminated upon final settlement of ICTSI Capital BV’s Revolving and Term Loan Facility in June 2009 (see Note 8).

ICTSI also has outstanding foreign currency forwards with notional amount of US\$14.5 million to hedge its foreign currency exposure and which qualify under hedge accounting. The related unrealized mark-to-market value amounting to US\$1.8 million was deferred and charged to equity under “Cumulative translation adjustment” account as at September 30, 2009.

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## 10. Stockholders’ Equity

### 10.1 Stock Incentive Plan (SIP)

On March 10, 2009, the Stock Incentive Committee granted additional 12,770,000 shares of stock awards to officers and directors of ICTSI and ICTSI Ltd., 50% of which will vest on March 10, 2010 while another 50% will vest on March 10, 2011. The fair value of the shares was US\$0.2 (₱10.5) at the date of grant.

Total number of shares granted under the SIP aggregated 23,251,000 shares as at September 30, 2009.

Total compensation expense recognized on the vesting of the fair value of stock awards amounted to US\$0.5 million and US\$1.1 million for the three and nine months ended September 30, 2009, respectively and US\$0.7 million and US\$2.3 million for the three and nine months ended September 30, 2008.

### 10.2 Cost of Shares Held by Subsidiaries

In 2009, IWI acquired 16.6 million ICTSI shares. The acquisition of ICTSI shares increased common shares held by subsidiaries by US\$3.8 million in 2009.

### 10.3 Dividends Declared and Paid

On April 16, 2009, the Board of Directors of ICTSI declared a US\$0.01 or ₱0.40 cash dividend per share to stockholders of record dated May 7, 2009. Dividends were paid on May 18, 2009.

## 10.4 Other Comprehensive Income (Loss)

This account consists of:

	Cumulative Translation Adjustments	Translation Difference Arising from Change in Functional Currency of the Parent	Unrealized Mark-to-Market Gain on Available-for- Sale Investments	Total Comprehensive Income (Loss)
<i>In US Dollar</i>				
Balance at January 1, 2009	(US\$14,602)	(US\$53,654)	US\$10	(US\$68,246)
Translation differences arising from translation of foreign operations' financial statements	20,561	–	–	20,561
Net change in unrealized mark-to-market values of derivatives	(7,914)	–	–	(7,914)
Unrealized mark-to-market gain on available-for-sale investments	–	–	86	86
Income tax relating to components of other comprehensive income	2,374	–	–	2,374
<b>Balance at September 30, 2009</b>	<b>US\$419</b>	<b>(US\$53,654)</b>	<b>US\$96</b>	<b>(US\$53,139)</b>
<i>In US Dollar (see Note 2.3)</i>				
Balance at January 1, 2008, as previously reported	(US\$39,041)	US\$–	US\$97	(US\$38,944)
Translation difference arising from the change in functional currency of the parent (see Note 2.3)	–	(53,654)	–	(53,654)
<b>Balance at January 1, 2008, as adjusted</b>	<b>(39,041)</b>	<b>(53,654)</b>	<b>97</b>	<b>(92,598)</b>
Translation differences arising from translation of foreign operations' financial statements	18,833	–	–	18,833
Net change in unrealized mark-to-market values of derivatives	(2,849)	–	–	(2,849)
Unrealized mark-to-market gain on available-for-sale investments	–	–	110	110
Income tax relating to components of other comprehensive income	855	–	–	855
<b>Balance at September 30, 2008</b>	<b>(US\$22,202)</b>	<b>(US\$53,654)</b>	<b>US\$207</b>	<b>(US\$75,649)</b>
<i>In Philippine Peso</i>				
Balance at January 1, 2008	(P1,898,456)	P–	P8,095	(P1,890,361)
Translation differences arising from translation of foreign operations' financial statements	813,971	–	–	813,971
Net change in unrealized mark-to-market values of derivatives	(123,141)	–	–	(123,141)
Unrealized mark-to-market gain on available-for-sale investments	–	–	4,745	4,745
Income tax relating to components of other comprehensive income	36,942	–	–	36,942
<b>Balance at September 30, 2008</b>	<b>(P1,170,684)</b>	<b>P–</b>	<b>P12,840</b>	<b>(P1,157,844)</b>

## 11. Contingencies

There are certain lawsuits and labor cases filed against the Parent Company and certain subsidiaries and tax-related contingencies in the normal course of business. Management and its legal counsel believe that the Group has substantial legal and factual bases for its position and is of the opinion that losses arising from these cases, if any, will not have a material adverse impact on the Group's financial condition and results of operations.

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## 12. Seasonality

The container terminal industry has historically experienced seasonal variations. This seasonality may result in quarter-to-quarter or period-to-period volatility in our operating results. Trade volumes in the jurisdictions in which the Group operates tend to be stronger in the third and fourth quarters and weaker in the first quarter. Management believes that such seasonal variations have no material effect on the results of operations of the Group.

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## 13. Earnings Per Share Computation

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2009	2008 (see Note 2.3)		2009	2008 (see Note 2.3)	
	<i>In US Dollar</i>	<i>In Philippine Peso</i>		<i>In US Dollar</i>	<i>In Philippine Peso</i>	
Net income attributable to equity holders of the parent (a)	<b>US\$14,012,679</b>	US\$14,700,034	₱734,247,063	<b>US\$37,174,440</b>	US\$52,390,592	₱2,264,373,791
Common shares outstanding at beginning of year	<b>1,992,066,860</b>	1,992,066,860	1,992,066,860	<b>1,992,066,860</b>	1,992,066,860	1,992,066,860
Weighted shares held by subsidiaries and treasury shares	<b>(103,766,867)</b>	(91,055,550)	(91,055,550)	<b>(103,766,867)</b>	(91,055,550)	(91,055,550)
Weighted average shares outstanding (b)	<b>1,888,299,993</b>	1,901,011,310	1,901,011,310	<b>1,888,299,993</b>	1,901,011,310	1,901,011,310
Effect of dilutive stock options	<b>67,062,799</b>	73,342,299	73,342,299	<b>67,062,799</b>	73,342,299	73,342,299
Weighted average shares outstanding adjusted for potential common shares (c)	<b>1,955,362,792</b>	1,974,353,609	1,974,353,609	<b>1,955,362,792</b>	1,974,353,609	1,974,353,609
<b>Basic earnings per share (a/b)</b>	<b>US\$0.007</b>	US\$0.008	₱0.386	<b>US\$0.020</b>	US\$0.028	₱1.191
<b>Diluted earnings per share (a/c)</b>	<b>US\$0.007</b>	US\$0.007	₱0.372	<b>US\$0.019</b>	US\$0.027	₱1.147

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## 14. Cash Flow Information

The transfer of advances to suppliers and contractors, presented under other noncurrent assets account to property and equipment, discussed in Note 7, amounting to US\$18.5 million did not form part of investing activities in 2009. It was included as part of increase in other noncurrent assets in the audited consolidated statement of cash flows for the year ended December 31, 2008.

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## 15. Reclassification of Accounts

Certain intangibles and property and equipment were reclassified as of December 31, 2008 to conform to the presentation as of September 30, 2009.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis relates to the consolidated financial condition and results of operations of ICTSI and its majority-owned subsidiaries (collectively known as "ICTSI Group") and should be read in conjunction with the accompanying interim unaudited consolidated financial statements and related notes. References to "ICTSI", "the Company", and "Parent Company" pertain to ICTSI Parent Company, while references to "the Group" pertain to ICTSI and its consolidated subsidiaries.

### **2.1 Overview**

The Company 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 1,500,000 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 September 30, 2009, the Company operated a total of 16 terminal facilities, six in the Philippines and one each in Brazil, Poland, Madagascar, Japan, Indonesia, China, Ecuador, Syria, Georgia and Brunei. It recently concluded agreements to operate the design, construction and development of the new Pulau Muara Besar Container Terminal and Muara Container Terminal in Brunei and acquired the concession to develop and manage the container terminal in the Port of La Plata in Argentina.

ICTSI was established in 1987 in connection with the privatization of 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. Since 2002, international acquisitions, principally in Brazil, Poland, Madagascar and Ecuador, substantially contributed in the growth in revenues 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 (MICT)
  - Zambales – NSD Terminal, Subic Bay Freeport Zone, Olongapo City (SBITC)
  - Batangas – Bauan Terminal, Bauan (BIPI)
  - Davao – Sasa International Port, Davao City (DIPSSCOR)
  - General Santos – Makar Wharf, Port of General Santos (SCIPSI)
  - Misamis Oriental – Phividec Industrial Estate, Tagaloan (MICTSI)
  - Japan – Naha Port Public International Container Terminal in Okinawa, Japan (NICTI)
  - Indonesia – Makassar Port Container Terminal, Makassar, South Sulawesi, Indonesia (MTS)
  - China – Yantai Gangtong Terminal, Shandong Province, China (YRDICTL)
  - Brunei – Muara Container Terminal (NMCTS)
  
- Europe, Middle East and Africa (EMEA)
  - Poland – Baltic Container Terminal in Gdynia, Poland (BCT)
  - Madagascar – Port of Toamasina in Toamasina, Madagascar (MICTSL)
  - Syria – Tartous International Container Terminal (TICT) in Tartous, Syria
  - Georgia – Batumi International Container Terminal LLC (BICTL) in Batumi, Georgia

- Americas
  - Brazil – Suape Container Terminal in Suape, Brazil (TSSA)
  - Ecuador – Port of Guayaquil in Guayaquil, Ecuador (CGSA)

In May 2009, ICTSI through ICTSI Far East Pte. Ltd., signed a Service Agreement and a Hand-Over Agreement for the operation and maintenance of the Muara Container Terminal (Muara Terminal) in Brunei Darussalam. Under these agreements, ICTSI shall operate and maintain Muara Terminal for four years, which may be extended for one year at a time, for a maximum of two years. Muara Terminal is located at Muara Port, which is the main trade gateway for Brunei Darussalam, situated at the estuary of the Brunei River about 15 kilometers from the capital, Bandar Seri Begawan. ICTSI established New Muara Container Terminal Services Sdn Bhd (NMCTS) to develop, manage and operate Muara Terminal. NMCTS took over operations on May 22, 2009.

In October 2008, ICTSI signed a Memorandum of Understanding with BEDB for the design, construction and development of the new Pulau Muara Besar Container Terminal (PMB) in Brunei Darussalam. BEDB will award a Concession Agreement to ICTSI or its subsidiary to operate the PMB Container Terminal once it is completed and ready for commercial operations. Commercial operations in PMB have not yet started as of September 30, 2009.

In November 2008, ICTSI, through ICTSI Ltd., acquired the concession to develop and manage the container terminal in the Port of La Plata, Argentina, through the acquisition of Edanfer S.A. (later renamed as International Ports of South America and Logistics S.A.), which is a major stockholder of Tecplata, S.A. (Tecplata). Tecplata was granted the concession to build and operate an all-purpose port terminal at the port of La Plata by the Consorcio de Gestion del Puerto La Plata. Tecplata has not yet started commercial operations as of September 30, 2009.

On April 25, 2008, ICTSI was awarded by the Phividec Industrial Authority (PIA) the concession to operate and manage the Mindanao Container Terminal (MCT) for a period of 25 years until 2033. On

May 14, 2008, ICTSI established Mindanao International Container Terminal Services, Inc. (MICTSI) to manage and operate MCT. MICTSI took over the terminal operations on June 26, 2008.

In July 2008, ICTSI acquired additional shares of South Cotabato Integrated Port Services, Inc. (SCIPSI) to increase its ownership to 50.08 percent from 35.70 percent and obtain control. SCIPSI has a ten-year contract with PPA, or until 2016, for the exclusive management and operation of arrastre, stevedoring, bagging and crated cargo handling services at Makar Wharf, Port of General Santos in General Santos City.

## 2.2 RESULTS OF OPERATIONS

Effective January 1, 2009, ICTSI changed its functional currency from Philippine peso to US dollar (see Note 2 to the unaudited consolidated financial statements for explanation). The change was treated prospectively from January 1, 2009 and accordingly, the 2008 results of operations, financial condition and cash flows were translated to US dollars based on the translation procedures enumerated in Note 2.3 to the unaudited consolidated financial statements.

**Table 2.1 Unaudited Consolidated Statements of Income**

<i>In thousands, except % change data</i>	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Gross revenues from port operations	<b>US\$110,469</b>	US\$125,080	(11.7)	<b>US\$299,254</b>	US\$352,253	(15.0)
Revenues from port operations, net of port authorities' share	<b>94,797</b>	108,445	(12.6)	<b>257,467</b>	305,408	(15.7)
Total income (net revenues, interest and other income)	<b>97,499</b>	120,216	(18.9)	<b>280,253</b>	342,874	(18.3)
Total expenses (operating, financing and other expenses)	<b>75,798</b>	95,158	(20.3)	<b>223,094</b>	266,601	(16.3)
EBITDA <sup>1</sup>	<b>49,185</b>	55,838	(11.9)	<b>129,058</b>	154,926	(16.7)
EBIT <sup>2</sup>	<b>34,106</b>	43,548	(21.7)	<b>86,748</b>	115,112	(24.6)
Net income attributable to equity holders of the parent	<b>14,012</b>	14,700	(4.7)	<b>37,174</b>	52,391	(29.0)
<b>Earnings per share</b>						
Basic	<b>US\$0.007</b>	US\$0.008	(12.5)	<b>US\$0.020</b>	US\$0.028	(28.6)
Diluted	<b>0.007</b>	0.007	-	<b>0.019</b>	0.027	(29.6)

<sup>1</sup> 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 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.

<sup>2</sup> 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 shows the computation of EBITDA as derived from the Group's net income for the period:

**Table 2.2 EBITDA Computation**

<i>In thousands, except % change data</i>	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Net income attributable to equity holders of the parent	<b>US\$14,012</b>	US\$14,700	(4.7)	<b>US\$37,174</b>	US\$52,391	(29.0)
Minority interests	<b>(505)</b>	(1,063)	(52.5)	<b>(1,910)</b>	(3,145)	(39.3)
Provision for income tax	<b>8,194</b>	11,421	(28.3)	<b>21,896</b>	27,027	(19.0)
Income before income tax	<b>21,701</b>	25,058	(13.4)	<b>57,160</b>	76,273	(25.1)
Add (deduct):						
Depreciation and amortization	<b>15,079</b>	12,290	22.7	<b>42,310</b>	39,814	6.3
Interest and other expenses	<b>15,107</b>	30,261	(50.1)	<b>52,374</b>	76,305	(31.4)
Interest and other income	<b>(2,702)</b>	(11,771)	(77.0)	<b>(22,786)</b>	(37,466)	(39.2)
<b>EBITDA</b>	<b>US\$49,185</b>	US\$55,838	(11.9)	<b>US\$129,058</b>	US\$154,926	(16.7)

The pro-forma unaudited consolidated statements of income for the three and nine months ended September 30, 2009 and 2008 in Philippine peso, had the Group not changed its functional currency to US dollar, are as follows:

**Table 2.3 Pro-forma Unaudited Consolidated Statements of Income in Philippine Peso**  
(In thousands, except % change data)

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Gross revenues from port operations	<b>₱5,315,892</b>	₱5,683,224	(6.5)	<b>₱14,341,259</b>	₱15,224,717	(5.8)
Revenues from port operations, net of port authorities' share	<b>4,562,020</b>	4,927,374	(7.4)	<b>12,338,431</b>	13,200,013	(6.5)
Total income (net revenues, interest and other income)	<b>4,525,466</b>	5,920,546	(23.6)	<b>13,201,186</b>	14,819,337	(10.9)
Total expenses (operating, financing and other expenses)	<b>3,547,116</b>	4,715,740	(24.8)	<b>10,594,475</b>	11,522,784	(8.1)
EBITDA	<b>2,367,261</b>	2,547,568	(7.1)	<b>6,183,966</b>	6,696,037	(7.6)
EBIT	<b>1,641,738</b>	1,931,920	(15.0)	<b>4,156,112</b>	4,975,216	(16.5)
Net income attributable to equity holders of the parent	<b>628,687</b>	734,247	(14.4)	<b>1,688,191</b>	2,264,374	(25.4)
<b>Earnings per share</b>						
Basic	<b>₱0.333</b>	₱0.386	(13.7)	<b>₱0.894</b>	₱1.191	(24.9)
Diluted	<b>0.322</b>	0.372	(13.4)	<b>0.863</b>	1.147	(24.8)

## 2.3 OPERATING RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED WITH THE SAME PERIOD IN 2008

### 2.3.1 TEU VOLUME

The following table depicts the Group's consolidated volume for the three months ended September 30, 2009 and in the same period in 2008:

**Table 2.4 Consolidated Volume**

	For the Three Months Ended September 30		
	2009	2008	% Change
Asia	<b>597,076</b>	599,729	(0.4)
EMEA	<b>114,130</b>	183,882	(37.9)
Americas	<b>232,599</b>	237,888	(2.2)
<b>Total</b>	<b>943,805</b>	1,021,499	(7.6)
MICT	<b>364,288</b>	400,787	(9.1)
CGSA	<b>161,665</b>	148,213	9.1
BCT	<b>59,869</b>	126,156	(52.5)
TSSA	<b>70,934</b>	89,675	(20.9)
MICTSL	<b>37,820</b>	34,486	9.7
Others	<b>249,229</b>	222,182	12.2
<b>Total</b>	<b>943,805</b>	1,021,499	(7.6)

Consolidated volume handled for the third quarter of the year declined by 7.6 percent year-on-year to 943,805 TEUs from 1,021,499 TEUs in the same period of last year. The decrease was mainly due to the weaker international trade resulting from the global economic crisis. Key terminals, namely MICT, CGSA, BCT, TSSA and MICTSL, suffered a 13.1 percent year-on-year volume contraction. Third quarter 2009 posted the highest volume in the current year, or 24.8 percent and 13.1 percent better than first quarter and second quarter throughput, respectively.

Volume throughput from the Group's Asian port operations was relatively flat at 597,076 TEUs in the third quarter of the year against 599,729 in the same period in 2008. Among the Group's Asian port terminals, YRDICTL, DIPSSCOR and SCIPSI reported a double-digit growth in volume, posting 42.8 percent, 40.2 percent and 12.3 percent year-on-year surge in throughput, respectively. Asian operations contributed 63.3 percent to the Group's consolidated volume from last year's 58.7 percent.

Volume of EMEA port operations weakened by 37.9 percent to 114,130 TEUs during the third quarter from 183,882 TEUs in the same period last year mainly due to the volume contraction at BCT. BCT suffered mainly from the competition with the new entrant in Gdansk, Poland. Meanwhile, TICT had a notable performance, reporting throughput growth of 45.9 percent from last year. MICTSL, one of the key terminals, also posted a positive growth of 9.7 percent over last year. BICT, which contributed about 2.0 percent of volume of EMEA operations, reported a drop of 83.3 percent in volume in the third quarter over the same period a year ago. EMEA operations contributed 12.1 percent to the total consolidated volume from last year's 18.0 percent.

Volume operated from the Group's Americas port operations decreased by 2.2 percent to 232,599 TEUs during the third quarter from 237,888 TEUs in the previous year mainly due to the 20.9 percent decline in TSSA's throughput. Contrary to TSSA's decline in volume, CGSA again posted a positive growth for the quarter, or a 9.1 percent increase year-on-year. Americas operations contributed 24.6 percent to the total consolidated volume during the third quarter from 23.3 percent in the same period in 2008.

MICT, the Group's flagship and operated by the Parent Company, handled 364,288 TEUs in the third quarter of the year or a decline of 9.1 percent compared with 400,787 TEUs in the same period in 2008. The decline in volume resulted mainly from the drop in both imports and exports as a result of weaker foreign trade. However, third quarter volume was the highest in the current year. MICT accounted for 38.6 percent of the Group's consolidated volume.

Volume handled at CGSA, Port of Guayaquil, posted at 161,665 TEUs in the third quarter of the year or an increase of 9.1 percent from 148,213 TEUs in the same period of last year. Both exports and imports, particularly commodities, showed signs of improvement during the quarter. CGSA is the second largest terminal of the Group in terms of volume, contributing 17.1 percent to the consolidated volume.

Volume throughput at BCT, Port of Gdynia, registered at 59,869 TEUs during the third quarter of the year. This was a decline of 52.5 percent from last year's 126,156 mainly due to the effects of global economic slump and competition particularly with the new terminal in Gdansk, Poland. However, volume posted for the quarter was the highest in the current year. BCT's volume accounts for 6.3 percent of the consolidated volume.

TSSA, the Port of Suape, operated a volume of 70,934 TEUs during the quarter, or lower by 20.9 percent from last year's volume of 89,675 TEUs. The decline in volume mainly resulted from the slowdown in foreign trade, most notably, low yielding transshipment. Volume posted for the quarter was also the highest in the current year. TSSA's volume accounts for 7.5 percent of the consolidated volume.

Volume managed at MICTSL, Port of Toamasina in Madagascar, rebounded at 37,820 TEUs in the third quarter of the year after two consecutive quarters of decline, or an increase of 9.7 percent compared with last year's volume of 34,486 TEUs. Increase in throughput was mainly driven by the improvement in imports and the shift of mode of importation from breakbulk to containerized cargo. MICTSL's volume accounts for 4.0 percent of the consolidated volume.

## 2.3.2 TOTAL INCOME

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

The table below illustrates the consolidated total income for the three months ended September 30, 2009 and in the same period in 2008:

**Table 2.5 Total Income** (In thousands, except % change data)

	For the Three Months Ended September 30			
	2009	2008		% Change
	In US Dollar	In Philippine Peso		
Gross revenues from port operations	<b>US\$110,469</b>	US\$125,080	₱5,683,224	(11.7)
Port authorities' share in gross revenues	<b>15,672</b>	16,635	755,850	(5.8)
Net revenues	<b>94,797</b>	108,445	4,927,374	(12.6)
Interest income	<b>638</b>	1,124	50,252	(43.2)
Foreign exchange gain	<b>1,958</b>	10,318	927,676	(81.0)
Other income	<b>106</b>	329	15,244	(67.8)
<b>Total income</b>	<b>US\$97,499</b>	US\$120,216	₱5,920,546	(18.9)

Net revenues and foreign exchange gain accounted for 97.2 percent and 2.0 percent, respectively, of the total consolidated income during the third quarter of 2009 compared with 90.2 percent and 8.6 percent, respectively, in the same period of 2008.

### 2.3.2.1 Gross Revenues from Port Operations

The table below illustrates the Group's gross revenues for the third quarter of 2009 and in the same period of last year:

**Table 2.6 Gross Revenues** (In thousands, except % change data)

	For the Three Months Ended September 30			
	2009	2008		% Change
	In US Dollar	In Philippine Peso		
Asia	<b>US\$56,260</b>	US\$58,660	₱2,667,068	(4.1)
EMEA	<b>16,069</b>	27,987	1,270,913	(42.6)
Americas	<b>38,140</b>	38,433	1,745,243	(0.8)
<b>Total</b>	<b>US\$110,469</b>	US\$125,080	₱5,683,224	(11.7)
MICT	<b>US\$45,921</b>	US\$50,814	₱2,315,363	(9.6)
CGSA	<b>23,265</b>	19,447	887,795	19.6
TSSA	<b>14,875</b>	18,986	857,451	(21.7)
BCT	<b>5,638</b>	16,827	761,752	(66.5)
MICTSL	<b>8,570</b>	8,812	403,324	(2.7)
Others	<b>12,200</b>	10,194	457,539	19.7
<b>Total</b>	<b>US\$110,469</b>	US\$125,080	₱5,683,224	(11.7)

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

Consolidated gross revenues from port operations for the third quarter of the year declined by 11.7 percent to US\$110.5 million from US\$125.1 million in the same period of last year principally due to the contraction in TEU throughput at key terminals. Meanwhile, Philippine peso depreciated versus the US dollar by 4.3 percent to ₱48.083 in the third quarter of 2009 from ₱46.096 in the same period in 2008. Excluding the foreign exchange translation impact during the quarter, gross revenues should have declined by only 7.9 percent. Among the key terminals, only CGSA posted a positive growth in gross revenues, or an increase of 19.6 percent year-on-year.

Meanwhile, TICT, DIPSSCOR, and YRDICTL performed remarkably during the quarter, posting 72.9 percent, 52.9 percent and 18.3 percent surge in gross revenues, respectively.

Gross revenues from Asian port operations declined by 4.1 percent to US\$56.3 million during the third quarter of the year from US\$58.7 million in the same period in 2008 mainly due to the drop in TEU volume at MICT and the weakening of Philippine peso versus the US dollar. Asian port operations account for 50.9 percent of the Group's consolidated gross revenues in the third quarter of the year.

Gross revenues from EMEA port operations decreased by 42.6 percent to US\$16.1 million during the third quarter from US\$28.0 million in the same period last year mainly due to the decline in volume at BCT. Among the Group's EMEA terminals, TICT registered a growth in gross revenues by posting an exceptional increase of 72.9 percent year-on-year and MICTSL posting only 2.7 percent decline in third quarter compared with double-digit declines in the past two consecutive quarters. EMEA port operations contributed 14.5 percent to the Group's consolidated gross revenues during the third quarter of 2009.

Gross revenues from the Americas port operations marginally declined by 0.8 percent to US\$38.1 million during the third quarter from US\$38.4 million in the same period in 2008. The decline in gross revenues mainly resulted from the decline in TSSA revenues due to volume contraction. These operations contributed 34.5 percent to the Group's consolidated gross revenues in the third quarter of the year.

Gross revenues of MICT declined by 9.6 percent in the third quarter of 2009 compared with the same period in 2008 primarily because of the drop in volume and the 4.3 percent depreciation of the Philippine peso versus the US dollar. However, tariff increase of 7 percent in stevedoring in January 2009 and 8 percent in arrastre in May 2009 tapered off the decline in gross revenues during the third quarter of the year. MICT is the largest terminal of the Group, contributing 41.6 percent to the consolidated gross revenues in the third quarter of 2009.

CGSA's gross revenues surged by 19.6 percent year-on-year primarily because of the increase in TEU throughput and higher yields in storage and other services related to banana cargoes. New equipment and infrastructure and reinforced berths at CGSA also improved the terminal's productivity and profitability. CGSA is the second largest terminal of the Group in terms of revenues, contributing 21.1 percent to the consolidated revenues during the third quarter.

TSSA's gross revenues decreased by 21.7 percent year-on-year primarily due to the decline in volume and the weakening of Brazilian real versus the US dollar. Brazilian real depreciated 15.1 percent in the third quarter of 2009 over the same period of last year. TSSA's gross revenues account for 13.5 percent of the consolidated gross revenues during the third quarter of the year.

BCT's gross revenues decreased by 66.5 percent year-on-year mainly on the account of significant volume contraction. BCT accounts for 5.1 percent of the Group's consolidated gross revenues.

MICTSL's gross revenues, despite its 9.7 percent growth in volume, declined by 2.7 percent mainly on the account of unfavorable foreign currency translation as Malagasy ariary depreciated by 21.4 percent year-on-year against US dollar and 14.5 percent against the Euro in the third quarter of 2009 from a year ago. MICTSL contributed 7.8 percent to the consolidated gross revenues in the third quarter of the year.

### 2.3.2.2 Interest Income, Foreign Exchange Gain and Other Income

Consolidated interest income decreased by US\$486 thousand, or 43.2 percent, to US\$638 thousand in the quarter ended September 30, 2009 from US\$1.1 million in the same quarter of the previous year mainly due to lower average cash balance during the third quarter of the year, particularly at the Parent level.

Foreign exchange gain decreased by US\$8.4 million, or 81.0 percent, to US\$2.0 million in the third quarter of the year from US\$10.3 million in the same quarter of last year primarily due to the substantial winding down of hedging activities during the year. Foreign exchange gain also arises from settlement of foreign currency-denominated assets and liabilities and translation or restatement adjustments of monetary assets and liabilities. The appreciation of Brazilian real, Colombian peso, Indonesian rupiah and Syrian pound against the US dollar from June to September 2009 resulted in net unrealized foreign exchange gain of US\$2.8 million.

Other income declined by US\$223 thousand or by 67.8 percent to US\$106 thousand in the third quarter of the year from US\$329 thousand in the same period of last year. Other income is composed of rental and other sundry income accounts of ICTSI and subsidiaries.

### 2.3.3 TOTAL EXPENSES

Consolidated expenses for the quarter ended September 30, 2009 amounted to US\$75.8 million or 20.3 percent lower than the US\$95.2 million expenses in the same quarter of last year. The table below shows the breakdown of total expenses for the third quarter of 2009 and 2008.

**Table 2.7 Total Expenses** (In thousands, except % change data)

	For the Three Months Ended September 30			
	2009	2008		% Change
	In US Dollar	In Philippine Peso		
Manpower costs	<b>US\$20,568</b>	US\$22,374	₱1,020,047	(8.1)
Equipment and facilities-related expenses	<b>12,202</b>	16,881	751,591	(27.7)
Administrative and other operating expenses	<b>12,842</b>	13,352	608,168	(3.8)
Total cash operating expenses	<b>45,612</b>	52,607	2,379,806	(13.3)
Depreciation and amortization	<b>15,079</b>	12,290	615,648	22.7
Interest expense and financing charges on borrowings	<b>6,440</b>	5,840	260,366	10.3
Interest expense on concession rights payable	<b>5,803</b>	8,971	303,414	(35.3)
Foreign exchange loss and others	<b>2,864</b>	15,450	1,156,506	(81.5)
Total expenses	<b>US\$75,798</b>	US\$95,158	₱4,715,740	(20.3)

Total cash operating expenses of the Group dropped 13.3 percent to US\$45.6 million during the third quarter of 2009 from US\$52.6 million in the same period of 2008. The decline was mainly due to the contraction in volume and the effect of cost containment measures that are being implemented across all terminals and cost centers. Specifically, the decline in total cash operating expenses resulted from the 27.7 percent reduction in equipment and facilities-related expenses.

### **2.3.3.1 Manpower Costs**

Manpower costs dropped by 8.1 percent to US\$20.6 million in the third quarter of the year from US\$22.4 million in the same period of last year. The decrease was mainly attributed to the decline in volume, particularly at key terminals. Manpower costs consist mainly of salaries, overtime, benefits, training and development and contracted services. This account represents 45.1 percent of total cash operating expenses in the third quarter of the year compared to 42.5 percent of last year.

### **2.3.3.2 Equipment and Facilities-related Expenses**

Equipment and facilities-related expenses plummeted by 27.7 percent to US\$12.2 million during the third quarter of the year from US\$16.9 million in the same period in 2008. The decline was mainly due to the reduction in volume and effective maintenance program, particularly at key terminals. All of the key terminals posted a double-digit drop in their equipment and facilities-related expenses. Equipment and facilities related expenses consist mainly of repairs and maintenance charges for equipment and facilities, power and light, technical and system development and maintenance expenses, tools expenses, equipment rentals, fuel and oil, and fixed fee expenses. This account represents 26.8 percent of total cash operating expenses during the third quarter of 2009 from 32.1 percent in the same period of the previous year.

### **2.3.3.3 Administrative and Other Operating Expenses**

Administrative and other operating expenses fell by 3.8 percent in the third quarter to US\$12.8 million from US\$13.4 million in the same quarter of last year. The decline was mainly due to the effect of cost-saving measures implemented across terminals and cost centers. This expense account stands for 28.2 percent of total cash operating expenses during the third quarter of the year from 25.4 percent in the same period of last year.

### **2.3.3.4 Depreciation and Amortization**

Depreciation and amortization expense increased by 22.7 percent to US\$15.1 million in the quarter ended September 30, 2009 compared to US\$12.3 million in the same quarter of last year. The increase was associated to the acquisition of port equipment, transportation equipment and improvements in facilities at CGSA, MICT and TSSA.

### **2.3.3.5 Interest and Financing Charges on Borrowings**

Interest and financing charges on borrowings increased by 10.3 percent to US\$6.4 million in the third quarter of 2009 from US\$5.8 million in the same period in 2008 primarily due to the higher level of debt during the quarter. Meanwhile, the increase in financing costs was partially reduced by the US\$730 thousand capitalized borrowing costs on qualifying assets for the third quarter of the year, which effectively resulted in a lower cost of debt capital. *(Please refer to item 2.7.2.1 Debt Financing for the full discussion of interest-bearing debts).*

### **2.3.3.6 Interest Expense on Concession Rights Payable**

Interest expense on concession rights payable declined by 35.3 percent to US\$5.8 million in the third quarter of the year from US\$9 million in the same period of last year mainly due to declining principal balance of concession rights payable.

### **2.3.3.7 Foreign Exchange Loss and Others**

Foreign exchange loss and others account declined by 81.5 percent to US\$2.9 million in the third quarter of 2009 from US\$15.4 million in the same period in 2008 mainly due to the substantial winding down of hedging activities and the strengthening of Colombian peso and Brazilian real against the US dollar in the third quarter of the year. Specifically, Brazilian real appreciated by 9.5 percent against the US dollar from June 30, 2009 to September 30, 2009. As of the end of the third quarter, there are no outstanding non-deliverable forwards that are classified as non-hedge. Foreign exchange loss mainly results from the translation or restatement as well as from the settlement of foreign currency-denominated monetary assets and liabilities.

### **2.3.4 EBITDA and EBIT**

Consolidated EBITDA for the third quarter of 2009 declined by 11.9 percent to US\$49.2 million compared to US\$55.8 million in the same quarter of the previous year. The drop in EBITDA was primarily due to the volume contraction experienced by the terminals. On the contrary, third quarter EBITDA is the highest for the current year. The year-on-year depreciation of Philippine peso versus the US dollar also dampened EBITDA growth by 3.8 percent. Excluding the unfavorable foreign exchange translation impact, EBITDA should have declined by only 8.1 percent. Despite the drop in EBITDA, however, the Group managed to maintain a solid 44.5 percent EBITDA margin during the quarter, or relatively flat from last year's 44.6 percent, on the back of tight cost controls.

Consolidated EBIT in the quarter ended September 30, 2009 declined by 21.7 percent to US\$34.1 million from US\$43.5 million in the same period in 2008. Removing the unfavorable foreign exchange translation impact, EBIT declined by only 18.3 percent. Meanwhile, EBIT margin decreased by almost four percentage points to 30.9 percent during the third quarter of 2009 from 34.8 percent in the same quarter in 2008 primarily due to volume contraction and increase in depreciation and amortization.

### **2.3.5 INCOME BEFORE INCOME TAX AND PROVISION FOR INCOME TAX**

Consolidated income before income tax for the third quarter of 2009 decreased by 13.4 percent to US\$21.7 million from US\$25.1 million in the same quarter of the previous year. Income before income tax as a percentage of total gross revenues stood at 19.6 percent or relatively the same when compared to 20.0 percent of the same period in 2008.

Consolidated provision for current and deferred income taxes decreased by 28.3 percent to US\$8.2 million in the third quarter of the year from US\$11.4 million in the same quarter in 2008 primarily due to the decline in gross revenues and change in income tax rate of MICT and other Philippine ports from 35 percent in 2008 to 30 percent in 2009. Effective tax rate in third quarter of the year declined to 37.8 percent from 45.6 percent a year ago. Meanwhile, excluding losses from terminals that do not have tax benefits, namely YRDICTL, TICT, BICT and SBITC, effective tax rate for the third quarter should have been 32.5 percent.

## 2.3.6 NET INCOME

Consolidated net income for the third quarter of 2009 decreased by only one percentage point to US\$13.5 million, from US\$13.6 million of the same period in 2008. The marginal decrease in consolidated net income despite the contraction in volume was mainly due to the decline in provision for income tax for the period and effective management of foreign currency exposures. In addition, translation of 2008 consolidated financial statements to US dollar from Philippine peso for comparative purposes resulted in the further decline of consolidated net income, or by 4.3 percent decrease year-on-year. Excluding the foreign exchange translation impact, consolidated net income should have increased by 3.3 percent. Consolidated net income as a percentage of gross revenues stood at 12.2 percent in the third quarter of 2009 compared with 10.9 percent in the same quarter in 2008.

Net income attributable to equity holders or net profits excluding minority interests for the third quarter of 2009 posted at US\$14.0 million, or 4.7 percent lower than the US\$14.7 million registered in the same period of the preceding year. Excluding foreign exchange transaction impact, net income attributable to equity holders should have remained flat at US\$14.6 million.

Basic and diluted earnings per share declined to US\$0.007 and US\$0.007 during the third quarter of 2009 from US\$0.008 and US\$0.007 in the same period of last year, respectively.

There were no significant elements of income or expense outside the Group's continuing operations in the third quarter of 2009.

## 2.4 OPERATING RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED WITH THE SAME PERIOD IN 2008

### 2.4.1 TEU VOLUME

The following table depicts the Group's consolidated volume for the nine months ended September 30, 2009 and in the same period in 2008:

**Table 2.8 Consolidated Volume**

	For the Nine Months Ended September 30		
	2009	2008	% Change
Asia	<b>1,604,787</b>	1,624,678	(1.2)
EMEA	<b>302,754</b>	504,906	(40.0)
Americas	<b>626,410</b>	647,389	(3.2)
<b>Total</b>	<b>2,533,951</b>	2,776,973	(8.8)
MICT	<b>996,988</b>	1,145,662	(13.0)
CGSA	<b>452,679</b>	435,668	3.9
BCT	<b>163,056</b>	344,749	(52.7)
TSSA	<b>173,731</b>	211,721	(17.9)
MICTSL	<b>92,622</b>	102,423	(9.6)
Others	<b>654,875</b>	536,750	22.0
<b>Total</b>	<b>2,533,951</b>	2,776,973	(8.8)

Consolidated volume handled for the first nine months of the year declined by 8.8 percent to 2,533,951 TEUs from 2,776,973 TEUs in the same period of last year. The decrease was mainly due to the fall in international trade resulting from the global economic crisis. Key terminals experienced a 16.1 percent year-on-year volume contraction and contributed 74.2 percent to the Group's consolidated volume. Meanwhile, new terminals, SCIPSI and MICTSI, which were consolidated in July 2008, contributed 110,805 TEUs during the first half of the current year, or 4.4 percent of the year-to-date September 30, 2009 consolidated volume. Excluding the impact of

these new terminals, consolidated volume for the nine months ended September 30, 2009 should have decreased by 12.7 percent year-on-year.

Volume throughput from the Group's Asian port operations marginally declined by 1.2 percent to 1,604,787 TEUs during the first nine months of the year compared to 1,624,678 TEUs in the same period in 2008. Volume handled by new terminals, SCIPSI and MICTSI, tapered off the contraction in volume of Asian port operations. Excluding the new terminals, volume of Asian ports should have declined by 8 percent year-on-year mainly due to the contraction in volume at MICT. Meanwhile, YRDICTL and DIPSSCOR registered a double-digit improvement in volume, posting 22.2 percent and 10.8 percent increase year-on-year. Asian operations contributed 63.3 percent to the Group's consolidated volume from last year's 58.5 percent.

Volume of EMEA port operations weakened by 40.0 percent to 302,754 TEUs in the first nine months of the year from 504,906 TEUs in the same period last year mainly due to the volume contraction at BCT. BCT suffered mainly from the decline in foreign trade and competition particularly with the new terminal in Gdansk, Poland. Meanwhile, TICT reported a good performance with a throughput growth of 44.8 percent from last year. BICT, which contributed about 2.2 percent of volume of EMEA operations posted a 78.1 percent decline in volume year-on-year. EMEA operations contributed 11.9 percent to the total consolidated volume from last year's 18.2 percent.

Volume operated from the Group's Americas port operations decreased by 3.2 percent to 626,410 TEUs during the first nine months from 647,389 TEUs primarily due to the contraction in volume at TSSA. These operations contributed 24.7 percent to the total consolidated volume during the first three quarters from 23.3 percent in the same period in 2008.

MICT, Port of Manila, handled 996,988 TEUs in the first nine months of 2009, or a decline of 13.0 percent from 1,145,662 TEUs in the same period of last year. The decline in volume mainly resulted from the drop in exports to the US and Japan, Philippines' major trading partners, as these economies and consumer demand slowed significantly. MICT accounted for 39.3 percent of the Group's consolidated volume as of year-to-date September 30, 2009.

Volume handled at CGSA, Port of Guayaquil, stood at 452,679 TEUs in the first three quarters of the year, or an increase of 3.9 percent from last year's 435,668 TEUs. International trade, particularly import of commodities, had improved during the second and third quarters of 2009 and this reversed the negative growth posted in the first quarter of the year. CGSA is the second largest terminal of the Group in terms of volume contributing 17.9 percent to the consolidated volume.

Volume throughput at BCT, Port of Gdynia, registered at 163,056 TEUs during the first nine months of the year. BCT's volume declined 52.7 percent from last year's 344,749 TEUs mainly due to the slowdown in global trade and the competition, particularly with the new terminal, in Gdansk, Poland. BCT's volume accounts for 6.4 percent of the consolidated volume.

TSSA, the Port of Suape, operated a volume of 173,731 TEUs in the first nine months of 2009, or 17.9 percent lower than last year's volume of 211,721 TEUs. The decline in TSSA's volume was mainly due to the drop in both domestic and international trade resulting from the global economic slowdown, mainly low yielding transshipment. TSSA's volume accounts for 6.9 percent of the consolidated volume.

Volume managed at MICTSL, Port of Toamasina in Madagascar, stood at 92,622 TEUs as of year-to-date September 30, 2009, a decline of 9.6 percent compared with last year's 102,423 TEUs. The decline was mainly due to the fall in global demand for commodities, garments and consumer goods during the year and the ongoing political uncertainty in the country. MICTSL's volume accounts for 3.7 percent of the consolidated volume.

## 2.4.2 TOTAL INCOME

The table below illustrates the consolidated total income for the first nine months of 2009 and in the same period in 2008:

**Table 2.9 Total Income** (In thousands, except % change data)

	For the Nine Months Ended September 30			
	2009	2008		% Change
	In US Dollar	In Philippine Peso		
Gross revenues from port operations	<b>US\$299,254</b>	US\$352,253	₱15,224,717	(15.0)
Port authorities' share in gross revenues	<b>41,787</b>	46,845	2,024,704	(10.8)
Net revenues	<b>257,467</b>	305,408	13,200,013	(15.7)
Interest income	<b>2,789</b>	2,485	107,409	12.2
Foreign exchange gain	<b>19,140</b>	33,842	1,462,666	(43.4)
Other income	<b>857</b>	1,139	49,249	(24.8)
<b>Total income</b>	<b>US\$280,253</b>	US\$342,874	₱14,819,337	(18.3)

Net revenues accounted for 91.9 percent of the total consolidated income while foreign exchange gain contributed 6.8 percent. In the same period of 2008, net revenues and foreign exchange gain were 89.1 percent and 9.9 percent of the total consolidated income, respectively.

### 2.4.2.1 Gross Revenues from Port Operations

The table below shows the Group's gross revenues for the first nine months of 2009 and in the same period of last year:

**Table 2.10 Gross Revenues** (In thousands, except % change data)

	For the Nine Months Ended September 30			
	2009	2008		% Change
	In US Dollar	In Philippine Peso		
Asia	<b>US\$151,561</b>	US\$166,639	₱7,202,294	(9.0)
EMEA	<b>43,302</b>	78,222	3,380,833	(44.6)
Americas	<b>104,391</b>	107,392	4,641,590	(2.8)
<b>Total</b>	<b>US\$299,254</b>	US\$352,253	₱15,224,717	(15.0)
MICT	<b>US\$126,770</b>	US\$148,475	₱6,417,228	(14.6)
CGSA	<b>68,138</b>	58,194	2,515,201	17.1
TSSA	<b>36,253</b>	49,199	2,126,409	(26.3)
BCT	<b>17,193</b>	45,078	1,948,331	(61.9)
MICTSL	<b>21,263</b>	27,236	1,177,168	(21.9)
Others	<b>29,637</b>	24,071	1,040,380	23.1
<b>Total</b>	<b>US\$299,254</b>	US\$352,253	₱15,224,717	(15.0)

Consolidated gross revenues from port operations for the first nine months of the year declined by 15.0 percent to US\$299.3 million from US\$352.3 million in the same period of last year principally due to the contraction in TEU throughput. However, excluding the foreign exchange translation impact in the first nine months of the year, gross revenues should have declined by only 5.8 percent. Philippine peso depreciated against the greenback by 10.9 percent to an average rate of ₱47.929 during the first nine months of the 2009 from an average rate of ₱43.221 in the same period in 2008. Except for CGSA, whose gross revenues surged by 17.1 percent year-on-year, mainly because of the rise in revenues from BBC resulting from higher value added modalities, the rest of the key terminals suffered a double-digit drop in gross revenues. Meanwhile, TICT performed exceptionally with a growth of 52.6 percent year-on-year while DIPSSCOR and YRDICTL registered 15.6 percent and 15.4 percent growth, respectively. Meanwhile, gross revenues of SCIPSI and MICTSI for the first half of the year and NMCT S, consolidated in July

2009, for the third quarter of 2009, contributed 2 percent to the Group's consolidated gross revenues for the year-to-date September 30, 2009. Excluding the contribution from these new terminals, organic gross revenues declined by 16.8 percent year-on-year.

Gross revenues from Asian port operations declined by 9.0 percent to US\$151.6 million during the first nine months of the year from US\$166.6 million in the same period in 2008 mainly due to the drop in TEU volume at MICT and the weakening of Philippine peso versus the US dollar. Meanwhile, excluding the new terminals, gross revenues from Asian port operations should have declined by 12.7 percent. Asian port operations contributed 50.6 percent to the Group's consolidated gross revenues in the first nine months of the year.

Gross revenues from EMEA port operations decreased by 44.6 percent to US\$43.3 million during the first nine months from US\$78.2 million in the same period last year mainly due to the decline in volume at BCT, MICTSL, and BICT. Among the Group's EMEA terminals, TICT performed remarkably, posting a double-digit growth of 52.6 percent year-on-year. EMEA port operations contributed 14.5 percent to the Group's consolidated gross revenues during the first nine months of 2009.

Gross revenues from the Americas port operations declined by 2.8 percent to US\$104.4 million for the nine months ended September 30, 2009 from US\$107.4 million in the same period in 2008. The decline in gross revenues mainly resulted from the decrease in TSSA's gross revenues. These operations contributed 34.9 percent to the Group's consolidated gross revenues in the first nine months of the year.

Gross revenues of MICT declined by 14.6 percent primarily because of the contraction in both import and export volume. The year-on-year depreciation of Philippine peso by 10.9 percent versus the US dollar also contributed to the decline in MICT's gross revenues. Meanwhile, tariff increases of 5 percent for stevedoring in April 2008, 7 percent for stevedoring in January 2009 and 8 percent for arrastre in May 2009 tapered off the decline in gross revenues. MICT accounted for 42.4 percent of the Group's consolidated gross revenues for the first nine months of the year.

CGSA's gross revenues surged by 17.1 percent year-on-year primarily because of the increase in non-containerized revenues resulting from higher value added modalities in banana and BBC operations coupled with higher yields in storage and other services related to banana cargoes. New equipment and infrastructure and reinforced berths at CGSA improved its productivity and profitability. CGSA is the second largest terminal of the Group in terms of gross revenues, contributing 22.8 percent to the consolidated revenues in the first nine months of the year.

TSSA's gross revenues decreased by 26.3 percent year-on-year primarily due to the decline in volume and the weakening of Brazilian real versus the US dollar. Brazilian real depreciated 23.5 percent against the greenback in the first nine months of 2009 over the same period of last year. TSSA's gross revenues accounted for 12.1 percent of consolidated gross revenues.

BCT's gross revenues decreased 61.9 percent year-on-year due to the significant decline in its volume throughput. Revenue contribution of BCT accounted for 5.7 percent of the consolidated gross revenues.

MICTSL's gross revenues declined 21.9 percent on the account of volume reduction and the weakening of its functional currency against the Euro and the US dollar. MICTSL contributed 7.1 percent to the consolidated gross revenues for the nine months ended September 30, 2009.

### 2.4.2.2 Interest Income, Foreign Exchange Gain and Other Income

Consolidated interest income increased by US\$ 304 thousand, or 12.2 percent, to US\$2.8 million in the first nine months of 2009 from US\$2.5 million in the same period of the previous year mainly due to higher average cash balance during the current year, particularly at the Parent level.

Foreign exchange gain decreased by US\$ 14.7 million, or 43.4 percent, to US\$19.1 million in the first nine months of the year from US\$33.8 million in the same period in 2008 primarily due to the substantial winding down of hedging activities during the year as well as the year -on-year weakening of the functional currencies of the terminals against the US dollar. Foreign exchange gain mainly arises from settlement of foreign currency -denominated assets and liabilities and translation or restatement adjustments of monetary assets and liabilities. The appreciation of Brazilian real, Colombian peso, Indonesian rupiah and Syrian pound against the US dollar from January 2009 to September 2009 resulted in unrealized foreign exchange gain of US\$6.7 million. In addition, the depreciation of the Philippine Peso from January 1, 2009 to August 31, 2009 generated foreign exchange gain arising from the parent's net monetary liability position in Philippine Peso.

Other income declined by US\$282 thousand, or by 24.8 percent, to US\$857 thousand in the first nine months of 2009 from US\$1.1 million in the same period of last year. Other income is composed of rental and other sundry income accounts of ICTSI and subsidiaries.

### 2.4.3 TOTAL EXPENSES

Consolidated expenses for the nine months ended September 30, 2009 amounted to US\$223.1 million or 16.3 percent lower than the US\$266.6 million in the same period in 2008.

The table below demonstrates the breakdown of total expenses for the nine months ended September 30, 2009 and 2008.

**Table 2.11 Total Expenses** (In thousands, except % change data)

	For the Nine Months Ended September 30			
	2009	2008		% Change
	In US Dollar	In Philippine Peso		
Manpower costs	<b>US\$60,449</b>	US\$65,826	₱2,845,063	(8.2)
Equipment and facilities-related expenses	<b>33,272</b>	45,822	1,980,480	(27.4)
Administrative and other expenses	<b>34,688</b>	38,834	1,678,433	(10.7)
Total cash operating expenses	<b>128,409</b>	150,482	6,503,976	(14.7)
Depreciation and amortization	<b>42,310</b>	39,814	1,720,821	6.3
Interest expense and financing charges on borrowings	<b>18,258</b>	12,362	534,305	47.7
Interest expense on concession rights payable	<b>17,167</b>	19,029	822,474	(9.8)
Foreign exchange loss and others	<b>16,949</b>	44,914	1,941,208	(62.3)
<b>Total expenses</b>	<b>US\$223,093</b>	US\$266,601	₱11,522,784	(16.3)

Total cash operating expenses of the Group dropped 14.7 percent to US\$128.4 million during the first nine months of 2009 from US\$150.5 million in the same period last year. The decline was mainly due to the contraction in volume and the effect of cost containment measures that were implemented across the terminals and cost centers. Specifically, the decline in total cash operating expenses resulted from the 27.4 percent and the 10.7 percent reduction in equipment and facilities-related expenses, and administrative and other expenses, respectively. Excluding the impact of expenses from new domestic terminals, SCIPSI, MICTSI and NMCTS, total cash operating expenses declined by 16.7 percent year-on-year.

### **2.4.3.1 Manpower Costs**

Manpower costs decreased by 8.2 percent to US\$ 60.4 million in the first nine months of the year from US\$65.8 million in the same period of last year. The decrease was mainly attributed to the volume contraction and the impact of cost containment measures implemented across all terminals. In addition, manpower expenses of new terminals amounting to US\$ 1.7 million contributed 2.7 percent increase in manpower costs of the Group. Excluding the addition from new terminals, consolidated manpower costs decreased by 10.7 percent year-on-year. Manpower costs account for 47.1 percent of total cash operating expenses in the first nine months of the year compared to last year's 43.7 percent.

### **2.4.3.2 Equipment and Facilities-related Expenses**

Equipment and facilities-related expenses plummeted by 27.4 percent to US\$33.3 million in the first nine months of the year from US\$45.8 million in the same period in 2008. The decline was mainly due to the reduction in volume and effective maintenance program, particularly at key terminals. All of the key terminals posted a double-digit drop in their equipment and facilities-related expenses. Meanwhile, excluding the impact of the new terminals, equipment and facilities-related expenses during the first nine months of the year plunged by 29.4 percent year-on-year. This account represents 25.9 percent of total cash operating expenses in the first nine months of 2009 from 30.5 percent in the same period of the previous year.

### **2.4.3.3 Administrative and Other Operating Expenses**

Administrative and other operating expenses fell by 10.7 percent in the first nine months of the year to US\$34.7 million from US\$38.8 million in the same period of last year. The decline was mainly due to the effect of cost-saving measures implemented at terminals and cost centers. Implementation of cost-saving measures is part of the Group's thrust to address the weakening global trade. Meanwhile, excluding the impact of new terminals, administrative and other operating expenses in the first nine months of the year declined by 12.1 percent. This expense account stands for 27.0 percent of total cash operating expenses as of year-to-date September 30, 2009 from 25.8 percent in the same period of last year.

### **2.4.3.4 Depreciation and Amortization**

Depreciation and amortization expense increased by 6.3 percent to US\$42.3 million during the nine months ended September 30, 2009 compared to US\$39.8 million in the same period of last year. The increase was related to the acquisition of port equipment, transportation equipment and improvements in facilities at key terminals, specifically CGSA, MICT and TSSA.

### **2.4.3.5 Interest and Financing Charges on Borrowings**

Interest and financing charges on borrowings surged by 47.7 percent to US\$18.3 million as of end of third quarter of 2009 from US\$12.4 million in the same period in 2008 primarily due to higher debt level in the first nine months of the year as well as the acceleration of the debt issuance costs amounting to US\$2.2 million related to the US\$176.0 balance of the US\$250.0 million term loan facility that was repaid in the second quarter of the year. Interest-bearing debts increased by 46.2 percent to US\$430.0 million as of September 30, 2009 from US\$294.2 million in the same period of last year. Meanwhile, the increase in financing costs was partially reduced by the US\$3.8 million capitalized borrowing costs on qualifying assets, which resulted in a lower cost of debt capital. *(Please refer to item 2.7.2.1 Debt Financing for full discussion of interest-bearing debts).*

#### **2.4.3.6 Interest Expense on Concession Rights Payable**

Interest expense on concession rights payable declined by 9.8 percent to US\$17.2 million in the first nine months of the year from US\$19.0 million in the same period of last year mainly due to declining principal balance of concession rights payable.

#### **2.4.3.7 Foreign Exchange Loss and Others**

Foreign exchange loss and others account declined by 62.3 percent to US\$16.9 million in the first nine months of 2009 from US\$44.9 million in the same period of last year mainly due to the substantial winding down of hedging activities and the strengthening of Colombian peso and Brazilian real against the US dollar. As of September 30, 2009, there are no outstanding non-deliverable forwards that are classified as non-hedge. Other expenses included unrealized mark-to-market loss on interest rate swap (IRS) amounting to US\$1.5 million which was transferred from cumulative translation adjustment in the second quarter of the year. As of end of third quarter, the unrealized market to-market loss on IRS amounted to US\$590 thousand. The IRS is related to the US\$176.0 million outstanding balance of the US\$250.0 million term loan facility which was repaid in June 2009.

#### **2.4.4 EBITDA and EBIT**

Consolidated EBITDA for the first nine months of 2009 declined by 16.7 percent to US\$129.1 million compared to US\$154.9 million in the same period of the preceding year. The drop in EBITDA was primarily due to the volume contraction resulting from the global economic slump. The depreciation of Philippine peso against the US dollar also dampened EBITDA growth by 9.1 percent. Excluding the unfavorable foreign exchange translation impact, EBITDA should have declined by only 7.6 percent year-on-year. Despite the drop in EBITDA, the Group still managed to maintain a solid 43.1 percent EBITDA margin, or only about one percentage point lower than last year's EBITDA margin of 44.0 percent, on account of effective management of expenses, specifically cost reduction measures, and tariff increase.

Consolidated EBIT for the nine months ended September 30, 2009 declined by 24.6 percent to US\$86.7 million from US\$115.1 million in the same period in 2008. Removing the unfavorable foreign exchange translation impact, EBIT declined by only 16.4 percent. Meanwhile, EBIT margin decreased by almost four percentage points to 29 percent as of the end of third quarter of 2009 from 32.7 percent in the same period in 2008 primarily due to volume contraction and increase in depreciation and amortization.

#### **2.4.5 INCOME BEFORE INCOME TAX AND PROVISION FOR INCOME TAX**

Consolidated income before income tax for the nine months ended September 30, 2009 decreased by 25.1 percent to US\$57.2 million from US\$76.3 million in the same period of the previous year. Income before income tax as a percentage of the total gross revenues declined to 19.1 percent in the first nine months of 2009 from 21.7 percent in the same period of last year. The decline is mainly due to the volume contraction and increase in debt level.

Consolidated provision for current and deferred income taxes decreased by 19.0 percent to US\$21.9 million from US\$27.0 million in 2008 mainly due to the decline in volume as a consequence of global economic slowdown and change in income tax rate of MICT and other Philippine ports from 35.0 percent in 2008 and 30.0 percent in 2009. Meanwhile, effective tax rate for the first nine months of 2009 rose to 38.3 percent from 35.4 percent in the same period of the previous year primarily due to losses in YRDICTL, TICT, BICT, and SBITC that have no tax benefits. Excluding losses from these terminals, effective tax rate would have been 31.8 percent.

## 2.4.6 NET INCOME

Consolidated net income for the nine months ended September 30, 2009 decreased to US\$35.3 million, or 28.4 percent lower than the US\$49.2 million consolidated net income in the same period of the preceding year. The decrease in consolidated net income was associated to contraction in TEU throughput and increase in debt level. In addition, translation of 2008 consolidated financial statements to US dollar from Philippine peso, for comparative purposes, contributed to the decline in consolidated net income, or by 7.8 percent decrease year on-year. Excluding the foreign exchange translation impact, consolidated net income should have declined by only 20.6 percent. Consolidated net income as a percentage of gross revenues stood at 11.8 percent in 2009 compared with 14.0 percent last year.

Net income attributable to equity holders or net profits excluding minority interests for the first nine months of 2009 amounted to US\$37.2 million, or 29.0 percent lower from US\$52.4 million in the same period of the preceding year. Excluding foreign exchange translation impact, net income attributable to equity holders should have declined by only 21.3 percent.

Basic and diluted earnings per share declined to US\$0.020 and US\$0.019 during the first nine months of 2009 from US\$0.028 and US\$0.027 in the same period of last year, respectively.

There were no significant elements of income or expense outside the Group's continuing operations in the first nine months of 2009.

## 2.5 TRENDS, EVENTS OR UNCERTAINTIES AFFECTING RECURRING REVENUES AND PROFITS

The Group is exposed to a number of trends, events and uncertainties which can affect its recurring revenues and profits. These include levels of general economic activity and containerized trade volumes 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 a number of currencies. Continued appreciation of the US dollar relative to other major currencies, particularly the Philippine peso, may have a negative impact on the Group's reported levels of revenues and profits.

## 2.6 FINANCIAL CONDITION

**Table 2.12 Consolidated Balance Sheets** (In thousands, except % change data)

	September 30,		% Change	
	2009	December 31, 2008		
	In US Dollar	In Philippine Peso		
Total assets	<b>US\$1,234,957</b>	US\$1,242,177	₱59,028,236	(0.6)
Current assets	<b>211,209</b>	290,445	13,801,920	(27.3)
Stockholders' equity	<b>479,860</b>	448,124	21,294,832	7.1
Total equity attributable to equity holders of the parent	<b>432,426</b>	398,694	18,930,666	8.5
Total interest bearing-debt	<b>429,982</b>	458,044	21,766,234	(6.1)
Current liabilities	<b>136,905</b>	134,156	6,375,136	2.0
Total liabilities	<b>755,097</b>	794,053	37,733,404	(4.9)
Current assets/total assets	<b>17.1%</b>	23.4%	23.4%	
Current ratio	<b>1.54</b>	2.16	2.16	
Debt-equity ratio <sup>1</sup>	<b>1.57</b>	1.77	1.77	
Debt-equity ratio <sup>2</sup>	<b>0.92</b>	1.06	1.17	

<sup>1</sup> Debt includes total liabilities. Equity includes total stockholders' equity.

<sup>2</sup> Debt includes interest-bearing debt and concession rights payable under IFRIC 4. Equity includes paid-up capital, cost of shares held by subsidiaries, retained earnings, cumulative translation adjustment and unrealized mark-to-market gain.

Consolidated assets as of September 30, 2009 were lower by 60 basis points than what was reported as of the end of 2008. The decrease of US\$7.2 million was attributed mainly to the net impact of the prepayment of the US\$176.0 million balance of the US\$250.0 term loan facility, acquisitions of port equipment, civil works expenditures and increase in current assets for the period.

Total current assets declined by 27.3 percent mainly because of the decrease in cash and cash equivalents and derivative assets. Current assets accounted for 17.1 percent of the total consolidated assets as of September 30, 2009 compared to 23.4 percent as at December 31, 2008. Meanwhile, current ratio stands at 1.54 and 2.16 as at September 30, 2009 and December 31, 2008, respectively.

Total consolidated liabilities as of September 30, 2009 amounted to US\$755.1 million, or 4.9 percent lower than the balance as of December 31, 2008. The decrease was mainly because of the decline in long-term debt resulting from the prepayment of the US\$176.0 million balance of the US\$250.0 million term loan facility. Decline in the level of concession rights payable and derivative liabilities also contributed to the decrease in total consolidated liabilities

### **2.6.1 MATERIAL VARIANCES AFFECTING THE BALANCE SHEET**

Balance sheet accounts as of September 30, 2009 with variances of plus or minus 5 percent against December 31, 2008 balances are discussed, as follows:

#### **Noncurrent Assets**

1. Property and equipment, net of depreciation, increased by US\$31.4 million, or 11.5 percent higher than the December 2008 balance due to the acquisition of port and transportation equipment and construction of civil works for the existing terminals not subject to IFRIC 12.
2. Intangibles, net of amortization, increased by US\$39.3 million, or by 7.0 percent higher than December 2008. This was mainly due to the acquisition of port and other equipment of key terminals under IFRIC 12.

#### **Current Assets**

3. Cash and cash equivalents decreased by US\$91.1 million, or by 40.9 percent lower than the December 2008 balance mainly because of the prepayment of US\$250.0 million facility and acquisitions of port equipment and expenditures for civil works.
4. Receivables, net of allowance, increased by US\$7.6 million, or by 30.2 percent from the December 2008 balance principally due to the increase in CGSA's revenues as well as the addition from the new terminal, NMCTS. The translation of TSSA's receivables into US dollar also contributed to the rise in consolidated receivables.
5. Spare parts and supplies increased by US\$2.4 million, or by 23.7 percent mainly because of the purchases of quay and rubber tyred gantry crane spare parts at CGSA and other key terminals.
6. Prepaid expenses and other current assets increased by 19.1 percent, or US\$5.5 million primarily due to the increase in input VAT at ICTSI Parent Company.
7. Derivative assets decreased by US\$3.6 million, or by 94.7 percent decline mainly due to substantial winding down of the Group's hedging activities.

#### **Stockholders' Equity**

8. Other comprehensive income decreased by US\$19.1 million mainly due to the increase in cumulative translation adjustments resulting from the change in ICTSI Parent's functional currency from Philippine peso to US dollar as well as the appreciation of Brazilian real, Colombian peso and Syrian pound against the US dollar.
9. Treasury shares decreased by US\$1.7 million, or by 30.0 percent, mainly due to the issuance of stock awards.

### **Noncurrent Liabilities**

10. Long-term debt decreased by 7.1 percent or by US\$30.0 million mainly due to the net prepayment of the US\$250.0 million term loan facility amounting to US\$176.0 million. New long-term borrowings amounted to US\$231.4 million.
11. Deferred tax liabilities increased by 11.6 percent, or by US\$3.8 million, primarily because of the tax effect of capitalized borrowing costs and the restatement of US dollar-denominated liabilities of SPIA, and Philippine peso-denominated liabilities of ICTSI Parent. Colombian peso and Philippine peso appreciated against the US dollar from December 31, 2008 to September 30, 2009.
12. Pension liabilities decreased by 20.2 percent or by US\$20.4 thousand mainly due to pension payments at BCT, Poland.
13. Concession rights payable – net of current portion decreased by 7.5 percent mainly due to payments of concession rights payable.

### **Current Liabilities**

14. Loans payable increased by 17.8 percent, or by US\$4.9 million, mainly due to additional availment of short-term loans of YRDICTL amounting to US\$5.6 million (RMB38 million) to finance repayment of maturing long-term borrowings and various working capital requirements.
15. Accounts payable and other current liabilities increased by 6.1 percent, or by US\$3.6 million, principally because of purchases related to capital projects at CGSA and Tecplata during the third quarter ended September 30, 2009.
16. Current portion of long-term debt decreased by 30.7 percent, or by US\$3 million mainly associated to the refinancing of US\$250.0 million revolving term loan facility maturing in 2010 by a new Term Loan Facility that will mature in 2012.
17. Current portion of concession rights payable declined by 11.1 percent, or by US\$2.2 million due to the payments of fixed and initial fees to port authorities.
18. Income tax payable decreased by 18.3 percent, or by US\$2.1 million, due to lower taxable profits in the third quarter of 2009 compared to the fourth quarter of 2008.
19. Derivative liabilities declined by 31.1 percent, or by US\$2.6 million, due to the substantial winding down of the Group's hedging activities.

## **2.7 LIQUIDITY AND CAPITAL RESOURCES**

This section discusses the Group's sources and uses of funds as well as its debt and equity capital profile. As at September 30, 2009, cash and cash equivalents represent 10.7 percent of total assets compared to 9.6 percent as of the end of 2008. Meanwhile, debt capital accounted for 47.2 percent of total debt and equity capital as of September 30, 2009 against 50.5 percent as of December 31, 2008.

## 2.7.1 CASH FLOWS

The table below shows the Group's consolidated cash flows for the nine months ended September 30, 2009 and 2008:

**Table 2.13 Consolidated Cash Flows** (In thousands, except % change data)

	For the Nine Months Ended September 30			
	2009	2008		% Change
	In US Dollar	In Philippine Peso		
Net cash provided by operating activities	<b>US\$100,979</b>	US\$85,619	₱3,700,522	17.9
Net cash used in investing activities	<b>(107,798)</b>	(137,926)	(5,961,307)	(21.8)
Net cash provided by (used in) financing activities	<b>(94,892)</b>	115,136	4,976,371	(182.4)
Effect of exchange rate changes on cash	<b>10,588</b>	6,645	287,200	59.3
Translation adjustment arising from change in functional currency	-	(16,243)	-	100.0
Net decrease in cash and cash equivalents	<b>(91,123)</b>	53,231	3,002,786	(271.2)
Cash and cash equivalents, beginning	<b>222,825</b>	86,358	3,564,863	158.0
Cash and cash equivalents, end	<b>US\$131,702</b>	US\$139,589	₱6,567,649	(5.7)

Consolidated cash and cash equivalents declined by 5.7 percent to US\$131.7 million as of September 30, 2009 from US\$139.6 million in the same period a year ago. The decrease was mainly due to the prepayment of the US\$250.0 million facility and the net proceeds from new loan availments amounting to US\$231.4 in 2009.

Net cash provided by operating activities surged by 17.9 percent to US\$101.0 million in the first nine months of the year from US\$85.6 million in the same period in 2008 mainly because of favorable changes in working capital and decline in income taxes paid.

Net cash used in investing activities declined by 21.8 percent to US\$107.8 million during the first nine months of the year from US\$137.9 million in the same period in 2008. The decline was mainly due to lower capital expenditures in the current year as well as the deferment of existing and planned projects to latter part of the year. The Group's capital expenditure budget for 2009 is estimated at US\$146.9 million, or ₱7.2 billion, mainly allocated for civil works, systems improvement, and purchase of major cargo handling equipment of major terminals such as MICT, CGSA and TSSA. The Group expects to meet funding requirements for these expenditures from internally generated funds, available cash and cash equivalents and new borrowings. As of September 30, 2009, the Group's capital expenditure amounted to US\$77.0 million mainly resulting from CGSA's acquisition of container handling equipment and civil works and MICT's spending on Berth 6.

Net cash provided by financing activities declined by 182.4 percent to negative US\$94.9 million during the first nine months of the year from positive US\$115.1 million in the same period of last year. The decline was mainly due to the net payments of long-term borrowings, principally from the prepayment of the US\$250.0 million term loan facility, as well as the lower proceeds from short-term borrowings in the first nine months of 2009 compared to the same period a year ago.

## 2.7.2 CAPITAL RESOURCES

The table below illustrates the Group's capital sources as of September 30, 2009 and as at December 31, 2008:

**Table 2.14 Capital Sources** (In thousands, except % change data)

	September 30,		% Change	
	2009	December 31, 2008		
	In US Dollar	In Philippine Peso		
Loans payable	US\$32,177	US\$ 27,314	₱1,297,963	17.8
Current portion of long-term debt	6,677	9,630	457,603	(30.7)
Long-term debt, net of current portion	391,128	421,100	20,010,668	(7.1)
Total short and long-term debt	429,982	458,044	21,766,234	(6.1)
Stockholders' equity	479,860	448,124	21,294,832	7.1
Total capital	US\$909,842	US\$906,168	₱43,061,066	0.4

Total capital of the Group as of September 30, 2009 stood at US\$909.8 million, or relatively flat compared with the balance of US\$906.2 million as at December 31, 2008. The decrease was mainly driven by the reduction in debt level during the nine months ended September 30, 2009. From beginning of the year, total short-term debt and long-term debt declined by 6.1 percent while stockholders' equity increased by 7.1 percent.

### 2.7.2.1 Debt Financing

As of September 30, 2009, the Group's total interest-bearing debt stood at US\$430.0 million, representing a 6.1 percent decrease from US\$458.0 million as of December 31, 2008. The reduction by US\$28.1 million was primarily accounted for by the prepayment of the US\$250.0 million Revolving and Term Loan Facility of ICTSI Capital B.V. despite additional loans of US\$150.0 million term loan facility, US\$40.0 million MBTC term loan facility and the final drawdown of US\$41.4 million under the DBP-LBP Term Loan Facility.

The table below represents the Group's outstanding loans net of debt issue costs as of September 30, 2009:

**Table 2.15 Outstanding Loans** (In thousands)

	Company	Maturity	Interest Rate	Amount
<b>Short-Term Debt</b>				
PHP - denominated	Parent	2009	Floating	US\$24,266
RMB - denominated	YRDICTL	2010	Floating	7,911
				US\$32,177
<b>Long-Term Debt</b>				
Unsecured peso Term Loan	Parent	2011-15	Fixed	25,511
Unsecured US dollar Term Loan	Parent	2012-14	Floating	185,747
Unsecured peso Term Loan	Parent	2013	Floating	124,530
US dollar Term Loan	TSSA	2014	Fixed	9,734
US dollar Term Loan	BCT	2014	Floating	14,196
RMB Term Loan	YRDICTL	2017	Floating	38,087
				397,805
<b>Total Debt</b>				429,982
Short-term debt and current portion of long-term debt				38,854
<b>Long-term debt, net of current portion</b>				US\$391,128

The table below is a summary of long-term debt maturities, net of debt issue cost, of the Group as of September 30, 2009:

**Table 2.16 Long-term Debt Maturities** *(In thousands)*

	Amount
2009	US\$3,242
2010	6,427
2011	104,241
2012	140,694
2013 and onwards	143,201
<b>Total</b>	<b>US\$397,805</b>

**Parent Company**

*Term Loan Facility Agreement (Term Loan Facility).* In May 2009, ICTSI signed a three-year unsecured Term Loan Facility with a consortium of seven international banks for US\$150.0 million to partly refinance ICTSI Capital BV's US\$250.0 million Revolving and Term Loan Facility which then had an outstanding balance of US\$176.0 million. The loan bears an interest of 3.80 percent over the LIBOR. The Term Loan Facility was fully drawn in June 2009 and will mature in 2012.

*DBP-LBP Term Loan Facility Agreement (DBP-LBP Term Loan Facility).* In November 2008, ICTSI signed a five-year US\$124.7 million (P6.0 billion) Term Loan Facility with DBP and LBP for the financing of capital expenditures of the Group including the construction of Berth 6 of MICT and refinancing of existing loan obligations. Interest on the loan shall be the higher of (1) the sum of three months PDST-F Rate and 1.75 percent p.a. or (2) the BSP Reverse Repo Rate. The DBP-LBP Term Loan Facility is unsecured. Drawdowns from the facility have aggregated to US\$83.1 million (P4.0 billion) as of December 31, 2008, gross of debt issuance cost, and was fully availed as of March 31, 2009.

*MBTC Term Loan Facility Agreement (MBTC Term Loan Facility).* In April 2009, ICTSI signed a five-year unsecured MBTC Term Loan Facility for US\$40.0 million with Metropolitan Bank and Trust Company for the financing of capital expenditures and general corporate purposes including the refinancing of existing obligations. The loan bears an interest of 3.5 percent over the LIBOR. The facility was fully drawn in April 2009.

*Corporate Notes Facility Agreement (FXCN Note).* In November 2008, ICTSI completed a FXCN Note for US\$18.4 million (P885.0 million), which amount was increased by an Accession Agreement up to US\$25.0 million (P1.2 billion), with several institutions arranged by HSBC. The net proceeds of the FXCN Note will be used for capital expenditures. The FXCN Note is unsecured and has maturities of five and a half, and seven years. Interest rate is at 9.5 percent p.a. for the five and a half-year FXCN Note and 10.25 percent p.a. for the seven-year FXCN Note. As of December 31, 2008, the entire facility was fully drawn.

*Other Philippine-based Commercial Bank Term Loans.* The outstanding peso-denominated term loans were obtained by ICTSI from a Philippine-based commercial bank and are payable quarterly with final installments in 2011. Interest rate is fixed at 14 percent. As of September 30, 2009 outstanding balance was US\$84 thousand (P4 million) after prepayments amounting to US\$9.3 million (P443.9 million) in January, March, May and September 2009.

**TSSA**

In December 2005, TSSA entered into a loan agreement for US\$14 million with the International Finance Corporation and the Netherlands Development Finance Company to finance TSSA's increase in its handling capacity. The loan bears a fixed interest rate of 9.47 percent and is payable in 16 semi-annual installments up to 2014. Port equipment, together with other assets of TSSA, with a total carrying value of up to US\$19 million were used to secure the loan. The facility is without recourse to ICTSI. Outstanding balance of the loan amounted to US\$ 9.7 million as of September 30, 2009.

### ***BCT***

In November 2004, BCT entered into a loan agreement for US\$36 million with a syndicate of a Polish and international banks to finance an increase in its handling capacity. The loan bears interest at 1.1 percent over the LIBOR or, on or after the currency conversion date, Euro Interbank Offered Rate and is payable in 16 equal semi-annual installments up to 2014. Port equipment, together with other assets of BCT, with a total carrying value of up to US\$44.7 million were used to secure the loan. The facility is without recourse to the ICTSI. Outstanding balance of the loan amounted to US\$14.2 million as of September 30, 2009.

### ***YRDICTL***

In July 2007, YRDICTL entered into a loan agreement with the Industrial and Commercial Bank of China for US\$40.3 million (RMB275.0 million) to finance YRDICTL's acquisition of port equipment and the increase in its handling capacity. The loan bears a floating interest rate based on the rate published in The People's Bank of China, discounted by 10 percent, at July 1 of each year. The loan is payable beginning 2009 up to 2017. Port equipment, together with other assets of YRDICTL, with a total carrying value of up to US\$ 21.0 million (RMB143.7 million) were used to secure the loan. The facility is without recourse to ICTSI. The loan is guaranteed by Yantai Port Group, a minority shareholder, up to US\$8 million (RMB55 million). Outstanding balance of the loan amounted to US\$38.1 million (RMB260 million) as of September 30, 2009.

### ***ICTSI Capital B.V.***

In December 2007, ICTSI Capital BV entered into a revolving and term loan facility agreement (Facility Agreement) with a consortium of 21 international banks for a maximum credit facility of US\$250.0 million, which was arranged by HSBC, Citibank and Calyon. The Facility Agreement was guaranteed by ICTSI and was intended to refinance various loans, fund new acquisitions and finance general working capital requirements of the Group. The loan bears an interest of 0.80 percent over the LIBOR, subject for increase depending on the Debt to EBITDA ratio for the relevant period.

Drawdowns from the facility have aggregated US\$250 million (€12 billion) as of December 31, 2008, gross of debt issuance cost and payable in December 2010. As of March 31, 2009, outstanding balance under the facility was reduced to US\$176.0 million with the prepayment of US\$74.0 million in March 2009. In June 2009, the facility was fully paid, partly from Parent's proceeds of the Term Loan Facility for US\$150.0 million.

#### **2.7.2.2 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, CGSA's, TSSA's and YRDICTL's assets, acquisitions of futures or stocks, and extending loans to others, except in the ordinary course of business. ICTSI and BCT are also required to maintain specified financial ratios relating to their debt to equity and cash flow and earnings level relative to current debt service obligations. As of September 30, 2009, June 30, 2009, March 31, 2009 and December 31, 2008, ICTSI, ICTSI Capital BV, BCT and TSSA are in compliance with the loan covenants.

Unamortized debt issue cost related to long-term debt aggregated to US\$6.7 million and US\$5.9 million as of September 30, 2009 and December 31, 2008, respectively. Interest expense amounted to US\$18.3 million (net of capitalized borrowing costs amounting to US\$3.8 million) for the nine months ended September 30, 2009. Weighted average interest rate on long-term loans for the nine months of 2009 was 5.8 percent compared to 5.9 percent in the same period in 2008.

Total stockholders' equity attributable to equity holders of the Parent stood at US\$432.4 million as of September 30, 2009, an increase of 8.5 percent from December 31, 2008.

There were no events that will trigger a direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relations of the Company with unconsolidated entities or other persons created during the reporting period.

## 2.8 RISKS

ICTSI and its subsidiaries' geographically diverse operations expose the Group to various market risks, particularly foreign exchange risk, liquidity risk and interest rate 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 treasury operations.

### 2.8.1 FOREIGN EXCHANGE RISK

Fluctuations in the exchange rates between US dollar against the Euro and local currencies wherein the Group's ports operate affect the equivalent in US dollar of its foreign currency-denominated revenues and foreign currency-denominated assets and liabilities.

The Group's non-US dollar currency-linked revenues were 50.0 percent and 59.0 percent of gross revenues for the periods ended September 30, 2009 and September 30, 2008, respectively. Foreign currency-linked revenues include the following: (1) all charges of MICT except vessel charges; and (2) the total non-US dollar revenues of our international subsidiaries. ICTSI Group incurs expenses in non-US dollar currency for all the operating and start-up requirements of its international subsidiaries.

The table below provides a currency breakdown of the Group's revenue as of September 30, 2009:

**Table 2.17 Revenue Currency Profile**

Subsidiary	USD / EUR Composition	Local Currency
ICTSI	47% USD	53% PhP
SBITC	–	100% PhP
DIPSSCOR	–	100% PhP
SCIPSI	–	100% PhP
BIPI	–	100% PhP
MICTSI	–	100% PhP
BCT	92% USD	8% PLN
TSSA	–	100% BRL
MICTSL	–	100% EUR*
PTMTS	–	100% IDR
YRDICTL	–	100% RMB
CGSA	100% USD	–
BICTL	100% USD	–
TICT	100% USD	–
SPIA	100% USD	–
NICTI	–	100% JPY

\*MGA pegged with the EURO

The following table represents the closing exchange rates of relevant currencies against the US dollar as of September 30, 2009 and in the same period in 2008:

**Table 2.18 Exchange Rates of Selected Currencies versus US Dollar**

	2009	2008	% Change
Philippine peso	47.3900	47.0500	0.7
Polish zloty	2.8733	2.4097	19.2
Brazilian real	1.7670	1.9046	(7.2)
Euro	1.4640	1.4092	3.9

The foreign exchange differentials arising from the revaluation of the Group's foreign currency accounts are credited or charged to current operations. The Group's net foreign exchange gain amounted to US\$5.0 million at the end of September 2009, compared to a net foreign exchange loss of US\$10.3 million in the same period of last year. On a limited basis, the Group enters into foreign currency forwards and/or cross currency swaps agreements in order to manage its exposure to foreign currency rate fluctuations.

As of September 30, 2009, 50.9 percent of the Group's consolidated debts were denominated in foreign currency, against 40.2 percent as of December 31, 2008.

The table below is a list of foreign currency-denominated long-term liabilities, gross of debt issuance costs, of ICTSI Group as at September 30, 2009:

**Table 2.19 Foreign Currency-denominated Long-term Debt**

Borrower	Type of Facility	Amount (In thousands)	Interest Rate	Maturity Date
ICTSI	Term Loan Facility	₱6,000,000	Floating: 3M PDSTF +1.75%+5% GRT	2013
ICTSI	Term Loan Facility	715,000	Fixed: 9.5%	2014
ICTSI	Term Loan Facility	490,000	Fixed: 10.25%	2015
ICTSI	Term Loan Facility	146,500	Fixed: 14.0%	2011
YRDICTL	Term Loan Facility	RMB275,000	Floating: PBOC 10%	2017

As of September 30, 2009, the Group has US\$14.5 million in outstanding derivative transactions recorded in equity to hedge its foreign currency exposure. Related unrealized mark-to-market value amounting to US\$1.8 million was charged to cumulative translation adjustment.

As of September 30, 2009, the Group has US\$10.0 million in outstanding options. The Group entered into a collar structure wherein it sold an option to sell US\$Php and at the same time bought an option to buy US\$Php. These collar transactions do not materially impact the unaudited consolidated statement of income for the nine months ended September 30, 2009.

As of September 30, 2009, the Group has a total of ₱6.7 billion in outstanding cross-currency swap transactions to partially hedge both the foreign currency and interest rate exposures of the Group's foreign currency denominated term loan facilities.

The table below represents the Group's outstanding cross currency swap. Post cross -currency swap transactions, the ratio of the Group's consolidated debt denominated in foreign currency was reduced from 50.9 percent to 18.6 percent.

**Table 2.20 Cross-Currency Swap Transactions**

Start Date	Amount (In thousands)	Loan Interest Rate	Fixed Rate	USD:Php Rate	Maturity Date
June 8, 2009	₱1,000,000	3M PDSTF + 175 bps	5.92%	47.46	2013
June 11, 2009	500,000	3M PDSTF + 175 bps	5.97%	47.67	2013
June 15, 2009	500,000	3M PDSTF + 175 bps	5.90%	48.16	2013
June 15, 2009	715,000	9.50%	7.25%	48.35	2014
June 29, 2009	500,000	3M PDSTF + 175 bps	5.35%	48.09	2013
Aug 12, 2009	500,000	3M PDSTF + 175 bps	5.39%	47.87	2013
Aug 18, 2009	500,000	3M PDSTF + 175 bps	5.23%	48.29	2013
Aug 18, 2009	500,000	3M PDSTF + 175 bps	5.19%	48.24	2013
Aug 19, 2009	490,000	10.25%	8.00%	48.48	2015
Sep 10, 2009	500,000	3M PDSTF + 175 bps	4.65%	48.30	2013
Sep 22, 2009	500,000	3M PDSTF + 175 bps	4.55%	47.35	2013
Sep 22, 2009	500,000	3M PDSTF + 175 bps	4.55%	47.35	2013
<b>Total</b>	<b>₱6,705,000</b>				

As of September 30, 2009, the unrealized mark -to-market loss on these cross -currency swaps amounted to US\$3.4 million, which was shown in the unaudited consolidated balance sheet as derivative liabilities with an offsetting entry to cumulative translation adjustments.

## 2.8.2 INTEREST RATE RISK

The Group's long-term liabilities have combined fixed and floating interest rates. A rise in short-term interest rates in US dollar and Philippine peso will result in a corresponding increase in the interest rates due on the floating rate US dollar and Philippine peso -denominated liabilities. On a limited basis, the Group enters into interest rate swap agreements in order to manage its exposure to fluctuations in interest rates.

As of September 30, 2009, 91.3 percent of the Group's consolidated debts were at floating rate, against 89.4 percent as of December 31, 2008.

As of September 30, 2009, the consolidated floating interest -bearing liabilities of ICTSI Group are broken down as follows:

**Table 2.21 Floating Interest-bearing Debt**

Borrower	Type of Facility	Amount (In thousands)	Interest	Maturity Date
ICTSI	Term Loan Facility	US\$150,000	Floating: Libor+ 3.8% margin	2012
ICTSI	Term Loan Facility	₱6,000,000	Floating: 3M PDSTF+1.75%+5%GRT	2013
ICTSI	Term Loan Facility	US\$40,000	Floating: Libor + 3.5%	2014
BCT	Term Loan Facility	US\$14,400	Floating: Libor + 1.1%	2014
YRDICTL	Term Loan Facility	CNY260,000	Floating: PBOC-10%	2017

As of September 30, 2009, ICTSI Group has an outstanding US\$25 .0 million interest rate swap that hedged its floating rate liabilities in US dollar LIBOR benchmark rates. The rate was fixed at 3.64 percent p.a. The unrealized mark -to-market loss of the interest rate swap is shown under "Other expenses" account amounting to US\$ 1.5 million for the nine months ended September 30, 2009. The interest rate swap was terminated on October 19, 2009.

As of September 30, 2009, ICTSI has a total of ₱5.5 billion outstanding floating-to-fixed interest rate cross-currency swaps to hedge a portion of the Group's floating rate Philippine peso -denominated liabilities that will mature in 2013. The cross currency swaps qualified under hedge accounting. The Philippine peso interest rate was fixed at an average US dollar fixed rate of

5.33 percent p.a. After the cross-currency swap transactions, the ratio of the Group's consolidated debt denominated that are floating rate was reduced from 91.3 percent to 62.8 percent.

### 2.8.3 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.

As part of the liquidity risk management, the Group maintains strict control of its cash and ensures that excess cash held by subsidiaries are up streamed timely to the Parent Company. The Group also monitors the receivables and payables to ensure that these are at optimal levels. In addition, the Group 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, securing project finance facilities and the debt capital markets.

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

## 2.9 KEY PERFORMANCE INDICATORS (KPIs)

The top five KPIs for the Group's containerized business are, as follows:

1. TEU Volume Growth
2. Gross Revenues Growth
3. Gross Moves per Hour per Crane
4. Crane Availability
5. Berth Utilization

The KPIs for each of the key terminals for the nine months ended September 30, 2009 are, as follows:

**Table 2.22 Key Terminals' KPIs**

KPI	MICT	CGSA	TSSA	BCT	MICTSL
TEU Volume Growth	(13.0%)	3.9%	(17.9%)	(52.7%)	(9.6%)
Gross Revenues Growth	(14.6%)	17.1%	(26.3%)	(61.9%)	(21.9%)
Gross Moves per Hour per Crane	28.3	18.5	20.7	28.8	35.7
Crane Availability	94.8%	97.4%	96.0%	98.6%	96.9%
Berth Utilization	54.7%	40.9%	43.0%	13.8%	19.4%

The KPIs are calculated as follows:

**TEU Volume Growth** is computed as an increase in actual TEU volume handled (*Current Year versus Previous Year*) divided by Previous Year's TEU volume.

**Gross Revenues Growth** is computed as an increase in Gross Revenues (*Current Year's Revenues Less Previous year's Gross Revenues*) divided by Previous Year's Gross Revenues.

**Gross Moves per Hour per Crane** is computed as Total Number of Moves (including hatch covers, shifters, IBC box and all other crane moves except break bulks) divided by the Gross Service Time [*Gross service time = Total time (from first lift to last lift) a crane was utilized excluding the circumstances beyond the control of the terminal or vessel*]

**Crane Availability (%)** is computed as  $1 - (\text{Total Crane Downtime Hours} / \text{Total Crane Operating Hours})$

**Berth Utilization (%)** is computed as  $\text{Berth Stay} / \text{Berth Capacity}$ , where berth stay is equivalent to the total actual number of hours vessels stayed on dock and berth capacity is the total berthing hours available, or number of berths x working hours.

## **PART II – OTHER INFORMATION**

There are no other information not previously reported in SEC Form 17 -C that need to be reported in this section.

## ANNEX 1

### INTERNATIONAL CONTAINER TERMINAL SERVICES, INC. AND SUBSIDIARIES

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#### SCHEDULE OF AGING OF RECEIVABLES

As of September 30, 2009

*(Unaudited, in Thousands)*

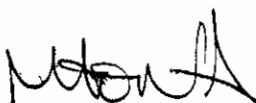
	Trade	Advances	Total
Under six months	US\$32,651	US\$1,035	US\$33,686
Six months to one year	200	48	248
Over one year	460	4	464
	US\$33,311	US\$1,087	US\$34,398

## SIGNATURES

Pursuant to the requirements of the Securities and Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant      **INTERNATIONAL CONTAINER TERMINAL SERVICES, INC.**

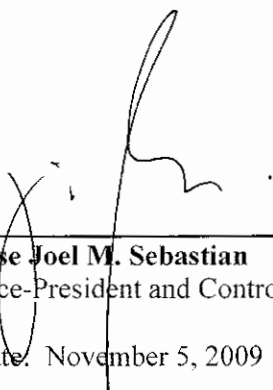
By



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**Martin O'Neil**  
Chief Financial Officer

Date: November 5, 2009



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**Jose Joel M. Sebastian**  
Vice-President and Controller

Date: November 5, 2009