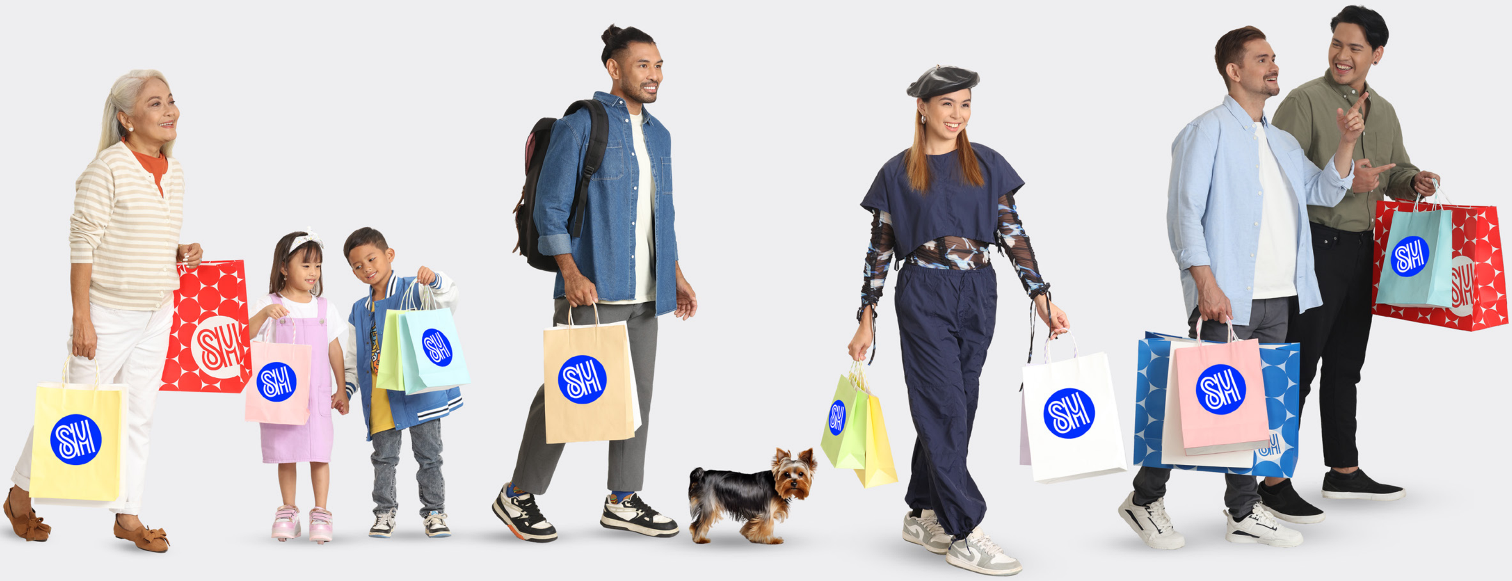
SM INVESTMENTS

Committed to Our Customers



2023 Financial Supplement

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WE ARE SM

Our Vision

It is our vision to build an ecosystem of sustainable businesses that are catalysts for responsible development in the communities we serve.

We are committed to partner with our host communities to provide a consistently high standard of service to our customers, look after the welfare of our employees and deliver sustainable returns to our shareholders, at all times upholding the highest standards of corporate governance and environmental stewardship in all our businesses.

Our Commitment to Our Customers

Serving customers has been at the heart of our business for 65 years. At SM, we are proud to have grown from a single shoe store to where we are today. Millions of Filipinos count on us daily and we look forward to serving more as we continue to expand across the nation.

Our success is based on understanding our customers' wishes and then meeting their every expectation. SM's many stores, wide range of products and dedicated staff all strive to live up to this standard.

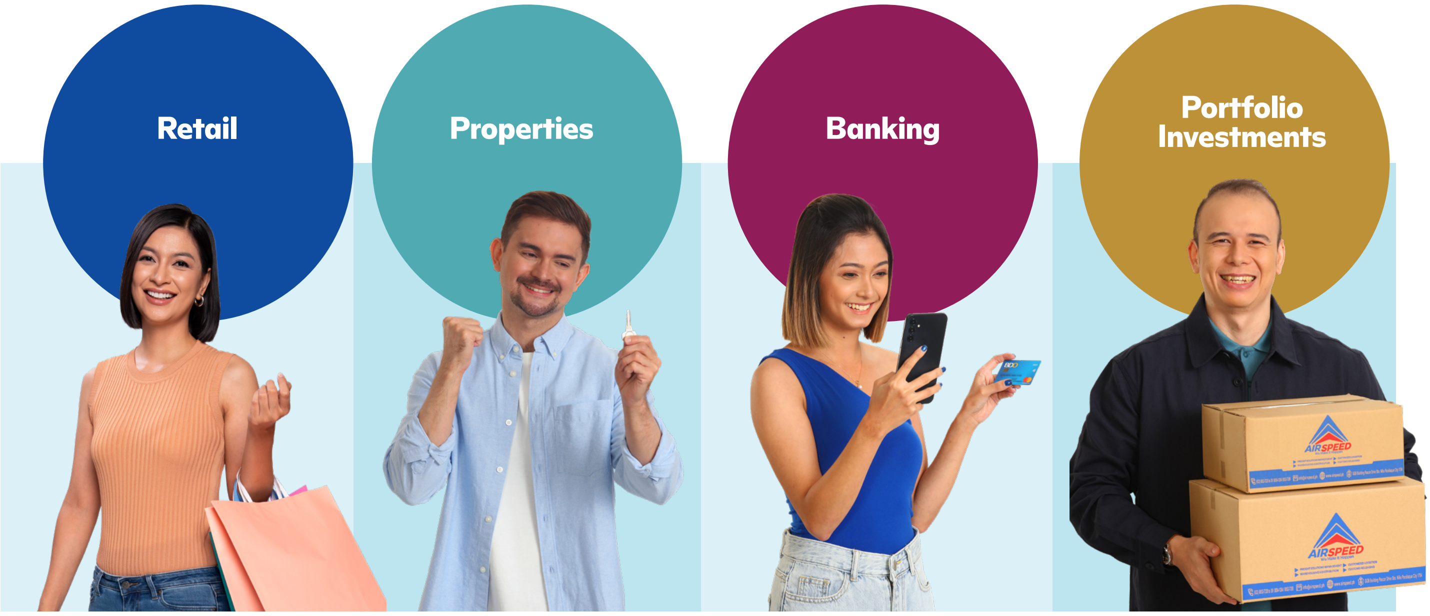
In fulfilling our customers' needs, we improve lives. In turn, we ourselves grow and improve the way we do our businesses.

We never take our customers' loyalty lightly. Instead, we do everything we can to earn it.

SM INVESTMENTS

Founded by Henry Sy, Sr., our company started as a small retailer in 1958 and has since grown to serve millions of Filipinos through our ecosystem of businesses.

Our success is built on our commitment to providing our customers with the best possible experience, making their daily lives more convenient and enjoyable.



Journeying with Our Customers

Our network of retail businesses spans our 74 Department Stores, 1,660 Specialty Stores, 65 Supermarkets, 54 Hypermarkets, 1,692 minimarts and other e-commerce formats, making us one of the largest players in the industry.

This year, The SM Store, SM Markets and Toy Kingdom have been recognized for their exceptional customer service, solidifying our commitment to delivering outstanding experiences. We are grateful for the unwavering support of our customers, who have been with us throughout our journey and continue to appreciate our dedication to serving them.

Aspiring with Our Customers

Tracing our entrepreneurial and customer service roots from retail, we have successfully built our business into various sectors of the property industry. Through our 85 malls and 22 lifestyle cities to 10 hotels, 8 convention centers and trade halls and 18 offices, we continue to innovate and create spaces that meet our customers' evolving needs and aspirations.

In expanding our property portfolio, we remain committed to sustainable development to positively impact the environment and communities we serve. With an extensive landbank of 2,324 hectares strategically located in emerging progressive cities, we are well positioned for future growth.

Partnering with Our Customers

Our banks are committed to partnering with our customers to support them with their financial goals. We take pride in serving the banking needs of Filipinos, particularly small businesses, contributing to the growth of the Philippine MSME sector. We do all these as we strive for financial inclusion by empowering the unbanked and increasing access to financial services.

BDO is the largest bank in the country and has the largest distribution network, with more than 4,800 ATMs nationwide and 1,720 operating branches and offices. BDO Network Bank has 500+ branches in provinces, while Cash Agad has 9,700+ partners in remote areas.

China Bank continues to provide financial assistance to expanding businesses effectively through its 648 branches and 1,069 ATMs nationwide.

Evolving with Our Customers

We make strategic investments in high-growth sectors in the Philippines, in companies that benefit from being part of the SM ecosystem. We aim to deliver substantial value for all stakeholders. Today, our portfolio has evolved through our diverse but related investments in logistics, renewable energy, commercial property, food manufacturing, leisure and mining.

With a commitment to elevating industry standards and contributing to the dynamic growth of our nation, we continue to make an impact across multiple sectors.

Statement of Management's Responsibility for Financial Statements

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2023 and 2022, in accordance with Philippine Financial Reporting Standards and for such internal controls as management determines are necessary, to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

AMANDO M. TETANGCO, JR.
Chairman of the Board

FREDERIC C. DYBUNCIO
President and
Chief Executive Officer

ERWIN G. PATO
Treasurer and
Executive Vice President

Signed this 28th day of February 2024

Report of the Audit Committee

The Audit Committee ("Committee") assists the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of SM Investments Corporation's (SMIC or the ''Company") financial reporting, internal control system, internal and external audit processes, and compliance with relevant laws and regulations. Likewise, the Committee oversees special investigations as may be necessary.

The Committee is composed of three (3) independent directors including the Committee Chairperson. The Committee members have relevant background, knowledge, skill and/or experience in the areas of finance and accounting, audit, risk management, information technology, and corporate governance. In 2023, they attended an annual corporate governance training program approved by the Securities and Exchange Commission (SEC). The Committee also performed the annual self-assessment/ evaluation and reviewed its performance against its Charter and other regulatory mandates to ensure its satisfactory performance.

The profiles and qualifications of the Committee members are as follows:

- **Tomasa H. Lipana** (Chair) is a Lead Independent Director of SMIC. She is a former Chairperson and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers. She is also an independent director and Audit Committee Chairperson of Flexo Manufacturing Corporation and Rural Bank of Silay City Inc. Previously, she was an independent director of Goldilocks Bakeshop Inc., Inter-Asia Development Bank, and QBE Seaboard Insurance Philippines. She was also an appointive Director of Trade and Investment Development Corporation (Philippine Guarantee Corporation, formerly Philippine Export-Import Credit Agency), the entity in-charge of the government guarantee system, for more than 5 years. She is a Fellow and Trustee of the Institute of Corporate Directors, and a Trustee of the Shareholders' Association of the Philippines, Inc., among other non-profit organizations. Ms. Lipana took up Executive Education/ Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She was bestowed the Accountancy Centennial Award for Excellence by the Professional Service Commission – Board of Accountancy. She also received the Outstanding CPA in the Public Practice Award from the Philippine Institute of Certified Public Accountants and the Outstanding Alumna Award from the University of the East where she graduated Cum Laude. She is also a CPA Board placer.

- **Ramon M. Lopez** is an Independent Director of SMIC. He currently serves as Independent Director of AIC Group of Companies Holding Corporation. Additionally, he is also an Independent Board Director of New Marketlink Pharmaceuticals Corporation and he also serves as the Chairman of the Governing Board for the Economic Research Institute for ASEAN and East Asia. He is also a Trustee and Vice-Chairman of the Valenzuela City Technological College (ValTech). He was the former Secretary of the Philippine Department of Trade and Industry (DTI). He has served for the full term of the administration of former President Rodrigo Roa Duterte. He chaired during his term the DTI institutions such as the Board of Investments, the Philippine Economic Zone Authority, the Export Development Council, Anti-Red Tape Authority Advisory Council, Philippine International Trading Corp., CITEM, and the Halal Board. He also supervised attached agencies such as the Intellectual Property Office of the Philippines, Technical Education and Skills Development Authority, and the Cooperative Development Authority, among others. He also received several awards such as the 2016 Nation Builders Award for Government Service and the Philippine Innovation Man of the Year Award in 2017. In 2018, he received from former President Duterte the Presidential Award, Order of Sikatuna, with a rank of Datu, one of the senior honors one can receive in the Philippines. He was also named by People Asia as one of the 2020 People of the Year, for the re-opening of the economy during the pandemic. In June 2022, he was also awarded the Presidential Medal of Merit for his vital role in the Inter-Agency Task Force for the Management of Emerging Infectious Diseases. He also recently received The Asia CEO Awards 2022 "Lifetime Contributor of the Year Award". Mr. Lopez has a Master's Degree in Development Economics class at Williams College, Massachusetts USA and an AB Degree in Economics from the University of the Philippines School of Economics.

- **Amando M. Tetangco, Jr.** is an Independent Director and Chairman of the Board of SMIC (effective June 16, 2023). He is also an Independent Director and Vice Chairman of the Board of Directors of SM Prime Holdings, Inc. He is concurrently an independent Director of Belle Corporation, Converge ICT Solutions, Inc. and Shell Pilipinas Corporation. He also currently holds directorates in Manila Hotel, Toyota Motor Philippines, and CIBI Information, Inc. He is also a trustee of St. Luke's Medical Center, Tan Yan Kee Foundation and Foundation for Liberty and Prosperity. Mr. Tetangco graduated from Ateneo de Manila University with an AB Economics degree (cum laude), and obtained his Masters in Public Policy and Administration (Development Economics) at the University of Wisconsin at Madison, Wisconsin, USA, as a BSP scholar. He was conferred the Honorary Doctorate in Management by the Asian Institute of Management in 2023. He attended various training programs at different institutions, including the Harvard Business School and the New York Institute of Finance. Mr. Tetangco was the third Governor of the Bangko Sentral ng Pilipinas (BSP) and Chairman of the Monetary Board, and served for two consecutive 6-year terms from July 2005 to July 2017. He was conferred the Order of Lakandula with the Rank of Bayani by the President of the Philippines in 2009 and the Order of the Rising Sun, Gold and Silver Star by the Emperor of Japan in 2019. He also received multiple recognition by a number of international organizations as one of the best central bank governors and chosen as MAP Management Man of the Year in 2015.

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

Audit Committee						
Office	**Name**	**2023 Meetings and Attendance**				
		2/24	**4/24**	**5/10**	**8/3**	**11/7**
Chairperson (ID)	Tomasa H. Lipana	√	√	√	√	√
Member (ID)	Ramon M. Lopez	√	√	√	√	√
Member	Jose T. Sio*	√	√	√	-	-
Member (ID)	Amando M. Tetangco, Jr.**	-	-	-	√	√

**Mr. Sio retired as Chairman of the Board of Directors effective June 16, 2023. **Mr. Tetangco was appointed as Chairman of the Board effective June 16, 2023. He was also appointed as member of the Audit Committee on the same date.*

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

Internal Audit

1. The Committee provided oversight of the Internal Audit.

   Under SMIC's Internal Audit Charter, the primary purpose of Internal Audit is to provide an independent, objective, and reasonable assurance and value-adding services through systematic and disciplined evaluation of the Company's governance system, risk management, and internal control environment of the Company as well as any entity within the Group, which Management or the Audit Committee deems necessary to include.

   To maintain the independence of the Internal Audit, the Chief Audit Executive (CAE) functionally reports to the Board of Directors, through the Audit Committee.

   The CAE has direct and free access to communicate with the Management and Audit Committee. The entire Internal Audit Team has full and unrestricted access to all records, documents, systems, and information required for the effective and efficient audit process.

2. The Committee reviewed and approved the 2023 Internal Audit plan, including the scope, methodology, organization structure and staffing.

3. The Committee monitored the implementation of the Internal Audit plan and reviewed the periodic reports of the CAE, summarizing the overall assessment of the Company's control environment, significant audit findings and areas of concern as well as the corresponding management responses and action plans.

External Audit

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

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

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

   - The annual audit plan for 2023, including scope, approach, risk-based methods, focus areas and time table;
   - The results of its examination and action plan to address pending audit issues; and
   - The assessment of internal controls and quality of financial reporting.

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

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

7. The Committee reviewed and approved all audit and non-audit services provided by SGV & Co. to the Company. The Committee also reviewed the significance of non-audit related fees in relation to the annual fees.

Financial Statements

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

9. The Committee reviewed and endorsed to the Board for approval the unaudited consolidated financial statements of SM Investments Corporation and its subsidiaries for the first quarter ended March 31, 2023, second quarter ended June 30, 2023, and third quarter ended September 30, 2023.

10. Based on its review and discussion, and subject to the limitations on the roles and responsibilities referred to above, the Committee recommended for Board approval, and the Board approved, the audited consolidated financial statements of SM Investments Corporation and its subsidiaries for the year ended December 31, 2023.

11. The Committee reviewed and discussed the performance, independence and qualifications of the External Auditor, SGV & Co., in the conduct of their audit of the consolidated financial statements of SM Investments Corporation and its subsidiaries for the year. Based on the review of their performance and qualifications, the Committee also recommended the re-appointment of SGV & Co. as the Company's External Auditor for 2024.

28 February 2024

Tomasa H. Lipana	**Ramon M. Lopez**	**Amando M. Tetangco, Jr.**	**Atty. Elmer B. Serrano**
Chairperson	Member	Member	Corporate Secretary

Independent Auditor's Report

The Board of Directors and Stockholders
SM Investments Corporation

Opinion

We have audited the consolidated financial statements of SM Investments Corporation and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2023 and 2022, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the consolidated financial statements, including material accounting information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Accounting for Investments in Associate Companies

As at December 31, 2023, the Group's investments in associate companies amounted to ₱350.8 billion, representing 28.6% and 22.1% of the Group's total noncurrent assets and total assets, respectively. The investments in associate companies are accounted for under the equity method and considered for impairment if there are indicators that such investments may be impaired. Given the magnitude of the carrying amount and share in equity on investments in associate companies, the significant management judgments and estimates made by the associate companies in determining expected credit loss and valuation of financial instruments that affect the associate's net income, as well as the significant management judgments and estimates applied in determining the recoverable amount of these investments, we consider this matter significant to our audit.

The details of these investments are disclosed in Note 13 to the consolidated financial statements.

Audit Response

We obtained relevant financial information of the associate companies and recomputed the Group's share in equity in net earnings. For the material associate company audited by other auditor, we sent audit instructions to the other auditor to perform an audit on the relevant financial information of the associate company for the purpose of the Group's consolidated financial statements. Our audit instructions cover the other auditor's scope of work, risk assessment procedures, audit strategy and reporting responsibilities. We discussed with the other auditor their key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment, and results of their work for the year ended December 31, 2023. We reviewed the working papers of the other auditor, focusing on the procedures performed on the review of the testing of the expected credit loss model and valuation of financial instruments. We also obtained the financial information of the associate companies for the year ended December 31, 2023 and recomputed the Group's share in net income for the year ended December 31, 2023.

For investments with indicators of possible impairment, we obtained an understanding of the management's process for evaluating the impairment of investments in associate companies. We involved our internal specialist in evaluating the methodologies and the assumptions used. We compared the key assumptions used, such as revenue growth rate against the historical performance of these associate companies and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of investment in associate companies.

Revenue and Cost Recognition from Sale of Real Estate

The Group's real estate revenue recognition process, policies and procedures are significant to our audit because these involve application of significant judgment and estimation in the following areas: (1) assessment of the probability that the entity will collect the consideration from the buyer; (2) determination of the transaction price; (3) application of the output method as the measure of progress in determining revenue from sale of real estate; (4) determination of the actual costs incurred as cost of real estate sold; and (5) recognition of cost to obtain a contract.

In evaluating whether collectability of the amount of consideration is probable, the Group considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is also assessed by considering factors such as history with the buyer, age of the outstanding receivables and pricing of the property. Management regularly evaluates the historical sales cancellations and back-outs if it would still support its current threshold of buyer's equity before commencing revenue recognition.

In determining the transaction price, the Group considers whether the selling price of the real estate property includes significant financing component.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress of work based on physical proportion of work done, including the impact of customized uninstalled materials, on the real estate project which requires technical determination by the Group's project engineers. This is based on the monthly project accomplishment report prepared by the third-party project managers as approved by the construction managers.

In determining the actual costs incurred to be recognized as cost of real estate sold, the Group estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The Group identifies sales commissions after contract inception as cost of obtaining a contract. For contracts which qualified for revenue recognition, the Group capitalizes the total sales commissions due to sales agent as cost to obtain a contract and recognizes the related commissions payable. The Group uses percentage of completion (POC) method in amortizing sales commissions consistent with the Group's revenue recognition policy.

The disclosures related to the Group's revenue recognition are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's real estate revenue and cost recognition process.

For the buyer's equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales cancellations from buyers with accumulated payments above the collection threshold. We traced the analysis to supporting documents such as notice of sales cancellation.

For the determination of the transaction price of real estate sale, we obtained an understanding of the Group's process in assessing whether a contract contains a financing component and whether that financing component is significant to the contract. We selected sample contracts from the sales contract database and identified their payment terms. We traced these selected contracts to the financing component calculation prepared by management, which covers the calculation on whether the financing component of the Group's contract with customers is significant. For these selected contracts, we traced the underlying data and assumptions used in the financing component calculation such as transaction price, cash discount, payment scheme, payment amortization table, and percentage of completion to the contract provision and projected percentage of completion schedule. We evaluated the Group's application of portfolio approach in the financing component calculation by understanding the rationale and basis of the parameters used (i.e., grouping of performance obligation based on percentage of completion, grouping of contracts based on payment scheme). We test computed the financing component of each portfolio as prepared by management.

For the application of the output method in determining revenue from sale of real estate, we obtained an understanding of the Group's processes for determining the POC and performed tests of the relevant controls. We inspected the certified POC reports prepared by the third-party project managers and assessed their competence, capabilities and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and inspected the supporting details of POC reports showing the completion of the major activities of the project construction.

For the cost of real estate sold, we obtained an understanding of the Group's cost accumulation process. For selected projects, we traced costs accumulated, including those incurred but not yet billed costs, to supporting documents such as contractors billing invoices, certificates of progress acceptance, official receipts and accomplishment reports, among others.

For the recognition of cost to obtain a contract, we obtained an understanding of the sales commissions process. For selected contracts, we agreed the basis for calculating the sales commissions capitalized and portion recognized in profit or loss, particularly (a) the percentage of commissions due against contracts with sales agents, (b) the total commissionable amount (e.g., net contract price) against the related contract to sell, and, (c) the POC against the POC used in recognizing the related revenue from sale of real estate.

Existence and Completeness of Merchandise Inventories

As at December 31, 2023, the merchandise inventories of the Group amounted to ₱38.9 billion, representing 10.8% of the Group's total current assets. The Group has several warehouses and operates multiple stores across the country. Since the merchandise inventories are material to the consolidated financial statements, and various warehouses and stores are geographically dispersed across the country, we consider this a key audit matter.

The disclosures about inventories are included in Note 11 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's inventory process and performed test of controls for selected stores and warehouses. We observed the conduct of physical inventory count at selected warehouses and stores. We performed test counts and compared the results to the Group's inventory compilation reports to determine if the compilation reports reflect the results of the inventory count. We traced the last documents used for shipping, receiving, and transfers which were obtained during the inventory count observation to the accounting records of sales and purchases. We inspected the reconciliations of the inventory compilation reports with the general ledger account balances and tested the reconciling items. We performed testing, on a sampling basis, of the Group's rollforward or rollback procedures on inventory quantities from the date of physical inventory count to the financial reporting date.

We also reviewed the working papers of other auditor on merchandise inventories, specifically on the observation and testing of physical inventory counts, testing of compilation procedures and the reconciliation of the physical inventory count to the general ledger and financial reports.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Belinda T. Beng Hui.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
Tax Identification No. 153-978-243
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
BIR Accreditation No. 08-001998-078-2023, October 23, 2023, valid until October 22, 2026
PTR No. 10079907, January 5, 2024, Makati City

February 28, 2024

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7, 21 and 28)	**₱103,745,558**	₱106,561,072
Time deposits (Notes 8, 21 and 28)	**602,466**	8,788,848
Financial assets at fair value through other comprehensive income (FVOCI) (Notes 9, 28 and 29)	**747,840**	534,865
Receivables and contract assets (Notes 10, 21 and 28)	**79,209,522**	84,320,589
Inventories (Note 11)	**117,474,980**	106,368,038
Other current assets (Notes 12, 21 and 28)	**57,690,959**	54,975,998
Total Current Assets	**359,471,325**	361,549,410
Noncurrent Assets		
Financial assets at FVOCI - net of current portion (Notes 9 and 28)	**26,317,778**	25,369,850
Investments in associate companies and joint ventures (Note 13)	**361,324,800**	328,271,536
Time deposits - net of current portion (Notes 8, 21, 28 and 29)	**22,324,681**	24,130,581
Property and equipment (Note 14)	**52,851,633**	47,881,014
Investment properties (Note 15)	**537,067,223**	485,982,301
Right-of-use assets (Note 27)	**48,540,412**	44,138,808
Intangibles (Note 16)	**40,275,568**	40,277,349
Other noncurrent assets (Notes 16, 21 and 28)	**138,045,093**	121,824,791
Total Noncurrent Assets	**1,226,747,188**	1,117,876,230
	₱1,586,218,513	₱1,479,425,640
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21, 28 and 31)	**₱13,414,239**	₱20,811,524
Accounts payable and other current liabilities (Notes 18, 21, 27 and 28)	**200,169,027**	181,961,708
Income tax payable	**3,649,923**	3,204,714
Current portion of long-term debt (Notes 19, 21, 28 and 31)	**113,528,791**	87,047,213
Total Current Liabilities	**330,761,980**	293,025,159
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28, 29 and 31)	**374,758,859**	397,849,704
Lease liabilities - net of current portion (Notes 27 and 31)	**32,342,279**	32,236,621
Deferred tax liabilities (Note 26)	**18,129,316**	16,797,862
Tenants' deposits and others (Notes 25, 27, 28 and 29)	**58,025,874**	47,326,283
Total Noncurrent Liabilities	**483,256,328**	494,210,470
Total Liabilities	**814,018,308**	787,235,629

(Forward)

	December 31	
	2023	2022
Equity Attributable to Owners of the Parent Company		
Capital stock (Note 20)	**₱12,261,146**	₱12,261,146
Additional paid-in capital	**71,837,361**	75,839,217
Treasury stock	**(40,912)**	(40,912)
Equity adjustments from common control transactions (Note 20)	**(6,660,472)**	(6,660,472)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)
Cumulative translation adjustment	**1,587,205**	2,102,782
Fair value changes on cash flow hedges and others	**809,143**	1,610,364
Unrealized gain on financial assets at FVOCI (Note 9)	**11,075,393**	11,823,413
Remeasurement loss on defined benefit asset/obligation (Note 25)	**(3,150,991)**	(1,721,868)
Share in other comprehensive loss of associate companies and joint ventures - net	**(11,376,601)**	(10,763,209)
Retained earnings (Note 20):		
Appropriated	**37,000,000**	37,000,000
Unappropriated	**443,288,813**	375,463,837
Total Equity Attributable to Owners of the Parent	**556,604,699**	496,888,912
Non-controlling Interests	**215,595,506**	195,301,099
Total Equity	**772,200,205**	692,190,011
	₱1,586,218,513	₱1,479,425,640

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

(Amounts in Thousands Except Per Share Data)

	Years Ended December 31		
	2023	2022	2021
REVENUES			
Sales:			
Merchandise	**₱401,725,529**	₱367,318,577	₱294,694,316
Real estate	**42,124,088**	39,046,514	45,116,570
Rent (Notes 15, 21 and 27)	**61,784,742**	49,167,565	29,642,244
Equity in net earnings of associate companies and joint ventures (Note 13)	**44,945,113**	35,825,734	26,768,811
Others (Note 22)	**65,672,415**	61,640,188	35,511,568
	616,251,887	552,998,578	431,733,509
COSTS AND EXPENSES (Notes 11 and 23)	**474,083,864**	435,430,927	352,812,922
OTHER INCOME (CHARGES)			
Interest expense (Notes 21 and 24)	**(24,084,744)**	(21,547,070)	(19,138,771)
Interest income (Notes 21 and 24)	**4,048,278**	3,042,370	2,203,351
Investment impairment reversal (provision) (Note 13)	**320,206**	(787,166)	–
Gain (loss) from fair value changes on derivatives - net	**(30,731)**	866,500	317,743
Foreign exchange gain (loss) - net and others (Note 28)	**396,174**	(2,092)	1,347,350
	(19,350,817)	(18,427,458)	(15,270,327)
INCOME BEFORE INCOME TAX	**122,817,206**	99,140,193	63,650,260
PROVISION FOR INCOME TAX (Note 26)			
Current	**16,209,025**	14,248,182	7,224,482
Deferred	**423,118**	546,638	1,782,037
	16,632,143	14,794,820	9,006,519
NET INCOME	**₱106,185,063**	₱84,345,373	₱54,643,741
Attributable to			
Owners of the Parent (Note 30)	**₱76,989,043**	₱61,653,665	₱40,411,896
Non-controlling interests	**29,196,020**	22,691,708	14,231,845
	₱106,185,063	₱84,345,373	₱54,643,741
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 30)	**₱63.00**	₱50.88	₱33.55

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
NET INCOME	**₱106,185,063**	₱84,345,373	₱54,643,741
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Cumulative translation adjustment	**(1,035,219)**	27,928	2,166,840
Fair value changes on cash flow hedges	**(1,758,911)**	4,608,383	2,014,960
	(2,794,130)	4,636,311	4,181,800
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain (loss) on defined benefit obligation (Note 25)	**(2,503,907)**	(1,274,242)	593,126
Net unrealized gain (loss) on financial assets at FVOCI (Note 9)	**(599,993)**	(2,478,988)	391,870
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	**344,024**	(269,602)	(178,295)
	(2,759,876)	(4,022,832)	806,701
Share in other comprehensive loss of associate companies and joint ventures - net (Note 13)	**(641,624)**	(4,336,268)	(4,184,715)
TOTAL COMPREHENSIVE INCOME	**₱99,989,433**	₱80,622,584	₱55,447,527
Attributable to			
Owners of the Parent	**₱72,881,710**	₱56,987,529	₱40,265,811
Non-controlling interests	**27,107,723**	23,635,055	15,181,716
	₱99,989,433	₱80,622,584	₱55,447,527

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021

(Amounts in Thousands Except Per Share Data)

	Capital Stock	Additional Paid-in Capital	Treasury Stock	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment
As at January 1, 2023	**₱12,261,146**	**₱75,839,217**	**(₱40,912)**	**(₱6,660,472)**	**(₱25,386)**	**₱2,102,782**
Net income	**–**	**–**	**–**	**–**	**–**	**–**
Other comprehensive loss	**–**	**–**	**–**	**–**	**–**	**(515,577)**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(515,577)**
Transactions with non-controlling interests	**–**	**(4,001,856)**	**–**	**–**	**–**	**–**
Cash dividends - ₱7.50 per share (Note 20)	**–**	**–**	**–**	**–**	**–**	**–**
Cash dividends received by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**
Increase in non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**
As at December 31, 2023	**₱12,261,146**	**₱71,837,361**	**(₱40,912)**	**(₱6,660,472)**	**(₱25,386)**	**₱1,587,205**
As at January 1, 2022	₱12,045,829	₱75,827,181	₱–	(₱6,298,551)	(₱25,386)	₱2,253,475
Net income	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	–	(150,693)
Total comprehensive income	–	–	–	–	–	(150,693)
Effect of business combination (Note 5)	215,317	–	(40,912)	(361,921)	–	–
Transactions with non-controlling interests	–	12,036	–	–	–	–
Cash dividends - ₱6.25 per share (Note 20)	–	–	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–	–	–
Increase in non-controlling interests	–	–	–	–	–	–
As at December 31, 2022	₱12,261,146	₱75,839,217	(₱40,912)	(₱6,660,472)	(₱25,386)	₱2,102,782

Equity Attributable to Owners of the Parent								
Fair Value Changes on Cash Flow Hedges	Unrealized Gain on Financial Assets at FVOCI	Remeasurement Loss on Defined Benefit Asset/ Obligation	Share in Other Comprehensive Loss of Associates - Net	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
₱1,610,364	**₱11,823,413**	**(₱1,721,868)**	**(₱10,763,209)**	**₱37,000,000**	**₱375,463,837**	**₱496,888,912**	**₱195,301,099**	**₱692,190,011**
–	**–**	**–**	**–**	**–**	**76,989,043**	**76,989,043**	**29,196,020**	**106,185,063**
(801,221)	**(748,020)**	**(1,429,123)**	**(613,392)**	**–**	**–**	**(4,107,333)**	**(2,088,297)**	**(6,195,630)**
(801,221)	**(748,020)**	**(1,429,123)**	**(613,392)**	**–**	**76,989,043**	**72,881,710**	**27,107,723**	**99,989,433**
–	**–**	**–**	**–**	**–**	**–**	**(4,001,856)**	**174,174**	**(3,827,682)**
–	**–**	**–**	**–**	**–**	**(9,164,067)**	**(9,164,067)**	**–**	**(9,164,067)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**(7,459,930)**	**(7,459,930)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**472,440**	**472,440**
₱809,143	**₱11,075,393**	**(₱3,150,991)**	**(₱11,376,601)**	**₱37,000,000**	**₱443,288,813**	**₱556,604,699**	**₱215,595,506**	**₱772,200,205**
(₱1,201,352)	₱14,289,319	(₱1,026,650)	(₱6,597,174)	₱37,000,000	₱321,337,891	₱447,604,582	₱176,003,603	₱623,608,185
–	–	–	–	–	61,653,665	61,653,665	22,691,708	84,345,373
2,811,716	(2,465,906)	(695,218)	(4,166,035)	–	–	(4,666,136)	943,347	(3,722,789)
2,811,716	(2,465,906)	(695,218)	(4,166,035)	–	61,653,665	56,987,529	23,635,055	80,622,584
–	–	–	–	–	–	(187,516)	239,695	52,179
–	–	–	–	–	–	12,036	21,245	33,281
–	–	–	–	–	(7,527,719)	(7,527,719)	–	(7,527,719)
–	–	–	–	–	–	–	(5,273,377)	(5,273,377)
–	–	–	–	–	–	–	674,878	674,878
₱1,610,364	₱11,823,413	(₱1,721,868)	(₱10,763,209)	₱37,000,000	₱375,463,837	₱496,888,912	₱195,301,099	₱692,190,011

	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Fair Value Changes on Cash Flow Hedges
As at January 1, 2021	₱12,045,829	₱75,823,506	(₱6,299,797)	(₱25,386)	₱876,050	(₱2,623,849)
Net income	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	1,377,425	1,422,497
Total comprehensive income	–	–	–	–	1,377,425	1,422,497
Effect of business combination (Note 5)	–	–	1,246	–	–	–
Realized loss on sale of financial assets at FVOCI (Note 9)	–	–	–	–	–	–
Transactions with non-controlling interests	–	3,675	–	–	–	–
Cash dividends - ₱4.25 per share (Note 20)	–	–	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–	–	–
Increase in non-controlling interests	–	–	–	–	–	–
As at December 31, 2021	₱12,045,829	₱75,827,181	(₱6,298,551)	(₱25,386)	₱2,253,475	(₱1,201,352)

See accompanying Notes to Consolidated Financial Statements.

Equity Attributable to Owners of the Parent							
Unrealized Gain on Financial Assets at FVOCI	Remeasurement Loss on Defined Benefit Asset/ Obligation	Share in Other Comprehensive Loss of Associates - Net	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
₱13,627,808	(₱1,639,759)	(₱2,629,722)	₱37,000,000	₱286,298,019	₱412,452,699	₱160,895,255	₱573,347,954
–	–	–	–	40,411,896	40,411,896	14,231,845	54,643,741
408,336	613,109	(3,967,452)	–	–	(146,085)	949,871	803,786
408,336	613,109	(3,967,452)	–	40,411,896	40,265,811	15,181,716	55,447,527
–	–	–	–	–	1,246	3,073,712	3,074,958
253,175	–	–	–	(253,175)	–	–	–
–	–	–	–	–	3,675	25,466	29,141
–	–	–	–	(5,118,849)	(5,118,849)	–	(5,118,849)
–	–	–	–	–	–	(3,816,245)	(3,816,245)
–	–	–	–	–	–	643,699	643,699
₱14,289,319	(₱1,026,650)	(₱6,597,174)	₱37,000,000	₱321,337,891	₱447,604,582	₱176,003,603	₱623,608,185

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱122,817,206**	₱99,140,193	₱63,650,260
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 13)	**(44,945,113)**	(35,825,734)	(26,768,811)
Depreciation and amortization (Notes 14, 15, 16, 23 and 27)	**24,706,691**	23,653,863	20,936,405
Interest expense (Note 24)	**24,084,744**	21,547,070	19,138,771
Provisions (reversal of provisions) - net (Notes 10 and 23)	**4,400,289**	5,099,217	(3,982,227)
Interest income (Note 24)	**(4,048,278)**	(3,042,370)	(2,203,351)
Dividend income (Note 21)	**(911,619)**	(1,177,340)	(586,703)
Investment impairment provision (reversal) (Note 13)	**(320,206)**	787,166	–
Gain on disposal of investments and properties - net	**(66,131)**	(209,206)	(579,680)
Unrealized foreign exchange loss (gain) - net	**44,431**	1,132,078	(484,756)
Loss (gain) on fair value changes on derivatives - net	**30,731**	(866,500)	(317,743)
Income before working capital changes	**125,792,745**	110,238,437	68,802,165
Decrease (increase) in:			
Receivables and contract assets	**(16,882,660)**	(7,501,824)	(5,230,950)
Inventories	**(24,275,052)**	(40,685,904)	(37,303,043)
Other current assets	**(1,436,571)**	(635,950)	(8,465,803)
Increase in:			
Accounts payable and other current liabilities	**14,194,998**	34,081,718	36,543,695
Tenants' deposits and others	**9,233,692**	2,544,753	972,808
Net cash generated from operations	**106,627,152**	98,041,230	55,318,872
Income tax paid	**(15,747,502)**	(13,356,765)	(7,583,481)
Net cash provided by operating activities	**90,879,650**	84,684,465	47,735,391
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investment properties	**74,855**	84,863	914,962
Property and equipment	**52,738**	241,913	365,861
Investment in associate companies and joint ventures	**–**	50,000	–
Additions to:			
Investment properties (Note 15)	**(68,205,952)**	(33,990,435)	(42,155,574)
Property and equipment (Note 14)	**(12,361,763)**	(9,678,003)	(13,286,055)
Financial assets at FVOCI	**(692,125)**	–	(1,427)
Investments in associate companies and joint ventures (Note 13)	**(288,227)**	(73,500)	(358,120)
Decrease (increase) in:			
Time deposits	**9,857,111**	(27,518,818)	(2,829,397)
Other noncurrent assets	**14,679,276**	8,794,846	14,938,709
Dividends received	**11,240,255**	8,136,996	5,180,690
Interest received	**4,289,389**	2,846,341	2,021,177
Purchase consideration net of cash, from acquisition of subsidiaries (Note 5)	**–**	(88,608)	(5,684,648)
Net cash used in investing activities	**(41,354,443)**	(51,194,405)	(40,893,822)

(Forward)

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt	**₱107,590,529**	₱100,256,801	₱129,529,420
Bank loans	**45,599,966**	66,878,421	53,296,257
Payments of:			
Long-term debt	**(103,343,041)**	(72,630,533)	(92,624,775)
Bank loans	**(52,906,823)**	(73,264,105)	(53,509,929)
Interest	**(22,834,339)**	(19,909,588)	(18,412,696)
Dividends	**(17,335,101)**	(12,714,420)	(9,653,454)
Lease liabilities	**(5,219,712)**	(4,853,925)	(4,692,207)
Acquisition of non-controlling interest in a subsidiary	**(5,169,476)**	–	–
Partial sale of shares in a subsidiary	**1,294,623**	–	–
Net cash provided by (used in) financing activities	**(52,323,374)**	(16,237,349)	3,932,616
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,798,167)**	17,252,711	10,774,185
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(17,347)**	(44,273)	(82,117)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**106,561,072**	89,352,634	78,660,566
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱103,745,558**	₱106,561,072	₱89,352,634

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On December 27, 2019, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's articles of incorporation changing its corporate life to perpetual. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

SMIC is one of the largest publicly listed companies in the Philippines with interests in market leading businesses in retail, banking and property. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD), as approved and recommended for approval by the Audit Committee, on February 28, 2024.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The consolidated financial statements of the Parent Company and its subsidiaries (the Group) are prepared on a historical cost basis, except for derivative financial instruments and financial assets at fair value through other comprehensive income (FVOCI) which are measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRSs). All values are rounded to the nearest thousand Peso except when otherwise indicated. The Group reclassified certain income and balance sheet accounts in 2022 and 2021 to conform to the 2023 presentation and classification. The reclassification has no impact on the 2022 and 2021 profit or loss and equity of the Group.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with PFRS.

Basis of Consolidation
The Group is considered to have control over an investee when the Group has:

- power over the investee (i.e., existing rights that give it the ability to direct the relevant activities of the investee);
- exposure or rights to variable returns from its involvement with the investee; and,
- the ability to use its power over the investee to affect its returns.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and,
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control until the date the Group ceases to have control over the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. When the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any noncontrolling interests;
- derecognizes the cumulative translation adjustments recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;

- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

The consolidated financial statements include the accounts of the Parent Company and the subsidiaries listed below:

		Percentage of Ownership			
		2023		2022	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	**50**	**–**	50	–
SM Development Corporation and Subsidiaries	Real estate development	**–**	**100**	–	100
Highlands Prime Inc. and Subsidiary	Real estate development	**–**	**100**	–	100
Costa del Hamilo, Inc. and Subsidiary	Real estate development	**–**	**100**	–	100
Magenta Legacy, Inc.	Real estate development	**–**	**100**	–	100
Associated Development Corporation	Real estate development	**–**	**100**	–	100
Prime Metro Estate, Inc. and Subsidiary	Real estate development	**–**	**100**	–	100
Tagaytay Resort Development Corp	Real estate development	**–**	**100**	–	100
SM Arena Complex Corporation	Conventions	**–**	**100**	–	100
MOA Esplanade Port, Inc.	Port terminal operations	**–**	**100**	–	100
Premier Clark Complex, Inc.	Real estate development	**–**	**100**	–	100
SM Hotels and Conventions Corp. and Subsidiaries	Hotel and conventions	**–**	**100**	–	100
First Asia Realty Development Corp.	Real estate development	**–**	**74**	–	74
Premier Central, Inc. and Subsidiary	Real estate development	**–**	**100**	–	100
Consolidated Prime Dev. Corp.	Real estate development	**–**	**100**	–	100
Premier Southern Corp.	Real estate development	**–**	**100**	–	100
San Lazaro Holdings Corporation	Real estate development	**–**	**100**	–	100
Southernpoint Properties Corp.	Real estate development	**–**	**100**	–	100
First Leisure Ventures Group Inc.	Real estate development	**–**	**50**	–	50
CHAS Realty and Development Corporation and Subsidiaries	Real estate development	**–**	**100**	–	100
Springfield Global Enterprises Limited *[BVI]	Real estate development	**–**	**100**	–	100
Simply Prestige Limited and Subsidiaries *[BVI]	Real estate development	**–**	**100**	–	100
SM Land (China) Limited and Subsidiaries *[Hong Kong]	Real estate development	**–**	**100**	–	100
Rushmore Holdings, Inc.	Real estate development	**–**	**100**	–	100
Prime_Commercial Property Management Corp. and Subsidiaries	Real estate development	**–**	**100**	–	100
Mindpro, Incorporated	Real estate development	**–**	**70**	–	70
A. Canicosa Holdings, Inc.	Real estate development	**–**	**100**	–	100
AD Canicosa Properties, Inc.	Real estate development	**–**	**100**	–	100
Cherry Realty Development Corporation	Real estate development	**–**	**100**	–	100
Supermalls Transport Services, Inc.	Real estate development	**–**	**100**	–	100
SM Smart City Infrastructure and Development Corporation	Real estate development	**–**	**100**	–	100
Britannia Trading Corp. and Subsidiaries	Trading, importing and exporting of goods	**–**	**100**	–	100
Mountain Bliss Resort & Development Corp. and Subsidiary	Real estate development	**100**	**–**	100	–
Intercontinental Development Corporation	Real estate development	**97**	**3**	97	3
Prime Central Limited and Subsidiaries *[BVI]	Investment	**100**	**–**	100	–
Bellevue Properties, Inc.	Real estate development	**62**	**–**	62	–
Neo Subsidiaries [(a)]	Real estate development	**95**	**–**	95	–
Nagtahan Property Holdings, Inc.	Real estate development	**100**	**–**	100	–
Philippines Urban Living Solutions, Inc. (PULSI)	Real estate development	**71**	**–**	71	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	**77**	**–**	77	–
Others					
Primebridge Holdings, Inc. and Subsidiaries	Investment	**100**	**–**	100	–
Multi-Realty Development Corporation	Investment	**91**	**–**	91	–
Henfels Investments Corporation	Investment	**100**	**–**	99	–
Belleshares Holdings, Inc.	Investment	**99**	**–**	99	–
2GO Group, Inc. (Note 5)	Integrated Supply Chain	**67**	**–**	53	–
Goldilocks Bakeshop, Inc. (Note 5)	Bakery products and other food items	**64**	**–**	74	–
Globalfund Holdings, Inc.	Investment	**100**	**–**	100	–
SMIC SG Holdings Pte. Ltd. *[Singapore]	Investment	**100**	**–**	100	–
Katimak Holdings, Inc. (Note 5)	Investment	**100**	**–**	100	–
Allfirst Renewables Holdings, Inc. (Note 5)	Investment	**89**	**11**	89	11
Philippine Geothermal Production Company, Inc. (PGPC) and Subsidiaries (Note 5)	Development and utilization of minerals, geothermal and other products	**60**	**40**	60	40
AIC Group of Companies Holding Corp. (Airspeed) (Note 5)	Integrated Supply Chain	**51**	**–**	51	–

*The principal place of business and country of incorporation of the subsidiaries listed above is in the Philippines except for those marked * and as indicated after the company name.*

(a) Neo Subsidiaries include N-Plaza BGC Land, Inc., N-Plaza BGC Properties, Inc., N-Quad BGC Land, Inc., N-Quad BGC Properties, Inc., N-Square BGC Land, Inc., N-Square BGC Properties, Inc., N-Cube BGC Land, Inc., N-Cube BGC Properties, Inc., N-One BGC Land, Inc. and N-One BGC Properties, Inc.

Material Partly-owned Subsidiary
The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% of SM Prime as at December 31, 2023 and 2022.

The summarized financial information of SM Prime follows:

Financial Position

	December 31	
	2023	2022
	(In Thousands)	
Current assets	**₱217,455,628**	₱222,008,236
Noncurrent assets	**725,871,947**	652,206,416
Total assets	**₱943,327,575**	₱874,214,652
Current liabilities	**₱172,416,008**	₱145,170,302
Noncurrent liabilities	**372,024,531**	363,892,744
Total liabilities	**₱544,440,539**	₱509,063,046
Total equity	**₱398,887,036**	₱365,151,606
Attributable to:		
Owners of the Parent	**₱396,196,619**	₱363,201,490
Non-controlling interests	**2,690,417**	1,950,116
	₱398,887,036	₱365,151,606

Statements of Income

	Years Ended December 31		
	2023	2022	2021
		(In Thousands)	
Revenues	**₱128,097,541**	₱105,785,635	₱82,315,484
Costs and expenses	**66,818,300**	56,542,322	49,900,933
Other charges	**(11,439,422)**	(10,529,309)	(4,681,026)
Income before income tax	**49,839,819**	38,714,004	27,733,525
Provision for income tax	**8,975,974**	7,970,875	5,822,122
Net income	**40,863,845**	30,743,129	21,911,403
Other comprehensive income (loss)	**(213,165)**	2,910,173	4,180,611
Total comprehensive income	**₱40,650,680**	₱33,653,302	₱26,092,014
Attributable to:			
Owners of the Parent	**₱40,010,501**	₱30,099,799	₱21,786,516
Non-controlling interests	**853,344**	643,330	124,887
Net income	**₱40,863,845**	₱30,743,129	₱21,911,403
Attributable to:			
Owners of the Parent	**₱39,798,392**	₱33,013,181	₱25,968,260
Non-controlling interests	**852,288**	640,121	123,754
Total comprehensive income	**₱40,650,680**	₱33,653,302	₱26,092,014
Dividends paid to non-controlling interests	**₱324,450**	₱144,050	₱129,050

Cash Flows

	Years Ended December 31		
	2023	2022	2021
		(In Thousands)	
Net cash provided by operating activities	**₱61,941,387**	₱34,933,212	₱30,667,161
Net cash used in investing activities	**(66,714,473)**	(52,244,301)	(44,113,678)
Net cash provided by (used in) financing activities	**(5,513,233)**	19,685,743	22,623,545
Effect of exchange rate changes on cash and cash equivalents	**43,039**	(90,424)	(62,790)
Net increase (decrease) in cash and cash equivalents	**(₱10,243,280)**	₱2,284,230	₱9,114,238

3. Summary of Material Accounting Policies, Changes and Improvements

The material accounting policies adopted in the preparation of the consolidated financial statements are summarized below.

Determination of Fair Value of Assets and Liabilities
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or,
- in the most advantageous market for the asset or liability, in the absence of a principal market.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their best economic interest.

The fair value measurement of a nonfinancial asset considers the market participant's ability to generate economic benefits by using and/or selling the asset to another market participant in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities for which fair value is measured based on the lowest level input that is significant to the fair value measurement as a whole and disclosed in the consolidated financial statements based on the fair value hierarchy described below:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and,
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Group has assessed the class of assets and liabilities on the basis of the nature, characteristics and risks of the subject asset or liability and the fair value hierarchy.

Financial Instruments

Financial Assets

Initial Recognition and Measurement
At initial recognition, financial assets are classified as, and measured at amortized cost, FVOCI, and fair value through profit or loss (FVPL). The classification at initial recognition depends on the contractual cash flow characteristics of the financial assets and the Group's business model for managing them. The initial measurement of financial assets, except for those classified as FVPL, includes the transaction cost. The exception is for trade receivables that do not contain a significant financing component. These are measured at the transaction price determined under PFRS 15, *Revenue from Contracts with Customers.*

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent Measurement
Subsequent to initial recognition, the Group classifies its financial assets in the following categories:

- Amortized cost
- FVPL
- FVOCI
  - with recycling of cumulative gains and losses (debt instruments)
  - with no recycling of cumulative gains and losses upon derecognition (equity instruments)

Financial Assets at Amortized Cost (Debt Instruments)
The Group measures financial assets at amortized cost when:
- The financial asset is held within a business model with the objective to hold these and collect contractual cash flows; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, time deposits, receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account) and long-term notes (included under "Other noncurrent assets" account).

Financial Assets at FVPL
Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL and financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model.

Financial assets at FVPL are measured at fair value. Changes in fair values are recognized in profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative when:

- The economic characteristics and risks are not closely related to the host;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and,
- The hybrid contract is not measured at FVPL.

Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required, or a reclassification of a financial asset out of the FVPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVPL.

Financial Assets Designated at FVOCI (Equity Instruments)
Upon initial recognition, the Group can elect to irrevocably classify its equity investments as equity instruments designated at FVOCI when these meet the definition of equity under Philippine Accounting Standard (PAS) 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined at instrument level.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as income in the consolidated statement of income when the right of payment is established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group's equity instruments at FVOCI include investments in shares of stock and club shares (included under "Financial assets at FVOCI" account).

Derecognition
A financial asset, part of a financial asset or part of a group of similar financial assets, is primarily derecognized when:

- The right to receive cash flows from the asset has expired; or,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or, (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates the extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Modification of Financial Asset
The Group derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between the carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Group considers both qualitative and quantitative factors in assessing whether the modification of financial asset is substantial or not. The Group considers the following factors in its assessment:

- Change in currency;
- Introduction of an equity feature;
- Change in counterparty; and
- Asset no longer qualified as "solely payment for principal and interest".

The Group also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Group considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid, net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in profit or loss.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a new financial asset. Accordingly, the date of the modification is considered as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for expected credit loss (ECL) measurement purposes, unless the new financial asset is deemed to be originated as credit impaired.

Impairment
The Group recognizes an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

To calculate ECLs, the Group uses the provision matrix for rent and other receivables, vintage approach for receivables from sales of real estate (billed and unbilled) and general approach (low credit risk simplification) for treasury assets.

Under the provision matrix, ECLs are calculated based on lifetime ECLs. Changes in credit risk are not tracked, instead, a loss allowance based on lifetime ECLs adjusted for forward-looking factors specific to the debtors and the economic environment is recognized.

Under the vintage approach, ECLs are calculated based on the cumulative loss rates of given real estate receivable pool. The probability of default is derived from the historical data of a homogenous portfolio that share the same origination period. Information on the number of loan defaults for fixed time intervals is utilized to create the probability model. It allows the evaluation of the loan activity from origination period to the end of the contract period. Macroeconomic indicators such as forward-looking data on inflation rate are also considered. The probability of default is applied to the loss estimate which is the difference between the contractual cash flows due and the amount expected to be received, including the cost of repossession of the subject real estate property and other related costs. In calculating the recovery rates, collections and/or cash from the resale of foreclosed real estate properties, net of direct costs to obtain and sell the real estate properties, are considered such as commission, cost of refurbishment, payment required under Maceda law, and cost to complete for incomplete units. As these are future cash flows, these are discounted to the time of default using the appropriate effective interest rate.

The Group considers a financial asset in default when contractual payments are 120 days past due or when sales are cancelled, supported by a notarized cancellation letter. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

Financial Liabilities

<u>Initial Recognition and Measurement</u>
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings and payables, net of directly attributable costs.

The Group's financial liabilities include bank loans, accounts payable and other current liabilities (excluding payable to government agencies), dividends payable presented under "Other current liabilities", long-term debt, lease liabilities and tenants' deposits and others.

<u>Subsequent Measurement</u>
Loans and Borrowings
Interest-bearing loans and borrowings and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

The calculation of amortized cost considers any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in the consolidated statement of income.

Financial Liabilities at FVPL
Financial liabilities at FVPL include those held for trading as well as derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless these are designated as effective hedging instruments. Gains and losses on liabilities held for trading are recognized in the consolidated statement of income.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

Exchange or Modification of Financial Liabilities
The Groups considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When the exchange or modification of the existing financial liability is not considered as substantial, the Group recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred are adjusted to the carrying amount of the financial instrument and amortized over the remaining term of the modified financial instrument.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, i.e., to realize the assets and settle the liabilities simultaneously.

Derivative Financial Instruments and Hedge Accounting

<u>Initial Recognition and Subsequent Measurement</u>
The Group uses derivative financial instruments such as cross-currency swaps, foreign currency call options, interest rate swaps, options and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or,
- Cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item.

Hedges are accounted for as fair value hedges or cash flow hedges.

Fair Value Hedge
The change in the fair value of a hedge instrument is recognized in the consolidated statement of income. The change in the fair value attributable to the risk hedged is recorded as part of the carrying value of the hedge instrument and is also recognized in the consolidated statement of income as other expense.

For fair value hedges carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization is initiated when an adjustment exists and no later than when the hedged instrument ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

In case of derecognition, the unamortized fair value of the hedged instrument is recognized immediately in profit or loss.

Cash Flow Hedges
The effective portion of the gain or loss on the hedging instrument is recognized in OCI, while any ineffective portion is recognized immediately in the consolidated statement of income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged instrument.

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under "Fair value changes on cash flow hedges and others" account.

The amounts accumulated in OCI are accounted for depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which hedged cash flows affect profit or loss.

If hedge accounting is discontinued, the amount accumulated in OCI shall remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount shall be reclassified to profit or loss as a reclassification adjustment. When the hedged cash flow occurs, any amount remaining in accumulated OCI shall be accounted for depending on the nature of the underlying transaction.

Merchandise Inventories

Merchandise inventories' costs are primarily determined using the weighted average method.

Current Portion of Land and Development and Condominium and Residential Units for Sale

The current portion of land and development and condominium and residential units for sale are stated at the lower of cost or net realizable value. Cost includes those costs incurred for development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business less costs to complete and the estimated cost to make the sale. The current portion of land and development and condominium and residential units for sale includes properties that are constructed for sale in the ordinary course of business, rather than for rental or capital appreciation.

Cost incurred for the development and improvement of the properties includes the following:

- land cost;
- amounts paid to contractors for construction and development; and,
- planning and design, and site preparation, as well as professional fees, property transfer taxes, construction overhead and others.

Property and Equipment

Property and equipment, except land, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Land is stated at cost less any impairment in value.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets, namely:

Buildings and improvements	5–25 years
Store equipment and improvements	5–10 years
Data processing equipment	4–8 years
Furniture, fixtures and office equipment	3–10 years
Machinery and equipment	2–10 years
Leasehold improvements	5–20 years or term of the lease, whichever is shorter
Transportation equipment	5–15 years
Vessels in operation, excluding drydocking cost, and vessel equipment and improvements	30–35 years
Containers and reefer vans	5–10 years

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period. The carrying value of the assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Investment Properties

Investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. Land is stated at cost less any impairment in value.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets, namely:

Land improvements	3–10 years
Buildings and leasehold improvements	5–40 years or term of the lease, whichever is shorter
Building equipment, furniture and others	3–15 years

The residual values, useful lives and method of depreciation and amortization of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in Progress

Construction in progress under property and equipment and investment property represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated.

Tenants' Deposits
Tenants' deposits are measured at amortized cost. Tenants' deposits refer to security deposits received from various tenants upon inception of the respective lease contracts on the Group's investment properties. At the termination of the lease contracts, the deposits received by the Group are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. The related lease contracts usually have a term of more than twelve months.

Property Acquisitions, Business Combinations and Acquisitions of Non-controlling Interests

Property Acquisitions and Business Combinations. When property is acquired through corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Business combinations are accounted for using the acquisition method except for business combinations under common control in which an accounting similar to pooling of interest method is used. Business combinations under common control are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in "Costs and expenses" account in the consolidated statement of income.

For accounting similar to pooling of interest method, the assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur, and for any comparative periods presented, are included in the consolidated financial statements of the Group at their carrying amounts as if the combinations occurred from the date when the acquired companies first became under the control of the Group. The excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies is recognized under "Equity adjustments from common control transactions" account in the equity section of the consolidated balance sheet.

Acquisitions/Disposal of Non-controlling Interests. Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/received shall be recognized as equity reserve, presented as "Additional Paid-in Capital".

Goodwill

Initial Measurement of Goodwill or Gain on a Bargain Purchase. Goodwill is initially measured by the Group at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase.

Subsequent Measurement of Goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment Testing of Goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGU), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and,
- is not larger than an operating segment as defined in PFRS 8, Operating Segments, before aggregation.

Frequency of Impairment Testing. Irrespective of whether there is any indication of impairment, the Group tests goodwill acquired in a business combination for impairment at least annually.

Impairment of Nonfinancial Assets
The carrying value of nonfinancial assets (property and equipment, investment properties, investments in associate companies and joint ventures, right-of-use (ROU) assets, and intangibles with definite useful life and other noncurrent assets) is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGUs are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss may no longer exist or may have decreased. In such a case, the recoverable amount is estimated. Any previously recognized impairment loss is reversed only when there is a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Accordingly, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue and Cost Recognition

Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria shall be met before revenue is recognized:

Sale of Merchandise Inventories. Revenue from sale of goods is recognized when the transfer of control is turned over to the buyer and the performance obligation is satisfied. The performance obligation is generally satisfied when customers purchase the goods. Payment of the transaction price is due immediately at the point of sale.

Revenue and Cost from Sales of Real Estate. The Group derives its real estate revenue from the sale of lots, house and lot and condominium units. Revenue from the sale of these real estate under pre-completion stage is recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. The Group recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date, milestones reached and time elapsed. This is based on the monthly project accomplishment report prepared by third party project managers as approved by the construction manager which integrates the surveys of performance to date of the construction activities.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as receivables from sales of real estate, under trade receivables, is accounted for as unbilled revenue from sales of real estate and presented under “Receivables and contract assets”.

Any excess of collections over the total of recognized installment real estate receivables is included in contract liabilities.

Information about the Group's performance obligation. The Group entered into contracts to sell with one identified performance obligation which is the sale of the real estate unit together with the services to transfer the title to the buyer upon full payment of contract price. The amount of consideration indicated in the contract to sell is fixed and has no variable consideration.

Payment in cash or under a financing scheme commences upon signing of the “contract to sell” with the customer. The financing scheme includes payment of a certain percentage of the contract price spread over a specified period at a fixed monthly amount with the remaining balance payable in full at the end of the period either through cash or external financing. The amount due for collection based on the amortization schedule does not necessarily coincide with the progress of construction.

The Group has a quality assurance warranty which is not treated as a separate performance obligation.

Cost of Real Estate Sold. The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation and permits and licenses. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of real estate sold while the portion allocable to the unsold area being recognized as part of real estate inventories. In addition, the Company recognizes as an asset only costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

Contract Balances

Receivables. A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets. Contract assets pertain to unbilled revenue from sales of real estate. This is the right to consideration that is conditional in exchange for goods or services transferred to the customer. The capitalized amount is reclassified to trade receivable from real estate buyers when the periodic amortization of the customer becomes due for collection.

Contract Liabilities. Contract liabilities pertain to unearned revenue from sales of real estate. This is the obligation to transfer goods or services to a customer for which the Group has received consideration) from the customer. These also include customers' deposits related to sales of real estate. These are recognized as revenue when the Group performs the pertinent obligations under the contract.

Costs to Obtain a Contract. The costs of obtaining a contract with a customer are recognized as an asset if the Group expects recovery of these costs. The accrual of commissions paid to brokers and marketing agents on the sale of pre-completed real estate units is likewise capitalized when recovery is reasonably expected and is charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Costs and expenses" account in the consolidated statement of income. Costs incurred prior to obtaining a contract with a customer are expensed as these are incurred.

Contract Fulfillment Assets. Contract fulfillment costs are divided into (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Group considers the applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15.

If other standards are not applicable to contract fulfillment costs, the Group applies the following criteria which if met, result in capitalization (i) costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) costs are expected to be recovered. The assessment of this criteria requires the application of judgement particularly in determining whether costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

The Group's contract fulfillment assets mainly pertain to land acquisition costs, included in Real estate inventories – Land and development (current portion) and Condominium, residential units and subdivision lots for sale.

Amortization, Derecognition and Impairment of Contract Fulfillment Assets and Capitalized Costs to Obtain a Contract. The Group amortizes contract fulfillment assets and costs capitalized to obtain a contract to cost of sales over the expected construction period using percentage of completion (POC) following the pattern of real estate revenue recognition. The amortization is included in cost of real estate sold account in the consolidated statement of income.

A contract fulfillment asset or costs capitalized to obtain a contract is derecognized when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that a contract fulfillment asset may be impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less those costs that relate to providing services under the contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price are removed when testing for impairment.

In case the relevant costs demonstrate indicators of impairment, judgment is required in ascertaining the future economic benefits from these contracts as sufficient to recover the relevant assets.

Sales - Processed Food and Others and Sales - Food and Beverage. Revenues from sales of processed food, beverage and others are recognized when the transfer of control is turned over to the buyer and the performance obligation is satisfied. The performance obligation is generally satisfied when customers purchase the goods and/or delivery is made to customers, as in the case of steam, processed food and beverage. Payment of the transaction price is due immediately at the point of sale and/or within 15 to 30 days.

Shipping and Logistics Revenues. Revenues from shipping and logistics services are recognized when rendered and/or when export/import cargoes are received by the shipper or consignee. Shipping revenues include fees for ancillary services such as wharfage, arrastre, stevedoring and other related services.

Rent. Revenues are recognized on a straight-line basis over the lease term or based on the terms of the lease as applicable. Contingent rent is recognized as revenue in the period in which it is earned.

Sale of Cinema and Event Tickets. Revenues are recognized upon receipt of cash from the customers which coincides with the rendering of services.

Gain on Sale of Investments in Associate Companies and Joint Ventures and Financial Assets. Revenues are recognized upon delivery of the securities to and confirmation of the sale by the broker.

Dividends. Revenues are recognized when the Group's right as a shareholder to receive payment is established.

Royalty and Service Fees. Revenues and/or expenses are recognized when earned and/or incurred, in accordance with the terms of the agreements.

Interest. Revenues are recognized when interest accrues, considering the effective yield.

Costs and expenses. Costs and expenses are recognized as incurred.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Any subsequent reversal of the provision is recognized in the same line item in profit or loss where the expense was initially recognized.

Taxes

Current Income Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the tax amounts are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred Income Tax. Deferred income tax is set up based on the liability method and considering the temporary differences between the tax base of assets and liabilities and the corresponding carrying amounts at each reporting period.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess

MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures wherein deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that the future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at reporting date.

Income tax relating to items recognized directly in the consolidated statement of comprehensive income is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income.

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

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,
- for receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of “Other current assets” or “Accounts payable and other current liabilities” accounts in the consolidated balance sheet.

Basic/Diluted Earnings Per Common Share (EPS)
Basic EPS is computed by dividing the net income attributable to owners of the Parent for the period by the weighted average number of issued and outstanding common shares for the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to owners of the Parent and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive ordinary shares.

Events after the Reporting Period
Post yearend events that provide additional information about the Group’s financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post yearend events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective in 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, the adoption of these new standards did not have a significant impact on the consolidated financial statements.

- Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

  The amendments to the Practice Statement provide non-mandatory guidance.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments also clarify that a change in input or in a measurement technique is considered a change in accounting estimate if it does not result from the correction of prior period errors.

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

- Amendments to PAS 12, *International Tax Reform - Pillar Two Model Rules*

  The amendments introduce a mandatory exception in PAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

  The amendments clarify that PAS 12 applies to income taxes arising from tax laws enacted or substantively enacted to implement the Global Anti-Base Erosion Model Rules (GLoBE Rules or Pillar Two Model Rules) published by the Organization for Economic Cooperation and Development (OECD), including those that implement qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.

  The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, apply immediately and retrospectively upon adoption of the amendments in June 2023.

  Disclosures relating to the current portion of income tax relating to Pillar Two income taxes before the legislation became effective, are required for annual reporting periods beginning on or after January 1, 2023.

  The Pillar Two Model Rules apply to multinational enterprises (MNEs) with annual consolidated revenues in excess of Euro 750 million. The Group is in scope for Pillar Two Model Rules, however, it has yet to apply the temporary exception to recognize and disclose deferred tax assets and liabilities related to Pillar Two income taxes in 2023 because the Group's entities are operating in jurisdictions in which the Pillar Two legislation is not yet in effect. The Group is monitoring developments in the enactment of these legislations. The Group will disclose known or reasonably estimable information that will help users of the Group's financial statements to understand the impact of Pillar Two income taxes in the Group's consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent*

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements,* to specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify:

  - What is meant by a right to defer settlement;
  - That a right to defer must exist at the end of the reporting period;
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

  The amendments are effective on or after January 1, 2024 to be applied retrospectively.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction such that the gain or loss that relates to the right of use retained is not recognized.

  The amendments are effective on or after January 1, 2024 and must be applied retrospectively, with early adoption permitted.

- Amendments to PAS 7 and PFRS 7, *Disclosures: Supplier Finance Arrangements*

  The amendments specify disclosure requirements which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on liabilities, cash flows and exposure to liquidity risk.

  The amendments are effective on or after January 1, 2024, early adoption permitted.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts.* This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  On December 15, 2021, the Financial and Sustainability Reporting Standards Council (FSRSC) amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the International Accounting Standards Board (IASB).

- Amendments to PAS 21, *Lack of exchangeability*

  The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking.

  The amendments are effective on or after January 1, 2025, with early adoption permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

  The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associates or joint ventures.

  On January 13, 2016, the Financial and Sustainability Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as at the reporting date.

<u>Judgments</u>
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Existence of a Contract. The Group's primary document for a contract with a customer is the signed contract to sell. In cases wherein the contract to sell is not signed by both parties at report date, other signed documents including the reservation agreement, official receipts, quotation sheets and other documents are considered to contain the basic elements to qualify as a contract with the customer under PFRS 15.

The Group's revenue recognition process includes the assessment of the probability of the Group collecting the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating the probability of collection, the Group considers the significance of the buyer's initial payments in relation to the contract price.

Measure of Progress. The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customers.

Determining the Transaction Price for Sales of Real Estate. The Group determines whether a contract contains a significant financing component using the portfolio approach by considering (1) the difference between the amount of promised consideration and the cash selling price of the promised goods or services; and (2) the expected length of time from when the entity transfers the promised goods or services to the time the customer pays for those goods or services at the prevailing effective interest rate. The Group applied the practical expedient and did not adjust for the effect of financing component when the difference between the time of transfer of the promised goods or services to the time the customer pays for these goods or services is one year or less. The Group determined that its contracts for the sale of real estate do not contain a significant financing component.

Property Acquisitions and Business Combinations. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services are to be provided by the subsidiary. When the acquisition of subsidiary does not constitute a business, it is accounted for as an acquisition of a group of assets and liabilities. The purchase price of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the date of acquisition. No goodwill or deferred tax is recognized.

Consignment Arrangements on Retail Segment. The retail segment of the Group has various consignment arrangements with suppliers. Management has determined that it is acting as principal in these sales transactions. Accordingly, revenue is recognized at gross amount upon actual sale to customers. The related inventory stocks supplied under these arrangements only become due and payable to suppliers when sold.

Operating Lease Commitments - Group as Lessor. Management has determined that the Group retains all the significant risks and rewards of ownership of the properties and thus, accounts for the contracts as operating leases. The ownership of the asset is not transferred to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and the lease term is not for the major part of the asset's economic life.

Determination of Lease Term of Contracts with Renewal and Termination Options - Group as Lessee. The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating the certainty or possibility of exercising the option to renew or terminate lease contracts. The Group considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Group reassesses the lease term for any significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew or to terminate the lease contract (e.g., construction of significant leasehold improvements or significant customization to the leased asset). In most cases, the Group exercises its option to renew.

Assessing Significant Influence over Associates. Management assessed that the Group has significant influence over all its associates by virtue of the Group's more than 20% voting power in the investee, representation in the board of directors, and participation in policy-making processes of the associates.

Assessing Joint Control of an Arrangement and the Type of Arrangement. The Group has 25% ownership in Waltermart Mall. Management assessed that the Group has joint control of Waltermart Mall by virtue of a contractual agreement with other shareholders. Waltermart Mall is a joint venture arrangement as it is a separate legal entity and its stockholders have rights to its net assets.

Assessing of Control or Significant Influence over Investees

SM Prime. The Group has 50% ownership interest in SM Prime. Management assessed that the Group has control of SM Prime as it holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed giving the Group the power to direct relevant activities of SM Prime.

BDO Unibank, Inc. (BDO). The Group has 45% ownership interest in BDO. Management assessed that the Group does not have control of BDO as the Group's aggregate voting rights is not sufficient to give it power to direct the relevant activities of BDO (see Note 13).

Premium Leisure Corp. (PLC). The Group has 5% ownership interest in PLC. PLC is a subsidiary of Belle Corporation (Belle). Management assessed that the Group has significant influence over PLC through its associate, Belle (see Note 13).

Determining Taxable Profit, Tax Bases, Unused Tax Losses, Unused Tax Credits and Tax Rates. Upon adoption of the Philippine Interpretation on IFRIC-23, *Uncertainty over Income Tax Treatments*, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgment in identifying uncertainties over its income tax treatments. The Group determined based on its assessment, in consultation with its tax counsel, that it is probable that its income tax treatments (including those for its subsidiaries) will be accepted by the taxation authorities.

Estimates and Assumptions
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that pose a significant risk of causing material adjustments to the carrying amounts of assets and liabilities in the succeeding years are discussed below.

Revenue Recognition Method and Measure of Progress. The Group recognizes revenue for real estate sales over time in consideration of the following (a) the Group's performance does not create an asset with an alternative use, and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. The property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred. In addition, under the current legal framework, the customer is contractually obliged to make payments to the Group for performance completed to date.

The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customers.

Provision for ECL of Receivables and Contract Assets (referred also in the consolidated financial statements as "Unbilled revenue from sales of real estate"). The Group maintains an allowance for impairment loss at a level considered adequate to provide for potential uncollectible receivables. The Group uses a provision matrix for rent and other receivables and vintage approach for receivables from sales of real estate (billed and unbilled) to calculate ECLs. The Group performs a regular review of the age and status of these accounts, designed to identify accounts for impairment. The assessment of the correlation between historical observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. See Note 10 for related balances.

Net Realizable Value of Merchandise Inventories, Condominium and Residential Units for Sale, and Land and Development. The Group recognizes an allowance for impairment of value of merchandise inventories, condominium and residential units for sale, and land and development to value these assets at net realizable value. Impairment may be due to damage, physical deterioration, obsolescence, changes in price levels or other causes. See Note 11 for related balances.

The estimate of net realizable value is based on the most reliable evidence of the realizable value of the assets, available at the time the estimate is made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The allowance account is reviewed on a regular basis. In 2023, 2022 and 2021, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development is higher than aggregate cost, hence, the Group did not recognize any impairment loss.

Estimated Useful Life of Property and Equipment and Investment Properties (except for ROU Assets). The useful life of each of the Group's property and equipment and investment properties is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. See Notes 14 and 15 for related balances.

Impairment of Investments in Associate Companies and Joint Ventures. Impairment review of investments in associate companies and joint ventures is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments using key assumptions such as growth rates, gross margins, projected earnings before interest and taxes, effective tax rates, non-cash charges, net working capital changes, capital expenditures and others and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 13 for related balances.

Impairment of Goodwill and Trademarks, Brand Names and Copyright with Indefinite Useful Lives. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculations is based on a discounted cash flow model. The cash flows are derived from the forecast for the relevant period and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. See Note 16 for related balances.

Impairment of Other Nonfinancial Assets. The Group assesses at each reporting date whether there is an indication that an item of property and equipment, investment properties and ROU assets may be impaired. This assessment requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause the Group to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the financial position and performance of the Group.

The preparation of the estimated future cash flows involves judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges. There is no impairment on other nonfinancial assets for each of the three years in the period ended December 31, 2023. See Notes 14, 15 and 27 for related balances.

Purchase Price Allocation in Business Combinations. The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and separate recognition of trademarks and brand names. In estimating the fair value of the acquiree's identifiable assets and liabilities, the Group used judgments, valuation methods and key assumptions such as the list prices, current replacement and reproduction cost and adjustment factors by reference to relevant market data. See Note 5 for related balances.

Fair Value of Previously Held Interest in an Acquiree. A business combination that is achieved in stages requires the Group to remeasure its previously held interest in the acquiree at its fair value at acquisition date and recognize any resulting gain or loss in profit or loss. The determination of fair value of the previously held interest involves judgment, estimations and assumptions. See Note 5 for related balances.

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT and NOLCO is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Accordingly, only a portion of the Group's deferred tax assets is recognized. See Note 26 for related balances.

Present Value of Defined Benefit Obligation. The present value of the pension obligations depends on a number of factors including assumptions of discount rate and rate of salary increase, among others.

The Group determines the appropriate discount rate at the reporting date. In determining the discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based on current market conditions. Management believes that the assumptions used are reasonable and appropriate. However, significant differences in actual experience or significant changes in assumptions would materially affect the Group's pension and other pension obligations. See Note 25 for related balances.

Fair Value of Financial Assets and Liabilities. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and OCI. See Note 29 for related balances.

Valuation of Unquoted Equity Investments. Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's-length market transactions;
- current fair value of other instruments that is substantially the same;
- the expected cash flows discounted at current rates applicable for investments with similar terms and risk characteristics; or,
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimation. In valuing the Group's financial assets at FVOCI at fair value in compliance with PFRS 9, management applied judgement in selecting the valuation technique and used assumptions in estimating future cash flows from its equity instruments considering the information available to the Group.

Leases – Estimating the Incremental Borrowing Rate. The Group cannot readily determine the interest rate implicit in the lease, therefore, it used its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). See Note 27 for related balances.

Contingencies. The Group is involved in certain legal and administrative proceedings. The Group, in collaboration with outside legal counsel handling defense, as the case may be, does not believe that these proceedings will have a material adverse effect on its financial position and performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings.

5. Business Combination

Allfirst Equity Holdings, Inc. (Allfirst). In April 2022, the BOD and stockholders of the Parent Company approved its merger with Allfirst, a related party, with the Parent Company as the surviving entity. Allfirst is the holding company for Philippine Geothermal Production Company, Inc. (PGPC).

PGPC operates the Tiwi and Mak-Ban steam fields. Tiwi is the first commercial-scale geothermal steam field development in Southeast Asia, followed by Mak-Ban, both in operation since 1979. These two steam fields generate geothermal steam sufficient to produce approximately 300 MW of electricity. In addition to its two producing steam fields, PGPC has several other greenfield concession areas for geothermal steam production which it will develop moving forward.

In August 2022, SMIC received approval from the SEC for its acquisition of 81% stake of related parties in Allfirst. This transaction brings SMIC's ownership in PGPC to 100%. The Parent Company and Allfirst are under the common control of the Sy Family before and after the merger. Thus, the merger was considered as a combination of businesses under common control for which the pooling of interests method was applied in the preparation of the financial statements.

Under the pooling of interests method:

- The assets and liabilities of the combining entities are reflected at their carrying amounts;
- No adjustments are made to reflect fair values, or recognize any new assets or liabilities at the date of the combination except those necessary to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- Any difference between the consideration transferred and the net assets acquired is reflected within equity;
- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place; and
- Comparatives are presented as if the entities had always been combined only for the period that the entities were under common control.

AIC Group of Companies Holding Corp. (Airspeed). In August 2022, the Parent Company acquired additional 10.0 million common shares of Airspeed increasing its equity interest in Airspeed to 51.0% from 35.0% previously. Airspeed is primarily engaged in international and domestic freight forwarding, port to port and cargo handling, packing and crafting, and warehousing services.

Beginning September 1, 2022, Airspeed became a subsidiary of SMIC in accordance with PFRS 3, *Business Combinations.* The transaction was accounted for as a step acquisition.

The fair value of the net identifiable assets acquired amounted to 645.1 million. The cash flows from this acquisition follow:

	Fair Value *(In Thousands)*
Cash acquired	₱317,280
Purchase consideration transferred	(405,888)
Net	(₱88,608)

Goodwill of ₱302.7 million was recognized for this acquisition, representing the value of synergies expected to arise from the business combination.

From the date of acquisition, Airspeed's revenues and net income amounting to ₱461.7 million and ₱34.9 million, respectively, formed part of the consolidated statements of income. If the combination had taken place at the beginning of the year, the Group's consolidated revenues and net income attributable to parent would have been ₱554.8 billion and ₱61.7 billion, respectively.

2GO Group, Inc. (2GO). In April and June 2021, the Parent Company acquired additional 551.4 million common shares of 2GO increasing its equity interest in 2GO to 52.9% from 30.5% previously. 2GO is the largest integrated supply chain operator in the Philippines offering shipping, freight forwarding, warehousing, and express delivery services.

Beginning June 1, 2021, 2GO became a subsidiary of SMIC in accordance with PFRS 3, *Business Combinations.* The transaction was accounted for as a step acquisition. The fair value of the identifiable assets and liabilities as at the date of acquisition follows:

	Fair Value *(In Thousands)*
Cash and cash equivalents	₱2,101,999
Receivables and contract assets	4,192,282
Merchandise inventories (Note 11)	516,155
Other current assets	2,699,758
Investments in associate companies and joint ventures (Note 13)	260,037
Property and equipment (Note 14)	9,919,064
Right-of-use assets (Note 27)	786,597
Other noncurrent assets	1,008,558
Total identifiable assets	21,484,450
Bank loans	3,036,500
Accrued payable and other current liabilities	7,206,250
Long-term debt - net of current portion	3,984,077
Deferred tax liabilities	1,257,749
Other noncurrent liabilities	1,071,851
Total identifiable liabilities	16,556,427
Net identifiable assets	4,928,023
Non-controlling interests (proportionate share in 2GO's net identifiable assets)	(2,352,991)
Fair value of previously held interest	(1,484,612)
Goodwill arising from the acquisition (Note 16)	3,602,620
Purchase consideration transferred	₱4,693,040

The cash flows from this acquisition follow:

Cash acquired	₱2,101,999
Purchase consideration transferred	(4,693,040)
Net	(₱2,591,041)

At the date of the acquisition, the fair value of 2GO's receivables approximates its carrying amount. The receivables comprise mainly of trade and nontrade receivables carried at cost. These are not subject to interest and generally on 30- to 60-day terms while nontrade receivables are collectible on demand. The fair value of the property and equipment was determined using the current replacement cost. The fair value measurement is classified as level 3 with unobservable inputs.

The goodwill of ₱3.6 billion represents the value of synergies expected to arise from the business combination.

From the date of acquisition, 2GO's revenues and net loss amounting to ₱8.8 billion and ₱962.7 million, respectively, formed part of the consolidated statements of income. If the combination had taken place at the beginning of the year, the Group's consolidated revenues and net income attributable to parent would have been ₱434.8 billion and ₱38.4 billion, respectively.

Goldilocks Bakeshop, Inc. (GBI). In August 2021, the Parent Company acquired additional 224.5 million common shares of GBI increasing its equity interest in GBI to 74.1% from 34.1% previously. GBI is primarily engaged in the purchase and sale, manufacture and production, import and export, and distribution of food items such as cakes, pastries, bread and candies on wholesale, retail or franchising; operation of restaurants, refreshment parlors or food outlets; and serving, arranging and catering food, drinks and refreshments.

Beginning August 1, 2021, GBI became a subsidiary of SMIC in accordance with PFRS 3, *Business Combinations*. The transaction was accounted for as a step acquisition. The fair value of the identifiable assets and liabilities as at the date of acquisition follows:

	Fair Value *(In Thousands)*
Cash and cash equivalents	₱945,964
Time deposits	210,925
Receivables and contract assets	330,036
Merchandise inventories (Note 11)	564,858
Other current assets	502,915
Financial assets	1,406
Investments in associate companies and joint ventures (Note 13)	249,157
Property and equipment (Note 14)	2,563,094
Right-of-use assets (Note 27)	912,876
Other noncurrent assets	471,983
Total identifiable assets	6,753,214
Accrued payable and other current liabilities	2,233,095
Deferred tax liabilities	338,599
Other noncurrent liabilities	1,435,383
Total identifiable liabilities	4,007,077
Net identifiable assets	2,746,137
Non-controlling interests (proportionate share in GBI's net identifiable assets)	(720,721)
Fair value of previously held interest	(931,874)
Goodwill arising from the acquisition (Note 16)	2,946,029
Purchase consideration transferred	₱4,039,571

The cash flows from this acquisition follow:

Cash acquired	₱945,964
Purchase consideration transferred	(4,039,571)
Net	(₱3,093,607)

At the date of the acquisition, the fair value of GBI's receivables approximates the carrying amount. GBI's receivables comprise mainly of trade and nontrade receivables, royalties and advances carried at cost. These are not subject to interest with trade receivables generally on 15- to 30- day terms while nontrade receivables and royalties are collectible on demand. Advances consist of salary loans due within 1 year and other cash advances that are subject to liquidation within 1 to 2 weeks. The fair value of the property and equipment was determined using the market approach and current replacement cost. The fair value measurement is classified as level 3 with unobservable inputs.

The goodwill of ₱2.9 billion represents the value of synergies expected to arise from the business combination.

From the date of acquisition, GBI's revenues and net income amounting to ₱5.0 billion and ₱114.8 million, respectively, formed part of the consolidated statements of income. If the combination had taken place at the beginning of the year, the Group's consolidated revenues and net income attributable to parent would have been ₱433.9 billion and ₱38.6 billion, respectively.

The Group remeasured its previously held interest in AIC, 2GO and GBI at acquisition-date fair value. The key assumptions used in determining the acquisition-date fair value of the property and equipment of GBI include list prices, current replacement cost and reproduction cost.

Included in Costs and expenses is the remeasurement loss recognized for AIC at ₱310.2 million in 2022 and 2GO at ₱4.9 billion and GBI at ₱2.4 billion in 2021, representing the loss from remeasuring the Group's equity interest in AIC, 2GO and GBI before the business combination to fair value, in accordance with PFRS 3, *Business Combinations.*

6. Segment Information

The Group has identified four reportable operating segments as follows: property, retail, banking and portfolio investments.

The property segment is involved in mall, residential and commercial development and hotel and convention center operations. The mall segment develops, conducts, operates and maintains the business of modern commercial shopping centers and all businesses related thereto such as the conduct, operation and maintenance of shopping center spaces for rent, amusement centers and cinemas within the compound of the shopping centers. The residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure. The hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

The retail segment is engaged in the retail/wholesale trading of merchandise such as dry goods, wearing apparels, food and other merchandise.

The banking segment includes the Group's equity in net earnings in BDO and China Banking Corporation (China Bank).

The portfolio investments segment includes 2GO, PGPC, Neo subsidiaries and associates, Atlas Consolidated Mining and Development Corporation (Atlas), Belle, GBI and others.

The BOD monitors the operating results of each of its business units for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with the operating profit or loss in the consolidated financial statements.

Operating Results by Segment

	Year Ended December 31, 2023						
	Property	**Retail**	**Banking**	**Portfolio Investments**	**Others**	**Eliminations**	**Consolidated**
				(In Thousands)			
Revenues:							
External customers	**₱119,003,867**	**₱413,996,266**	**₱39,267,571**	**₱41,828,015**	**₱2,156,168**	**₱–**	**₱616,251,887**
Revenues from contracts with customers	**42,124,088**	**401,725,529**	**–**	**–**	**–**	**–**	**443,849,617**
Merchandise sales	**–**	**401,725,529**	**–**	**–**	**–**	**–**	**401,725,529**
Real estate sales	**42,124,088**	**–**	**–**	**–**	**–**	**–**	**42,124,088**
Rent	**58,103,708**	**1,267,910**	**–**	**2,413,124**	**–**	**–**	**61,784,742**
Equity in net earnings of associate companies and joint ventures	**2,162,611**	**1,942,814**	**39,267,571**	**1,636,117**	**(64,000)**	**–**	**44,945,113**
Others	**16,613,460**	**9,060,013**	**–**	**37,778,774**	**2,220,168**	**–**	**65,672,415**
Inter-segment	**15,552,645**	**606,204**	**–**	**689,550**	**4,424,419**	**(21,272,818)**	**–**
	₱134,556,512	**₱414,602,470**	**₱39,267,571**	**₱42,517,565**	**₱6,580,587**	**(₱21,272,818)**	**₱616,251,887**
Segment results:							
Income before income tax	**₱50,336,108**	**₱28,751,653**	**₱39,267,571**	**₱9,082,093**	**(₱4,620,219)**	**₱–**	**₱122,817,206**
Provision for income tax	**9,015,084**	**6,685,451**	**–**	**800,769**	**130,839**	**–**	**16,632,143**
Net income after tax	**₱41,321,024**	**₱22,066,202**	**₱39,267,571**	**₱8,281,324**	**(₱4,751,058)**	**₱–**	**₱106,185,063**
Net income attributable to:							
Owners of the Parent	**₱20,506,629**	**₱15,267,128**	**₱38,193,589**	**₱7,752,065**	**(₱4,730,368)**	**₱–**	**₱76,989,043**
Non-controlling interests	**20,814,395**	**6,799,074**	**1,073,982**	**529,259**	**(20,690)**	**–**	**29,196,020**

	Year Ended December 31, 2022						
	Property	Retail	Banking	Portfolio Investments	Others	Eliminations	Consolidated
				(In Thousands)			
Revenues:							
External customers	₱98,244,792	₱377,327,567	₱30,984,018	₱43,677,737	₱2,764,464	₱–	₱552,998,578
Revenues from contracts with customers	39,046,514	367,318,577	–	–	–	–	406,365,091
Merchandise sales	–	367,318,577	–	–	–	–	367,318,577
Real estate sales	39,046,514	–	–	–	–	–	39,046,514
Rent	45,918,158	1,146,228	–	2,103,179	–	–	49,167,565
Equity in net earnings of associate companies and joint ventures	1,720,116	1,224,260	30,984,018	1,866,350	30,990	–	35,825,734
Others	11,560,004	7,638,502	–	39,708,208	2,733,474	–	61,640,188
Inter-segment	13,611,294	483,551	–	634,029	3,999,125	(18,727,999)	–
	₱111,856,086	₱377,811,118	₱30,984,018	₱44,311,766	₱6,763,589	(₱18,727,999)	₱552,998,578
Segment results:							
Income before income tax	₱39,061,734	₱25,928,619	₱30,984,018	₱8,218,200	(₱5,052,378)	₱–	₱99,140,193
Provision for income tax	8,001,682	6,006,064	–	681,419	105,655	–	14,794,820
Net income after tax	₱31,060,052	₱19,922,555	₱30,984,018	₱7,536,781	(₱5,158,033)	₱–	₱84,345,373
Net income attributable to:							
Owners of the Parent	₱15,372,433	₱13,937,923	₱30,148,855	₱7,345,911	(₱5,151,457)	₱–	₱61,653,665
Non-controlling interests	15,687,619	5,984,632	835,163	190,870	(6,576)	–	22,691,708

	Year Ended December 31, 2021						
	Property	Retail	Banking	Portfolio Investments	Others	Eliminations	Consolidated
				(In Thousands)			
Revenues:							
External customers	₱79,552,631	₱303,188,794	₱23,395,467	₱23,167,504	₱2,429,113	₱–	₱431,733,509
Revenues from contracts with customers	45,116,570	294,694,316	–	–	–	–	339,810,886
Merchandise sales	–	294,694,316	–	–	–	–	294,694,316
Real estate sales	45,116,570	–	–	–	–	–	45,116,570
Rent	26,218,182	1,093,378	–	2,327,765	2,919	–	29,642,244
Equity in net earnings of associate companies and joint ventures	1,187,419	527,733	23,395,467	1,757,788	(99,596)	–	26,768,811
Others	7,030,460	6,873,367	–	19,081,951	2,525,790	–	35,511,568
Inter-segment	9,423,189	2,108	–	–	2,384,449	(11,809,746)	–
	₱88,975,820	₱303,190,902	₱23,395,467	₱23,167,504	₱4,813,562	(₱11,809,746)	₱431,733,509
Segment results:							
Income before income tax	₱28,165,056	₱14,180,061	₱23,395,467	₱4,662,195	(₱6,752,519)	₱–	₱63,650,260
Provision for income tax	5,942,800	3,261,945	–	(165,445)	(32,781)	–	9,006,519
Net income after tax	₱22,222,256	₱10,918,116	₱23,395,467	₱4,827,640	(₱6,719,738)	–	₱54,643,741
Net income attributable to:							
Owners of the Parent	₱11,317,533	₱7,697,477	₱22,768,902	₱5,366,643	(₱6,738,659)	₱–	₱40,411,896
Non-controlling interests	10,904,723	3,220,639	626,565	(539,003)	18,921	–	14,231,845

In 2023, 2022 and 2021, no single customer accounted for 10% or more of consolidated revenues. The Group's revenues are substantially earned within the Philippines.

The disaggregation of revenues is as indicated in the consolidated statements of income and in the operating results by segment report above.

7. Cash and Cash Equivalents

This account consists of:

	2023	2022
	(In Thousands)	
Cash on hand and in banks (Note 21)	**₱22,918,721**	₱26,887,562
Temporary investments (Note 21)	**80,826,837**	79,673,510
	₱103,745,558	₱106,561,072

Cash in banks and investments earn interest at the prevailing rates. The tenure of temporary investments varies depending on the immediate cash requirements of the Group (see Note 24).

8. Time Deposits

This account consists of time deposits as follows:

	2023	2022
	(In Thousands)	
Current	**₱602,466**	₱8,788,848
Noncurrent	**22,324,681**	24,130,581
	₱22,927,147	₱32,919,429

The time deposits bear interest ranging from 0.1% to 6.1% in 2023 and 1.3% to 4.5% in 2022.

Time deposits with various maturities within one year were used as collateral for some credit lines.

Interest earned from time deposits is disclosed in Note 24.

9. Financial Assets at FVOCI

This account consists of:

	2023	2022
	(In Thousands)	
Shares of stock		
Listed	**₱25,505,874**	₱25,146,102
Unlisted	**1,534,894**	736,813
Club shares	**24,850**	21,800
	27,065,618	25,904,715
Less current portion	**747,840**	534,865
Noncurrent portion	**₱26,317,778**	₱25,369,850

Financial assets at FVOCI pertain to equity investments in shares of stock and club shares which are not held for trading and which the Group has irrevocably designated as financial assets at FVOCI, as the Group considers these investments to be strategic in nature.

10. Receivables and Contract Assets

This account consists of:

	2023	2022
	(In Thousands)	
Trade:		
Real estate buyers*	**₱132,187,696**	₱114,017,297
Third-party tenants	**10,714,323**	11,254,451
Shipping and logistics**	**2,753,168**	4,212,664
Related-party tenants (Note 21)	**533,448**	511,274
Others	**2,922,100**	3,299,623
Royalty and service fees (Note 21)	**2,980,499**	2,277,578
Dividends (Note 21)	**1,003,114**	708,809
	153,094,348	136,281,696
Less allowance for ECL	**3,284,523**	3,031,584
	149,809,825	133,250,112
Less noncurrent portion of receivables from real estate buyers (Note 16)	**70,600,303**	48,929,523
Current portion	**₱79,209,522**	₱84,320,589

** Includes unbilled revenue from sales of real estate of ₱114.9 billion and ₱100.2 billion as at December 31, 2023 and 2022, respectively.*

*** Includes contract assets representing shipping and logistics services delivered but not yet invoiced of ₱616.8 million and ₱730.1 million as at December 31, 2023 and 2022, respectively.*

The terms and conditions of these receivables follow:

- Receivables from sales of real estate pertain mostly to sale of condominium and residential units at various terms of payment that are not subject to interest. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱4.1 billion and nil as at December 31, 2023 and 2022, respectively (Note 21), and on with recourse basis, ₱0.2 billion and ₱1.2 billion as at December 31, 2023 and 2022, respectively. The corresponding liability from the assignment of receivables with recourse bears interest at 5.0% to 6.5% and 3.8% to 5.0% as at December 31, 2023 and 2022, respectively.

  The transaction price allocated to the remaining performance obligations totaling P38.1 billion and P25.4 billion as at December 31, 2023 and 2022, respectively, are expected to be recognized over the construction period ranging from one to five years.

- Trade receivables from tenants, shipping and logistics, royalty and service fee receivables are not subject to interest and are normally collectible on 30- to 90-day terms.

- Dividends receivables are not subject to interest and are normally collectible within the next financial year.

Allowance for ECL is provided for receivables from sales of real estate, receivables from tenants, shipping and logistics, and other receivables which were identified to be impaired based on specific and collective assessment. The movements in this account follow:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱3,031,584**	₱2,237,119
Provisions - net of writeoff (Note 23)	**252,939**	794,465
Balance at end of year	**₱3,284,523**	₱3,031,584

The aging of receivables follows:

	2023	2022
	(In Thousands)	
Neither past due nor impaired	**₱138,195,908**	₱121,546,146
Past due but not impaired:		
Less than 30 days	**3,804,623**	4,199,730
31-90 days	**3,299,648**	2,327,871
91-120 days	**1,197,760**	1,707,216
Over 120 days	**3,311,886**	3,469,149
Impaired	**3,284,523**	3,031,584
	₱153,094,348	₱136,281,696

Receivables other than those identified as impaired, are assessed as good and collectible.

11. Inventories

This account consists of:

	2023	2022
	(In Thousands)	
Real estate inventories	**₱77,892,908**	₱70,506,503
Merchandise inventories	**38,869,576**	34,653,094
Processed food and others	**712,496**	1,208,441
	₱117,474,980	₱106,368,038

Inventories are stated at cost as at December 31, 2023 and 2022.

Merchandise Inventories
The movements in this account follow:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱34,653,094**	₱29,026,924
Purchases	**298,618,735**	276,234,410
Total goods available for sale	**333,271,829**	305,261,334
Less cost of merchandise sales	**294,402,253**	270,608,240
Balance at end of year	**₱38,869,576**	₱34,653,094

Real Estate Inventories
The movements in this account follow:

	Land and Development	Condominium, Residential Units and Subdivision Lots for Sale	Total
		(In Thousands)	
Balance as at January 1, 2022	₱37,229,527	₱19,351,999	₱56,581,526
Development cost incurred	27,956,439	–	27,956,439
Cost of real estate sold	(11,153,550)	(5,745,018)	(16,898,568)
Transfers	(12,643,521)	12,643,521	–
Reclassifications (Notes 15 and 27)	2,204,897	–	2,204,897
Translation adjustment and others	187,069	475,140	662,209
Balance as at December 31, 2022	₱43,780,861	₱26,725,642	₱70,506,503
Development cost incurred	**₱22,141,007**	**₱–**	**₱22,141,007**
Cost of real estate sold	**(13,166,921)**	**(3,494,522)**	**(16,661,443)**
Transfers	**(1,902,929)**	**1,902,929**	**–**
Reclassifications (Notes 15 and 27)	**1,807,712**	**–**	**1,807,712**
Translation adjustment and others	**98,608**	**521**	**99,129**
Balance as at December 31, 2023	**₱52,758,338**	**₱25,134,570**	**₱77,892,908**

Real estate inventories include land and development, and condominium, residential units and subdivision lots for sale.

Contract fulfillment assets included in land and development represent the unamortized portion of land cost of ₱1.8 billion and ₱1.0 billion as at December 31, 2023 and 2022, respectively.

The estimated cost to complete the projects amounted to ₱103.6 billion and ₱106.9 billion as at December 31, 2023 and 2022, respectively.

There is no allowance for inventory write-down as at December 31, 2023 and 2022.

The details of cost of sales and services follow:

	2023	2022	2021
		(In Thousands)	
Cost of sales:			
Merchandise	**₱294,402,253**	₱270,608,240	₱222,300,384
Real estate	**16,661,443**	16,898,568	18,687,157
Processed food and others	**11,601,340**	15,401,706	7,993,598
Cost of shipping, logistics and other services	**13,646,560**	12,743,249	6,271,009
	₱336,311,596	₱315,651,763	₱255,252,148

12. Other Current Assets

This account consists of:

	2023	2022
	(In Thousands)	
Prepaid taxes and other prepayments	**₱20,539,740**	₱19,881,090
Bonds and deposits	**10,845,768**	11,143,581
Input tax	**7,226,317**	5,846,949
Receivables from banks	**7,207,447**	5,732,802
Nontrade receivables	**6,233,033**	8,296,364
Derivative assets (Note 29)	**3,167,911**	1,617,864
Uniform and supplies inventory	**1,724,324**	1,573,029
Accrued interest receivable (Note 21)	**325,863**	566,974
Others	**420,556**	317,345
	₱57,690,959	₱54,975,998

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial year.
- Bonds and deposits pertain to down payments made to suppliers and contractors to cover preliminary expenses of the Group's construction projects. These are not subject to interest and are applied to progress billings depending on the percentage of project accomplishment.
- Nontrade receivables include advances for future purchases and marketing support. These are normally collected within the next financial year (see Note 24).
- Receivables from banks are not subject to interest and are normally collectible on 30- to 90-day terms.
- Input tax represents VAT paid to suppliers that can be claimed as credit against future output VAT liabilities without prescription.
- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.

13. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱328,271,536**	₱305,072,026
Additions	**288,227**	73,500
Disposal	**(1,186,682)**	(13,742)
Business combination (Note 5)	**–**	(535,945)
Equity in net earnings	**44,945,113**	35,825,734
Dividends received and others	**(10,622,941)**	(7,089,942)
Share in other comprehensive loss of associate companies	**(641,624)**	(4,336,268)
Reversal of (provision for) impairment loss	**320,206**	(740,000)
Translation adjustment	**(49,035)**	16,173
Balance at end of year	**₱361,324,800**	₱328,271,536

** Investment in associate companies amounted to ₱350.8 billion and ₱318.5 billion as at December 31, 2023 and 2022, respectively.*

The Group regularly performs tests for impairment of its investments comparing the expected cash flows against the carrying values. In 2023, ₱320.2 million of the ₱740.0 million provision for impairment loss recognized in 2022 was reversed relative to the disposal of the Group's investment in GPay.

The recoverable amount of investments in associate companies is determined based on the fair value less costs of disposal and/or value-in-use calculations using the cash flow projections from the financial budgets approved by senior management.

The calculation of value-in-use is sensitive to the following assumptions:

a. *Revenues.* Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors. The revenue growth rates used in the cash flow projections ranged from 3.3% to 5.9%.

b. *Pre-tax discount rates.* Discount rates reflect the current market assessment of the risks and are estimated based on the weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the entity for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 8.2% to 15.2% and 9.9% to 12.2% as at December 31, 2023 and 2022, respectively.

The associate companies and joint ventures of the Group follow:

	Percentage of Ownership				
	2023		2022		
Company	**Gross**	**Effective**	Gross	Effective	Principal Activities
Associates					
Amazing Philippines Digital Economy Corp.	**35**	**18**	35	18	Digital customer service and selling platform
Andwil Corporation	**50**	**20**	50	20	Retail
Asia-Pacific Computer Technology Center, Inc.	**42**	**42**	42	42	Investment
Atlas	**34**	**34**	34	34	Mining
BDO	**47**	**45**	47	45	Financial services
Belle	**27**	**27**	27	27	Real estate development and tourism
China Bank	**23**	**23**	23	23	Financial services
CityMall Commercial Centers, Inc.	**34**	**34**	34	34	Real estate development and tourism
Clarmil Manufacturing Incorporated	**42**	**27**	42	31	Bakery products and other food items
Ecco Philippines, Inc.	**50**	**39**	50	39	Retail
Fast Retailing Philippines, Inc.	**25**	**19**	25	19	Retail
Feihua Real Estate (Chongqing) Company Ltd. (FHREC)	**50**	**25**	50	25	Real estate development
Fitness Health & Beauty Holdings Corp.	**40**	**31**	40	31	Retail
GPAY Network, PH, Inc. (GPay)	**-**	**-**	35	35	Providing electronic money through electronic instruments
MCC Transport Philippines, Inc.	**33**	**22**	33	18	Integrated supply chain
Neo Associates [(a)]	**34**	**34**	34	34	Real estate development
Ortigas Land Corporation	**40**	**20**	40	20	Real estate development
PLC	**5**	**5**	5	5	Gaming
Premier Shoes Distribution Corp.	**49**	**38**	49	38	Retail
Sodexo Benefits and Rewards Services Philippines, Inc.	**40**	**40**	40	40	Retail
Three Bears Group Holdings Corporation	**35**	**23**	35	26	Bakery products and other food items
Watsons Personal Care Stores (Philippines), Inc.	**40**	**31**	40	31	Retail
Win With Love, Inc.	**33**	**13**	33	13	Retail
YCO Global Cloud Centers Holdings, Inc.	**10**	**10**	-	-	Data center
Joint Ventures					
Kerry Logistics (Phils), Inc.	**63**	**33**	63	26	Integrated supply chain
Metro Rapid Transit Service, Inc.	**51**	**25**	51	25	Transportation
ST 6747 Resources Corporation	**50**	**25**	50	25	Real estate development
Waltermart Mall [(b)]	**51**	**25**	51	25	Shopping mall development

The principal place of business and country of incorporation of the associate companies and joint ventures listed above is in the Philippines except for FHREC which was incorporated in China.

(a) Neo Associates consists of N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc. and N-Park BGC Land, Inc.
(b) Waltermart Mall consists of Winsome Development Corporation, Willin Sales, Inc., Willimson, Inc., Waltermart Ventures, Inc., WM Development Inc. and WM Shopping Center Management Inc.

BDO

The condensed financial information of the Group's material associate, BDO, follows:

	2023	2022
	(In Millions)	
Total assets	**₱4,477,661**	₱4,074,708
Total liabilities	**3,959,107**	3,613,251
Total equity	**518,554**	461,457
Proportion of the Group's ownership	**45%**	45%
	234,743	209,046
Goodwill and others	**26,669**	26,800
Carrying amount of the Group's investment	**₱261,412**	₱235,846

	2023	2022	2021
		(In Millions)	
Interest income	**₱240,196**	₱169,071	₱144,879
Interest expense	**(53,809)**	(19,839)	(13,533)
Other expenses - net	**(112,827)**	(91,998)	(88,491)
Net income after tax	**73,560**	57,234	42,855
Other comprehensive loss	**(1,799)**	(9,861)	(5,810)
Total comprehensive income	**₱71,761**	₱47,373	₱37,045
Group's share in net income	**₱34,314**	₱26,684	₱20,019
Group's share in other comprehensive loss	**(₱843)**	(₱5,599)	(₱5,405)

The aggregate comprehensive income of associates and joint ventures that are not individually material follows:

	2023	2022	2021
		(In Millions)	
Share in net income	**₱10,631**	₱9,142	₱6,750
Share in other comprehensive income	**201**	1,263	1,220
Share in total comprehensive income	**₱10,832**	₱10,405	₱7,970

The fair value of investments in associate companies which are listed in the PSE follows:

	2023	2022
	(In Thousands)	
BDO	**₱344,083,211**	₱278,929,105
China Bank	**18,685,792**	16,626,418
Belle	**3,047,547**	3,177,784
Atlas	**4,279,075**	4,412,417
PLC	**16,669,846**	12,568,534

These investments are categorized as Level 1 in the fair value hierarchy.

14. Property and Equipment

The movements in this account follow:

	Land	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment
Cost					
As at January 1, 2022	₱1,729,542	₱19,822,198	₱2,660,943	₱10,030,976	₱11,784,685
Additions	–	677,187	266,706	933,079	717,278
Effect of business combination (Note 5)	–	21,616	–	16,984	38,000
Reclassifications	(9,948)	58,852	(1,966,055)	216,471	579,419
Translation adjustment	–	–	–	–	–
Disposals/retirements	(800)	(123,520)	(323,995)	(574,911)	(508,219)
As at December 31, 2022	1,718,794	19,892,747	3,349,277	10,622,599	12,611,163
Additions	**–**	**697,001**	**201,286**	**1,614,927**	**1,059,198**
Reclassifications	**–**	**762,184**	**(443,822)**	**26,868**	**(39,013)**
Disposals/retirements	**–**	**(579,239)**	**(143,433)**	**(410,945)**	**(849,258)**
As at December 31, 2023	**₱1,718,794**	**₱20,772,693**	**₱2,963,308**	**₱11,853,449**	**₱12,782,090**
Accumulated Depreciation and Amortization					
As at January 1, 2022	₱–	₱7,790,965	₱1,903,039	₱8,120,807	₱10,337,850
Depreciation and amortization	–	787,373	233,359	726,437	785,672
Reclassifications	–	(698,684)	802,480	106,132	(642,658)
Translation adjustment	–	–	–	–	–
Disposals/retirements	–	(122,875)	(315,148)	(565,611)	(480,809)
As at December 31, 2022	–	7,756,779	2,623,730	8,387,765	10,000,055
Depreciation and amortization	**–**	**922,703**	**226,928**	**1,307,897**	**767,376**
Reclassifications	**–**	**19,324**	**(587,914)**	**(280,871)**	**262,420**
Disposals/retirements	**–**	**(544,403)**	**(140,809)**	**(403,861)**	**(822,584)**
As at December 31, 2023	**–**	**8,154,403**	**2,121,935**	**9,010,930**	**10,207,267**
Net Book Value					
As at December 31, 2023	**₱1,718,794**	**₱12,618,290**	**₱841,373**	**₱2,842,519**	**₱2,574,823**
As at December 31, 2022	1,718,794	12,135,968	725,547	2,234,834	2,611,108

As at December 31, 2023 and 2022, a passenger cargo-ship was used as collateral for a subsidiary's long-term debt (see Note 19).

	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Vessels in Operation	Containers and Reefer Vans	Construction in Progress	Total
	(In Thousands)						
	₱17,301,482	₱24,970,861	₱1,196,937	₱8,503,113	₱371,936	₱4,968,379	₱103,341,052
	860,925	1,574,090	51,805	464,728	915	4,131,290	9,678,003
	12	140	54,148	–	–	–	130,900
	3,855,706	4,964,147	443,187	7,027,236	1,253,911	(4,276,055)	14,294,963
	(160,203)	–	–	–	–	(52,448)	(212,651)
	(401,475)	(1,202,034)	(88,822)	(1,287,520)	(1,727)	–	(4,513,023)
	21,456,447	30,307,204	1,657,255	14,707,557	1,625,035	4,771,166	122,719,244
	851,219	**2,347,796**	**67,955**	**762,647**	**34**	**4,759,700**	**12,361,763**
	2,268,988	**427,755**	**98,278**	**(13,530)**	**301**	**(3,406,915)**	**(318,906)**
	(170,268)	**(260,104)**	**(100,567)**	**(102,792)**	**(21,660)**	**–**	**(2,638,266)**
	₱24,406,386	**₱32,822,651**	**₱1,722,921**	**₱15,353,882**	**₱1,603,710**	**₱6,123,951**	**₱132,123,835**
	₱9,896,786	₱18,020,851	₱737,640	₱1,077,060	₱44,531	₱–	₱57,929,529
	1,374,376	1,471,704	112,868	1,010,940	59,037	–	6,561,766
	1,434,083	4,941,874	453,730	7,020,331	1,308,505	–	14,725,793
	(54,499)	–	–	–	–	–	(54,499)
	(397,026)	(1,110,122)	(84,699)	(1,245,888)	(2,181)	–	(4,324,359)
	12,253,720	23,324,307	1,219,539	7,862,443	1,409,892	–	74,838,230
	1,501,025	**1,479,149**	**86,398**	**961,991**	**48,134**	**–**	**7,301,601**
	(83,810)	**275,569**	**102,087**	**–**	**–**	**–**	**(293,195)**
	(181,623)	**(256,732)**	**(99,970)**	**(102,792)**	**(21,660)**	**–**	**(2,574,434)**
	13,489,312	**24,822,293**	**1,308,054**	**8,721,642**	**1,436,366**	**–**	**79,272,202**
	₱10,917,074	**₱8,000,358**	**₱414,867**	**₱6,632,240**	**₱167,344**	**₱6,123,951**	**₱52,851,633**
	9,202,727	6,982,897	437,716	6,845,114	215,143	4,771,166	47,881,014

15. Investment Properties

The movements in this account follow:

	Land Held for Future Development	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)			
Cost						
As at January 1, 2022	₱82,118,174	₱83,225,124	₱284,850,141	₱48,301,269	₱76,809,546	₱575,304,254
Additions	3,207,518	2,382,608	2,360,096	2,389,145	23,651,068	33,990,435
Effect of business combination	–	168,530	15,912	639,737	528,338	1,352,517
Reclassifications (Note 11)	(1,461,375)	2,221,280	26,542,114	4,033,427	(32,511,422)	(1,175,976)
Translation adjustment	–	14,239	344,383	27,723	84,967	471,312
Disposals	(17,590)	(299,145)	(156,421)	(46,618)	–	(519,774)
As at December 31, 2022	83,846,727	87,712,636	313,956,225	55,344,683	68,562,497	609,422,768
Additions	**4,442,123**	**11,637,554**	**2,421,367**	**3,121,210**	**46,583,698**	**68,205,952**
Reclassifications (Note 11)	**(89,781)**	**2,683,563**	**24,423,632**	**2,482,213**	**(31,251,512)**	**(1,751,885)**
Translation adjustment	**–**	**(61,972)**	**(1,756,871)**	**(170,289)**	**(391,352)**	**(2,380,484)**
Disposals	**(3,594)**	**(312,626)**	**(109,550)**	**(530,451)**	**–**	**(956,221)**
As at December 31, 2023	**₱88,195,475**	**₱101,659,155**	**₱338,934,803**	**₱60,247,366**	**₱83,503,331**	**₱672,540,130**
Accumulated Depreciation, Amortization and Impairment Loss						
As at January 1, 2022	₱–	₱2,916,480	₱76,571,597	₱32,050,803	₱–	₱111,538,880
Depreciation and amortization	–	364,563	8,386,686	3,386,346	–	12,137,595
Reclassifications	–	(560)	(41,940)	(26,795)	–	(69,295)
Translation adjustment	–	7,652	71,693	15,935	–	95,280
Disposals	–	(161,310)	(60,358)	(40,325)	–	(261,993)
As at December 31, 2022	–	3,126,825	84,927,678	35,385,964	–	123,440,467
Depreciation and amortization	–	265,404	9,071,500	3,983,725	–	13,320,629
Reclassifications	–	45	4,475	9,427	–	13,947
Translation adjustment	–	(42,708)	(431,780)	(86,870)	–	(561,358)
Disposals	–	(301,936)	(65,033)	(373,809)	–	(740,778)
As at December 31, 2023	**₱–**	**₱3,047,630**	**₱93,506,840**	**₱38,918,437**	**₱–**	**₱135,472,907**
Net Book Value						
As at December 31, 2023	**₱88,195,475**	**₱98,611,525**	**₱245,427,963**	**₱21,328,929**	**₱83,503,331**	**₱537,067,223**
As at December 31, 2022	83,846,727	84,585,811	229,028,547	19,958,719	68,562,497	485,982,301

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱60.4 billion, ₱47.9 billion and ₱28.5 billion in 2023, 2022 and 2021, respectively. The corresponding direct operating expenses amounted to ₱33.4 billion, ₱25.3 billion and ₱18.9 billion in 2023, 2022 and 2021, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱82.0 billion and ₱67.1 billion as at December 31, 2023 and 2022, respectively.

Portions of investment properties located in China amounting to ₱1.5 billion and ₱1.6 billion as at December 31, 2023 and 2022, respectively, are used as collateral to secure domestic borrowings (see Note 19).

The outstanding construction contracts with various contractors amounted to ₱78.4 billion and ₱79.5 billion as at December 31, 2023 and 2022, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of works.

Interest capitalized to the construction of investment properties amounted to ₱5.8 billion and ₱4.8 billion as at December 31, 2023 and 2022, respectively. Capitalization rates used range from 2.3% to 5.4% in 2023 and 2.4% to 5.2% in 2022.

As at December 31, 2023, the fair value of substantially all investment properties amounting to ₱2.1 trillion was determined by accredited independent appraisers with appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. Management also believes that the carrying values of additions to investment properties subsequent to the most recent valuation date approximate their fair values. In conducting the appraisal, the independent appraisers mainly used the Market Approach and Income Approach. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.

The significant assumptions used in the valuation are discount rates and capitalization rates of 8.0% to 9.0% with an average growth of 5.0%. Fair values based on market approach were assessed using sales comparison approach.

These investment properties are categorized as Level 3 in the fair value hierarchy since valuation is based on unobservable inputs.

The Group has no restriction on the realizability of its investment properties.

16. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	2023	2022
	(In Thousands)	
Goodwill	**₱34,320,712**	₱34,320,712
Less accumulated impairment loss	**172,213**	172,213
Net book value	**34,148,499**	34,148,499
Trademarks, brand names and copyright	**6,127,069**	6,128,850
	₱40,275,568	₱40,277,349

Goodwill is attributable mainly to SM Prime, Supervalue, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated, 2GO, GBI and PGPC (see Note 5).

Trademarks and brand names include the following:

a. Brand names of SM Supermarket and SM Hypermarket that were acquired in a business combination in 2006. These are assessed to have an indefinite life and valued using the Relief-from-Royalty Method. The royalty rate used was 3.5%, the prevailing royalty rate in 2006 in the retail assorted category.

b. Rights, title and interest in the trademark of Cherry Foodarama, Inc. that was acquired in 2015 and assessed to have a definite useful life of 10 years. In 2022, the carrying amount of ₱857.8 million has been fully amortized and taken up in profit or loss.

The recoverable amount of goodwill, trademarks and brand names have been determined based on value-in-use calculations using the cash flow projections from the financial budgets approved by senior management covering a five-year period and fair value less cost of disposal calculations of the underlying net assets of the CGUs.

The calculation of value-in-use is most sensitive to the following assumptions:

a. *Revenue.* Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors. Revenue growth rates used in the cash flow projections ranged from 2.1% to 4.4%.

b. *Pre-tax discount rates.* Discount rates reflect the current market assessment of the risks to each CGU and are estimated based on the weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 12.4% to 18.1% and 12.1% to 18.4% as at December 31, 2023 and 2022, respectively.

Fair value less cost of disposal. The fair values of the CGUs were computed based on available market price for quoted instruments less cost of disposal.

Management assessed that no reasonably possible change in pre-tax discount rates, future cash inflows and fair values would cause the carrying value of goodwill in 2023 and 2022 to materially exceed its recoverable amount.

Other Noncurrent Assets
This account consists of:

	2023	2022
	(In Thousands)	
Receivables from real estate buyers* (Note 10)	**₱70,600,303**	₱48,929,523
Bonds and deposits	**50,388,596**	53,671,037
Deferred tax assets (Note 26)	**6,462,108**	5,209,746
Derivative assets (Note 29)	**3,611,478**	8,508,965
Deferred input VAT	**1,559,521**	1,941,985
Escrow fund (Notes 12 and 21)	**843,732**	621,490
Land use rights	**282,333**	324,770
Defined benefit asset (Note 25)	**110,831**	129,034
Others	**4,186,191**	2,488,241
	₱138,045,093	₱121,824,791

** Pertains to the noncurrent portion of unbilled revenue from sales of real estate.*

- Bonds and deposits include deposits for its leased properties as well as deposits to contractors and suppliers relative to various construction projects and service contracts.

- Included under "Land use rights" account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties was not part of the consideration paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying value under "Other noncurrent assets" account and a corresponding liability equivalent to the same amount, which is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets.

- Escrow fund consists mainly of funds deposited by the Parent Company in the account of an escrow agent as required by the SEC, in connection with the corporate restructuring in 2013, and by SM Prime as required by the Department of Human Settlements and Urban Development in connection with the incentive compliance provisions of the Urban Development and Housing Act.

17. Bank Loans

This account consists of:

	2023	2022
	(In Thousands)	
Parent Company:		
U.S. dollar-denominated loans	**₱415,275**	₱–
Peso-denominated loans	**4,200,000**	9,995,000
Subsidiaries:		
China yuan renminbi-denominated loans	**2,288,964**	2,422,524
Peso-denominated loans	**6,510,000**	8,394,000
	₱13,414,239	₱20,811,524

The interest rates of Peso-denominated loans ranged from 4.0% to 6.9% in 2023 and 2.0% to 7.9% in 2022. The U.S. dollar-denominated loans bear an interest rate of 6.2%. The China yuan renminbi-denominated loans bear the China Loan Prime Rate (LPR) in 2023 and 2022.

These loans have maturities of less than one year. Interest on bank loans is disclosed in Note 24.

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2023	2022
	(In Thousands)	
Trade	**₱116,681,582**	₱100,815,157
Accrued expenses	**23,778,417**	22,405,137
Nontrade	**17,528,203**	14,766,974
Tenants' and customers' deposits*	**14,595,837**	13,703,779
Payables to government agencies	**7,046,388**	7,437,350
Payable arising from acquisition of land	**4,502,475**	4,548,755
Accrued interest (Note 21)	**3,690,975**	3,614,442
Lease liabilities (Note 27)	**2,977,457**	3,152,827
Dividends payable	**2,486,420**	3,197,523
Subscriptions payable	**1,966,477**	1,966,477
Gift checks redeemable and others	**4,914,796**	6,353,287
	₱200,169,027	₱181,961,708

* *Includes unearned revenues from shipping and logistics of ₱54.1 million and ₱48.9 million as at December 31, 2023 and 2022, respectively, and unearned revenues from sales of real estate of ₱7.0 billion and ₱5.5 billion as at December 31, 2023 and 2022, respectively.*

- Trade payables primarily consist of liabilities to suppliers and contractors. These are not subject to interest and are normally settled on 30-to 60-day terms.

- Accrued expenses pertain to costs and expenses which are normally settled within twelve months. Details follow:

	2023	2022
	(In Thousands)	
Payable to contractors	**₱9,400,962**	₱7,979,543
Marketing and advertising and others	**9,907,485**	10,765,314
Utilities	**3,123,796**	2,495,739
Co-loading termination cost	**896,956**	713,297
Salaries and wages	**449,218**	451,244
	₱23,778,417	₱22,405,137

- Nontrade payables, accrued interest, subscriptions payable and others are expected to be settled within the next financial year.

- Tenants' deposits refer to security deposits received from tenants normally at the time of signing lease contracts. These deposits may be returned to the tenants at lease termination, net of unpaid rental, penalties and/or cost of repairs for any damage on the leased properties. Customers' deposits mainly represent the excess of collections from real estate buyers over the related revenue recognized based on POC and the non-refundable reservation fees from prospective real estate buyers which are applied to the receivable when the reservation is converted to sales. In 2023 and 2022, unearned revenue from sales of real estate recognized in profit or loss amounted to ₱2.1 billion and ₱4.3 billion, respectively.

- Payables to government agencies mainly consist of output tax which is normally settled within the next financial year.

- Payable arising from acquisition of land is expected to be settled within the next financial year.

- Gift checks are redeemable at face value.

19. Long-term Debt

This account consists of:

	December 31, 2023					December 31, 2022
	Availment	Maturity	Interest Rate/Term	Security	Amount	Amount
					(In Thousands)	
Parent Company						
U.S. dollar-denominated*	June 2014 - August 2023	June 2024 - August 2028	Fixed 4.9%-6.2%; ROP reference rate + margin; Three-Month SOFR + margin; semi-annual and quarterly	Unsecured	**₱35,159,950**	₱42,326,896
GBP-denominated*	April 2023 - July 2023	April 2025 - July 2028	Fixed 4.2%-5.3%; quarterly	Unsecured	**6,403,683**	–
Peso-denominated	September 2017 - March, 2023	April 2024 - May 2031	Fixed 3.4%-5.2%; Three-Month PHP BVAL + margin; Two-year PHP BVAL + margin; semi-annual and quarterly	Unsecured	**65,156,900**	76,124,350
Subsidiaries						
U.S. dollar-denominated*	April 2019 - June 2022	February 2024 - June 2027	LIBOR + spread; SOFR + spread; semi-annual and quarterly	Unsecured	**84,350,144**	91,062,847
China yuan renminbi-denominated**	May 2021 - December 2023	April 2026 - June 2037	Fixed 3.7%; LPR; annually	Secured	**10,590,461**	9,665,493
Peso-denominated***	September 2014 - December 2023	April 2024 - April 2032	Fixed 3.9%-7.0%; BVAL + margin	Unsecured/ Secured	**288,983,232**	268,425,993
					490,644,370	487,605,579
Less debt issue cost					**2,356,720**	2,708,662
					488,287,650	484,896,917
Less current portion					**113,528,791**	87,047,213
					₱374,758,859	₱397,849,704

BVAL – Bloomberg Valuation
ROP – Republic of the Philippines
LIBOR – London Interbank Offered Rate
SOFR – Secured Overnight Financing Rate
**Hedged against foreign exchange and interest rate risks using derivative instruments (see Note 24)*
*** Secured by portions of investment properties located in China (see Note 15)*
****Secured by portions of property and equipment (see Note 14)*

Debt Issue Cost
The movements in unamortized debt issue cost follow:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱2,708,662**	₱2,672,016
Additions	**829,466**	1,134,632
Amortization and others	**(1,181,408)**	(1,097,986)
Balance at end of year	**₱2,356,720**	₱2,708,662

Repayment Schedule
The repayment schedule of long-term debt as at December 31, 2023 follows:

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱114,321,218	₱792,427	₱113,528,791
Over 1 year to 5 years	336,187,107	1,461,477	334,725,630
Over 5 years	40,136,045	102,816	40,033,229
	₱490,644,370	₱2,356,720	₱488,287,650

Covenants
The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. As at December 31, 2023 and 2022, the Group is in compliance with the terms of its debt covenants with the exception of 2GO, which is covered with a waiver from its creditor bank.

20. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2023	2022
Authorized - ₱10 par value per share	**2,790,000,000**	2,790,000,000
Issued and subscribed	**1,226,114,578**	1,226,114,578

As at December 31, 2023 and 2022, the Parent Company is compliant with the minimum public float as required by the PSE.
Information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares	Number of Shares Issued	Issue/Offer Price
March 22, 2005		105,000,000	₱250
November 6, 2007		56,000,000	218
June 14, 2007	100,000,000		10
April 25, 2007 (4.3% stock dividends)		25,023,038	10
October 4, 2010 to March 13, 2012 Conversion of convertible bonds		2,851,582	453
September 24, 2012		9,100,000	700
January 23, 2013 to July 5, 2013 Conversion of convertible bonds		7,651,851	781
June 14, 2013	500,000,000		10
June 24 and July 12, 2013 (25.0% stock dividends)		157,657,314	10
July 18, 2013 to November 1, 2013 Conversion of convertible bonds		738,483	625
August 1, 2013		7,250,000	900
August 27, 2014 Conversion of convertible bonds		68,378	625
January 15, 2015 to April 9, 2015 Conversion of convertible bonds		6,714,759	625
July 15, 2016	1,600,000,000		10
July 20, 2016 (50.0% stock dividends)		401,527,462	10
August 1, 2022 (merger)		21,531,471	904
August 3, 2022		240	10

The total number of shareholders of the Company is 1,242 and 1,251 as at December 31, 2023 and 2022, respectively.

b. Redeemable preferred shares

	Number of Shares	
	2023	2022
Authorized - 10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2023 and 2022.

Equity Adjustments from Common Control Transactions
Equity adjustments from common control transactions include the following:

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates in 2016.
- SM Prime common control business acquisitions in 2016 and 2017.
- Merger of the Parent Company with Allfirst in August 2022.

These acquisitions were considered as a combination of businesses under common control for which the pooling of interests method was applied in the preparation of the consolidated financial statements.

Retained Earnings

- Appropriated

Following are the appropriations approved by the BOD:

	Date of BOD Approval	Amount
		(In Thousands)
Balance as at January 1, 2015		₱27,000,000
Reversal	November 4, 2015	(18,000,000)
Addition	November 4, 2015	27,000,000
Reversal	November 8, 2017	(27,800,000)
Addition	November 8, 2017	28,800,000
Reversal	November 10, 2021	(37,000,000)
Addition	November 10, 2021	37,000,000

Retained earnings appropriated as at December 31, 2023 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		(In Thousands)
Debt service	2024	₱27,000,000
Investments	2024	10,000,000
		₱37,000,000

- Unappropriated

The Parent Company's cash dividend declarations in 2023 and 2022 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 26, 2023	May 11, 2023	May 25, 2023	7.50	₱9,165,175
April 27, 2022	May 13, 2022	May 26, 2022	6.25	7,528,643

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱393.8 billion and ₱335.3 billion as at December 31, 2023 and 2022, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

The retained earnings of the Parent Company available for dividend declaration amounted to ₱43.8 billion, ₱34.5 billion and ₱30.4 billion as at December 31, 2023, 2022 and 2021, respectively.

21. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group has a policy that requires approval of related party transactions by the Related Party Transactions Committee of the BOD when these breach certain limits and/or when these are not of a usual nature.

The significant transactions with related parties follow:

- Rent

  The Group has existing lease agreements for office and commercial spaces with related companies (retail and banking group and other related parties under common stockholders).

- Royalty and Service Fees

  The Parent Company and SM Retail receive service fees from retail entities under common stockholders for management, consultancy, manpower and other services. In addition to service fees, the Parent Company also receives royalty fees from certain related parties.

- Dividend Income

  The Group earns dividend income from certain related parties under common stockholders.

- Cash Placements and Loans

  The Group has certain bank accounts and cash placements as well as bank loans and debts with BDO and China Bank. Such accounts earn interest at prevailing market rates.

- Notes Receivable

  The Group has certain notes receivable from CCC which has been collected in full as of December 31, 2022.

- Others

  The Group, in the normal course of business, has outstanding receivables from and payables to related companies which are unsecured and normally settled in cash.

  The related party transactions and outstanding balances follow:

	Transaction Amount			Outstanding Amount			
	2023	2022	2021	**2023**	2022	Terms	Conditions
			(In Thousands)				
Banking Group							
Cash placement and investment in marketable securities	**₱–**	₱–	₱–	**₱112,090,550**	₱121,312,088	Interest-bearing	Unsecured; no impairment
Interest receivable	**–**	–	–	**122,166**	242,663	–	–
Interest income	**3,115,199**	2,084,329	1,186,798	**–**	–	–	–
Interest-bearing debt	**–**	–	–	**63,521,896**	67,368,704	Interest-bearing	Unsecured
Interest payable	**–**	–	–	**365,746**	352,951	–	–
Interest expense	**3,045,964**	2,753,606	2,388,269	**–**	–	–	–
Rent receivable	**–**	–	–	**162,982**	148,221	Noninterest-bearing	Unsecured; no impairment
Rent income	**1,307,951**	1,142,575	692,948	**–**	–	–	–
Receivable financed	**4,130,907**	–	358,861	**–**	–	Without recourse	Unsecured
Dividends receivable	**–**	–	–	**40,386**	150,403	Noninterest-bearing	Unsecured; no impairment
Royalty and service fee receivable	**–**	–	–	**8,458**	8,441	Noninterest-bearing	Unsecured; no impairment
Royalty and service fee income	**116,740**	124,260	47,481	**–**	–	–	–
Escrow fund	**–**	–	–	**841,272**	621,490	Interest-bearing	Unsecured; no impairment
Retail and Other Entities							
Rent receivable	**–**	–	–	**370,466**	363,053	Noninterest-bearing	Unsecured; no impairment
Rent income	**2,378,131**	1,945,309	1,062,811	**–**	–	–	–
Royalty and service fee receivable	**–**	–	–	**2,851,529**	2,234,281	Noninterest-bearing	Unsecured; no impairment
Royalty and service fee income	**2,468,686**	2,056,294	1,642,340	**–**	–	–	–
Nontrade receivable	**–**	–	–	**87,007**	142,128	Noninterest-bearing	Unsecured; no impairment
Nontrade payable	**–**	–	–	**1,166,297**	941,000	Noninterest-bearing	Unsecured
Interest income	**–**	237,830	352,192	**–**	–	–	–
Dividends receivable	**–**	–	–	**746,019**	357,400	–	–

Terms and Conditions of Transactions with Related Parties
Outstanding balances at yearend are unsecured and are normally settled in cash. The Group did not make any provision for impairment loss relating to amounts owed by related parties.

Compensation of Key Management Personnel
The aggregate compensation and benefits relating to key management personnel in 2023, 2022 and 2021 consist of short-term employee benefits amounting to ₱4.1 billion, ₱3.7 billion and ₱3.2 billion, respectively, and post-employment benefits amounting to ₱543.5 million, ₱536.4 million and ₱503.0 million, respectively.

22. Other Revenues

This account consists of:

	2023	2022	2021
		(In Thousands)	
Sales - processed food and others	**₱19,964,099**	₱24,604,593	₱12,810,015
Shipping, logistics and other services	**16,725,516**	14,111,385	5,656,887
Cinema and event ticket sales and others	**9,027,668**	4,216,516	498,924
Royalty and service fees	**7,756,655**	5,520,394	4,537,522
Food and beverage	**2,339,039**	1,786,358	611,751
Dividends	**911,619**	1,177,340	586,703
Others	**8,947,819**	10,223,602	10,809,766
	₱65,672,415	₱61,640,188	₱35,511,568

Others include membership revenues, sponsorship income and related items, commission income as well as miscellaneous income from the various business operations of the Group.

23. Costs and Expenses

This account consists of:

	2023	2022	2021
		(In Thousands)	
Cost of sales and services (Note 11)	**₱336,311,596**	₱315,651,763	₱255,252,148
Personnel cost (Note 21)	**34,201,813**	29,580,662	25,176,009
Depreciation and amortization (Notes 14, 15, 16 and 27)	**22,745,157**	21,740,973	19,799,590
Utilities	**15,133,643**	13,491,008	10,002,523
Taxes and licenses	**10,759,774**	8,442,897	8,664,108
Outside services	**10,521,569**	7,178,570	6,538,377
Marketing and selling	**9,517,534**	7,279,896	6,763,396
Supplies	**5,552,948**	2,565,154	1,938,985
Provisions (reversal of provisions) - net	**4,400,289**	5,099,217	(3,982,227)
Rent (Note 27)	**3,716,298**	3,323,087	1,200,679
Repairs and maintenance	**2,767,583**	2,410,096	1,769,627
Pension (Note 25)	**1,489,654**	1,270,890	1,253,169
Transportation and travel	**1,273,496**	1,127,112	772,406
Insurance	**1,107,341**	1,030,217	877,686
Data processing	**1,097,338**	1,089,862	827,128
Professional fees	**761,705**	720,865	277,106
Communications	**556,082**	480,584	364,341
Entertainment, representation and amusement	**494,347**	433,405	434,988
Donations	**363,177**	422,070	208,482
Management and royalty fees (Note 21)	**360,897**	371,672	173,467
Remeasurement loss (Note 5)	**–**	310,152	7,358,144
Others	**10,951,623**	11,410,775	7,142,790
	₱474,083,864	₱435,430,927	₱352,812,922

Others mainly consist of dues and subscriptions, commissions and bank charges.

24. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2023	2022	2021
		(In Thousands)	
Interest income on:			
Cash in banks and temporary investments (Note 7)	**₱2,878,312**	₱1,664,890	₱933,399
Time deposits and other noncurrent assets (Notes 8 and 16)	**840,991**	1,174,464	797,300
Others (Note 12)	**328,975**	203,016	472,652
	₱4,048,278	₱3,042,370	₱2,203,351
Interest expense on:			
Long-term debt (Note 19)	**₱20,939,063**	₱18,330,649	₱16,210,283
Lease liabilities (Note 27)	**1,999,342**	2,029,583	2,002,343
Bank loans (Note 17)	**1,076,593**	1,152,710	859,702
Others	**69,746**	34,128	66,443
	₱24,084,744	₱21,547,070	₱19,138,771

25. Pension Benefits

The Group has funded defined benefit pension plans covering all regular and permanent employees.

Net benefit expense (included under "Costs and Expenses") consists of:

	2023	2022	2021
		(In Thousands)	
Current service cost	**₱1,360,559**	₱1,301,442	₱1,330,146
Net settlement loss (gain)	**(241)**	(238)	2,573
Net interest cost	**286,686**	211,071	120,256
Past service cost - curtailment	**10,245**	(1,931)	(14,120)
	₱1,657,249	₱1,510,344	₱1,438,855
Pension expense (Note 23)	**₱1,489,654**	₱1,270,890	₱1,253,169
Cost of sales and services (Note 23)	**167,595**	239,454	185,686

Changes in the net defined benefit liability and asset follow:

- Net Defined Benefit Liability

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability(Asset)
		(In Thousands)		
As at January 1, 2022	₱10,785,621	₱6,946,217	₱–	₱3,839,404
Net benefit expense (Note 23):				
Current service cost	1,134,684	–	–	1,134,684
Settlement gain	(238)	–	–	(238)
Net interest cost	616,437	385,348	487	231,576
	1,750,883	385,348	487	1,366,022
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(629,290)	–	629,290
Actuarial changes arising from:				
Changes in financial assumptions	337,384	–	–	337,384
Changes in demographic assumptions	(89,477)	–	–	(89,477)
Experience adjustment	82,702	–	–	82,702
Others	–	–	(487)	(487)
	330,609	(629,290)	(487)	959,412
Reclassifications from defined benefit assets	487,604	1,057,443	–	(569,839)
Personnel transfers	72,559	38,624	–	33,935
Actual contributions	–	893,372	–	(893,372)
Benefits paid	(1,032,300)	(1,025,000)	–	(7,300)
Transfer to related parties	7,688	7,688	–	–
Other adjustments	291,739	152,739	–	139,000
As at December 31, 2022	12,694,403	7,827,141	–	4,867,262
Net benefit expense (Note 23):				
Current service cost	**1,314,769**	**–**	**–**	**1,314,769**
Settlement gain	**(241)**	**–**	**–**	**(241)**
Net interest cost	**997,397**	**707,658**	**146**	**289,885**
Past service cost - curtailment	**10,245**	**–**	**–**	**10,245**
	2,322,170	**707,658**	**146**	**1,614,658**
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**(334,406)**	**–**	**334,406**
Actuarial changes arising from:				
Changes in financial assumptions	**2,115,492**	**–**	**–**	**2,115,492**
Changes in demographic assumptions	**(15,510)**	**–**	**–**	**(15,510)**
Experience adjustment	**12,364**	**–**	**–**	**12,364**
Others	**–**	**–**	**(105)**	**(105)**
	2,112,346	**(334,406)**	**(105)**	**2,446,647**
Reclassifications from defined benefit assets	**1,657,205**	**1,741,593**	**–**	**(84,388)**
Personnel transfers	**84,227**	**(42,534)**	**–**	**126,761**
Actual contributions	**–**	**2,044,189**	**–**	**(2,044,189)**
Benefits paid	**(971,728)**	**(948,288)**	**–**	**23,440**
Transfer to related parties	**49,762**	**49,136**	**–**	**626**
Other adjustments	**35,261**	**5,406**	**(17)**	**29,838**
As at December 31, 2023	**₱17,983,646**	**₱11,048,895**	**₱24**	**₱6,934,775**

- Net Defined Benefit Asset

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
		(In Thousands)		
As at January 1, 2022	₱2,741,508	₱3,566,963	₱71,818	(₱753,637)
Net benefit expense (Note 23):				
Current service cost	166,758	–	–	166,758
Net interest cost	88,378	111,836	2,953	(20,505)
Past service cost - curtailment	(1,931)	–	–	(1,931)
	253,205	111,836	2,953	144,322
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(184,558)	–	184,558
Actuarial changes arising from:				
Changes in financial assumptions	(24,672)	–	–	(24,672)
Changes in demographic assumptions	18,998	–	–	18,998
Experience adjustment	173,154	–	–	173,154
Others	–	–	(37,208)	(37,208)
	167,480	(184,558)	(37,208)	314,830
Reclassifications from defined benefit liabilities	(920,684)	(1,253,538)	–	332,854
Personnel transfers	(140,110)	(87,700)		(52,410)
Actual contributions	–	105,869	–	(105,869)
Benefits paid	(135,908)	(135,875)	–	(33)
Transfer from the plan	(20,323)	(11,232)	–	(9,091)
Amount not recognized due to asset limit	–	–	37,571	37,571
Other adjustments	–	–	(37,571)	(37,571)
As at December 31, 2022	1,945,168	2,111,765	37,563	(129,034)
Net benefit expense (Note 23):				
Current service cost	**45,790**	**–**	**–**	**45,790**
Net interest cost	**28,480**	**34,285**	**2,606**	**(3,199)**
	74,270	**34,285**	**2,606**	**42,591**
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**(14,261)**	**–**	**14,261**
Actuarial changes arising from:				
Changes in financial assumptions	**77,177**	**–**	**–**	**77,177**
Changes in demographic assumptions	**(2,647)**	**–**	**–**	**(2,647)**
Experience adjustment	**(24,997)**	**–**	**–**	**(24,997)**
Others	**–**	**–**	**(6,534)**	**(6,534)**
	49,533	**(14,261)**	**(6,534)**	**57,260**
Reclassifications from defined benefit liabilities	**(1,618,909)**	**(1,707,328)**	**–**	**88,419**
Personnel transfers	**(118,848)**	**7,913**	**–**	**(126,761)**
Actual contributions	**–**	**47,540**	**–**	**(47,540)**
Benefits paid	**(29,580)**	**(27,301)**	**–**	**(2,279)**
Transfer from the plan	**(10,964)**	**(13,243)**	**–**	**2,279**
Amount not recognized due to asset limit	**–**	**–**	**33,660**	**33,660**
Other adjustments	**(1,189)**	**(5,406)**	**(33,643)**	**(29,426)**
As at December 31, 2023	**₱289,481**	**₱433,964**	**₱33,652**	**(₱110,831)**

The principal assumptions used in determining the pension obligations of the Group follow:

	2023	2022
Discount rate	**5.9% - 6.5%**	5.1% - 7.4%
Future salary increases	**3.0% - 10.0%**	2.0% - 10.0%

The assets of the Pension Plan are held by a trustee bank, BDO, a related party. The investing decisions of the Plan are made by the Board of Trustees of the Pension Plan. The carrying amounts, which approximate the estimated fair values of the Plan assets, follow:

	2023	2022
	(In Thousands)	
Cash and cash equivalents	**₱279,604**	₱203,812
Investment in debt and other securities	**1,378,149**	1,806,677
Investment in common trust funds	**4,123,140**	4,089,437
Investment in equity securities	**337,371**	480,191
Investment in government securities	**5,287,958**	3,314,714
Others	**76,637**	44,075
	₱11,482,859	₱9,938,906

- Cash and cash equivalents include regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 3.0% to 7.8% and 2.9% to 8.0% in 2023 and 2022, respectively. These have maturities from October 2024 to August 2033 and February 2023 to December in 2023 and 2022, respectively.

- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investment in government securities consists of retail treasury bonds. These bonds bear interest ranging from 2.7% to 8.6% and 2.1% to 11.9% in 2023 and 2022, respectively. These bonds have maturities from October 2024 to August 2033 and May 2023 to April 2028 in 2023 and 2022, respectively.
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

The outstanding balances and transactions of the Pension Plan with the trustee bank follow:

	2023	2022
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱279,604**	₱203,812
Investment in common trust funds	**4,123,141**	4,089,437
Transactions:		
Interest income from cash and cash equivalents	**6,010**	1,005
Net income (loss) from investment in common trust funds	**216,672**	(135,180)

The Group expects to contribute about ₱2.0 billion to its Pension Plan in 2024.

The sensitivity analysis below has been determined based on reasonably possible changes in each significant assumption on the defined benefit obligation as at December 31, 2023 and 2022, with all other assumptions held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
2023		
Discount rates	**50**	**(₱2,165,326)**
	(50)	**2,408,090**
Future salary increases	**100**	**2,623,065**
	(100)	**(2,356,199)**
No attrition rate	**–**	**2,025,162**
2022		
Discount rates	50	(₱872,168)
	(50)	996,350
Future salary increases	100	1,171,032
	(100)	(1,031,713)
No attrition rate	–	1,376,099

The average duration of the Group's defined benefit obligation is 4 to 22 years in 2023 and 2022.

The maturity analysis of the undiscounted benefit payments follows:

	2023	2022
	(In Thousands)	
Year 1	**₱3,638,125**	₱3,905,116
Year 2	**1,265,115**	1,260,971
Year 3	**1,313,298**	1,672,538
Year 4	**1,351,925**	1,898,062
Year 5	**1,848,886**	1,915,450
Year 6 -10	**15,029,376**	13,995,475

The Plan assets are not matched to any specific defined benefit obligation.

26. Income Tax

The details of the Group's deferred tax assets and liabilities follow:

	2023	2022
	(In Thousands)	
Deferred tax assets:		
Lease liabilities	**₱9,514,938**	₱10,107,139
Unamortized past service cost and defined benefit liability	**2,246,111**	1,660,618
NOLCO	**2,025,739**	1,083,853
Provision for doubtful accounts and others	**1,595,198**	1,246,439
Excess of fair values over cost of investment properties	**973,652**	723,543
MCIT	**589,637**	544,532
Accrued leases	**78,715**	195,576
	17,023,990	15,561,700
Deferred tax liabilities:		
Unrealized gross profit on sales of real estate	**11,190,690**	8,896,471
ROU assets	**8,059,156**	8,680,073
Appraisal increment on investment property	**4,326,473**	4,494,557
Capitalized interest	**3,169,365**	3,259,706
Trademarks and brand names	**1,470,771**	1,470,771
Excess of fair values over cost of equity instruments	**55,262**	39,368
Unamortized past service cost and defined benefit asset	**13,467**	38,371
Others	**406,014**	270,499
	28,691,198	27,149,816
Net deferred tax liabilities	**₱11,667,208**	₱11,588,116

The net deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	2023	2022
	(In Thousands)	
Deferred tax assets (Note 16)	**₱6,462,108**	₱5,209,746
Deferred tax liabilities	**18,129,316**	16,797,862
	(₱11,667,208)	(₱11,588,116)

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱3.5 billion and ₱3.4 billion as at December 31, 2023 and 2022, respectively.

Corporate Recovery and Tax Incentives for Enterprises Act
On March 26, 2021, the President of the Philippines signed into law Republic Act No. 11534, Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which took effect on April 11, 2021. The CREATE Act introduces reforms to the corporate income tax and incentive systems by implementing changes to the current tax regulations. Some of these changes, which became effective beginning July 1, 2020, are as follows:

- Reduction in the RCIT rate from 30% to 20% for entities with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million (excluding the value of land on which the business entity's office, plant and equipment are situated);
- Reduction in the RCIT from 30% to 25% for all other corporations;
- Reduction in the MCIT rate from 2% to 1% of gross income for 3 years or until June 30, 2023; and
- Repeal of the imposition of 10% improperly accumulated earnings tax (IAET).

The Group recognized in its consolidated financial statements as at and for the year ended December 31, 2021, a reduction in Provision for income tax (current and deferred), Deferred tax on comprehensive income directly charged to Equity and Deferred tax liabilities - net amounting to ₱1.1 billion, ₱17.9 million, and ₱1.1 billion, respectively, pertaining to the one-time impact of CREATE for the year ended December 31, 2020.

The reconciliation between the statutory tax rates and the Group's effective tax rate on income before income tax follows:

	2023	2022	2021
Statutory income tax rate	**25%**	25%	25%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	**(9)**	(9)	(11)
Interest income subjected to final tax	**(1)**	(1)	(1)
Others	**(1)**	–	1
Effective income tax rate	**14%**	15%	14%

27. Lease Agreements

As Lessor. The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is calculated with reference to a fixed sum per square meter of area leased except for a few tenants which pay either a fixed monthly rent or a percentage of gross sales, whichever is higher.

The future minimum lease receivables under the non-cancellable operating leases follow:

	2023	2022
	(In Millions)	
Within one year	**₱9,454**	₱13,150
Over one year to five years	**19,239**	23,231
Over five years	**4,078**	6,310
	₱32,771	₱42,691

As Lessee. The Group leases certain parcels of land where some of its malls are situated as well as retail store, office spaces, warehouses, containers, reefer vans, ISO tanks, cargo handling equipment, transportation equipment and container yards. The terms of the lease are for periods ranging from one to fifty years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of gross rental income or a certain fixed amount, whichever is higher.

There are also non-cancellable operating lease commitments with lease periods ranging from two to thirty years, mostly containing renewal options and those that provide for the payment of additional rental based on a certain percentage of sales of the sub-lessees.

The rollforward analysis of ROU assets follows:

		December 31, 2023	
	Land Use Rights	**Retail Stores, Office Spaces, Warehouses and Others**	**Total**
		(In Thousands)	
Cost			
As at beginning of year	**₱26,917,044**	**₱30,106,402**	**₱57,023,446**
Additions	**10,558**	**3,561,726**	**3,572,284**
Translation adjustment	**(460,661)**	**–**	**(460,661)**
Reclassifications (Note 11)	**5,708,623**	**(40,779)**	**5,667,844**
Retirements	**(10,558)**	**(806,440)**	**(816,998)**
As at end of year	**32,165,006**	**32,820,909**	**64,985,915**
Accumulated Depreciation and Amortization			
As at beginning of year	**2,368,428**	**10,516,210**	**12,884,638**
Depreciation and amortization	**718,839**	**3,365,765**	**4,084,604**
Translation adjustment	**(23,937)**	**–**	**(23,937)**
Reclassifications	**3,282**	**(98,804)**	**(95,522)**
Retirements	**(2,147)**	**(402,133)**	**(404,280)**
As at end of year	**3,064,465**	**13,381,038**	**16,445,503**
Net Book Value	**₱29,100,541**	**₱19,439,871**	**₱48,540,412**

		December 31, 2022	
	Land Use Rights	Retail Stores, Office Spaces and Warehouses	Total
		(In Thousands)	
Cost			
As at beginning of year	₱26,952,441	₱27,339,351	₱54,291,792
Additions	1,138,124	3,710,101	4,848,225
Effect of business combination (Note 5)	106,771	6,249	113,020
Translation adjustment	(1,280,292)	30,309	(1,249,983)
Retirements	–	(979,608)	(979,608)
As at end of year	26,917,044	30,106,402	57,023,446
Accumulated Depreciation and Amortization			
As at beginning of year	1,589,882	7,862,232	9,452,114
Depreciation and amortization	775,944	3,306,691	4,082,635
Translation adjustment	2,602	4,273	6,875
Reclassifications	–	76,558	76,558
Retirements	–	(733,544)	(733,544)
As at end of year	2,368,428	10,516,210	12,884,638
Net Book Value	₱24,548,616	₱19,590,192	₱44,138,808

The rollforward analysis of lease liabilities follows:

	2023	2022
	(In Thousands)	
As at beginning of year	**₱35,389,448**	₱33,691,435
Additions	**3,572,284**	4,848,225
Interest expense (Note 24)	**1,999,342**	2,029,583
Concessions	**–**	(6,098)
Terminations	**(491,683)**	(319,772)
Payments	**(5,219,712)**	(4,853,925)
Reclassification and others	**70,057**	–
As at end of year	**35,319,736**	35,389,448
Less current portion (Note 18)	**2,977,457**	3,152,827
Noncurrent portion	**₱32,342,279**	₱32,236,621

Following are the amounts recognized in the consolidated statements of income:

	2023	2022
	(In Thousands)	
Depreciation of ROU assets	**₱4,084,604**	₱4,082,635
Interest expense on lease liabilities	**1,999,342**	2,029,583

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased assets portfolio.

Management exercises significant judgment in determining whether these extension and termination options are reasonably certain to be exercised.

The future minimum lease payables under the non-cancellable leases follow:

	2023	2022
	(In Millions)	
Within one year	**₱5,047**	₱4,920
Over one year to five years	**12,484**	13,641
Over five years	**40,606**	43,729
	₱58,137	₱62,290

Included in "Tenants' deposits and others" in the consolidated balance sheets are Tenant's deposits of ₱23.7 billion and ₱22.4 billion as at December 31, 2023 and 2022, respectively.

28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, consist of cash and cash equivalents, time deposits, financial assets at FVOCI, nontrade receivables, bonds and deposits, receivables from banks, accrued interest receivable, bank loans, long-term debt and lease liabilities. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, mainly, cross-currency swaps, interest rate swaps, foreign currency call options and nondeliverable forwards. The purpose is to manage the interest rate and foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments follow:

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three or six months.

- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. Dollars and China yuan renminbi.

- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make the required payments.

- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as equity investments at FVOCI in the consolidated balance sheets. Equity price risk arises from changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

The BOD reviews and approves the policies for managing each of these risks.

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 19).

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps and cross-currency swaps were designated by the Group under cash flow hedge accounting. Furthermore, the Group applied rollover hedging strategy to some of its currency forward contracts whereby the maturity of the hedging instrument is intentionally shorter than the maturity of the hedged item, and there is an expectation that on expiry of the original hedging instrument it will be replaced by a new hedging instrument with similar characteristics of the instrument being replaced.

As at December 31, 2023 and 2022, after considering the effect of the swaps, approximately 78.8% and 79.1%, respectively of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates.

Interest Rate Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in interest rates, with all other variables held constant, of the Group's interest-bearing debt with floating interest rates, follows:

	Increase (Decrease) in Basis Points	Effect on Income Before Tax
		(In Millions)
2023	**100**	**(₱190.2)**
	50	**(95.1)**
	(100)	**190.2**
	(50)	**95.1**
2022	100	(₱160.2)
	50	(80.1)
	(100)	160.2
	(50)	80.1

The assumed movement in basis points for interest rate sensitivity analysis is based on observable market conditions.

Foreign Currency Risk
The Group aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as foreign currency swap contracts, foreign cross-currency swaps, foreign currency call options and non-deliverable forwards.

The Group's foreign currency-denominated financial assets and liabilities and their Peso equivalents follow:

	2023		2022	
	US$	**Ph**	US$	Ph
		(In Thousands)		
Current assets:				
Cash and cash equivalents	**$23,811**	**₱1,318,435**	$110,236	₱6,146,210
Receivables and contract assets	**1,333**	**73,815**	2,732	152,311
Noncurrent assets:				
Time deposits	**350,000**	**19,379,500**	345,034	19,237,383
Other noncurrent assets	**–**	**–**	17,000	947,835
Total assets	**375,144**	**20,771,750**	475,002	26,483,739
Current liabilities:				
Bank loans	**7,500**	**415,275**	–	–
Accounts payable and other current liabilities	**4,062**	**224,921**	4,650	259,257
Current portion of long-term debt	**349,983**	**19,378,549**	–	–
Noncurrent liabilities:				
Long-term debt - net of current portion	**4,966**	**274,978**	434,458	24,223,206
Total liabilities	**366,511**	**20,293,723**	439,108	24,482,463
Net	**$8,633**	**₱478,027**	$35,894	₱2,001,276

As at December 31, 2023 and 2022, approximately 27.6% and 28.6%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The Group recognized net foreign exchange gain of ₱328.7 million, ₱209.0 million and ₱790.1 million in 2023, 2022 and 2021, respectively. This resulted from movements in the closing rate of U.S. dollar against the Philippine peso as follows:

	U.S. Dollar to Peso
December 31, 2023	**₱55.370**
December 31, 2022	55.755
December 31, 2021	50.999

Foreign Currency Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in U.S. Dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's financial assets and liabilities denominated in foreign currency, follows:

	Appreciation (Depreciation) of Peso	Effect on Income Before Tax
		(In Millions)
2023	**₱1.50**	**₱12.9**
	1.00	**8.6**
	(1.50)	**(12.9)**
	(1.00)	**(8.6)**
2022	₱1.50	₱53.8
	1.00	35.9
	(1.50)	(53.8)
	(1.00)	(35.9)

Liquidity Risk

The Group manages its liquidity to ensure adequate financing of capital expenditures and debt service. Financing consists of internally generated funds, proceeds from debt and equity issues, and/or sale of assets.

The Group regularly evaluates its projected and actual cash flow information and assesses conditions in the financial markets for opportunities to pursue fund raising initiatives including bank loans, export credit agency-guaranteed facilities, bonds and equity market issues.

The Group's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include the following:

	2023	2022
	(In Thousands)	
Cash and cash equivalents (excluding cash on hand)	**101,671,685**	₱104,545,323
Current portion of time deposits	**602,466**	8,788,848

The maturity profile of the Group's financial liabilities follows:

	2023			
	Less than 1 Year	**1 to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Bank loans	**₱13,414,239**	**₱–**	**₱–**	**₱13,414,239**
Accounts payable and other current liabilities*	**175,538,851**	**–**	**–**	**175,538,851**
Long-term debt (including current portion)**	**156,852,506**	**384,720,189**	**46,019,727**	**587,592,422**
Derivative liabilities**	**10,496**	**306,585**	**–**	**317,081**
Tenants' deposits**	**96,023**	**23,450,038**	**315,851**	**23,861,912**
Other noncurrent liabilities***	**–**	**9,834,890**	**2,304,661**	**12,139,551**
	₱345,912,115	**₱418,311,702**	**₱48,640,239**	**₱812,864,056**

**Excluding nonfinancial liabilities of ₱10.0 billion.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱20.8 billion.*

	2022			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
		(In Thousands)		
Bank loans	₱20,811,524	₱–	₱–	₱20,811,524
Accounts payable and other current liabilities*	157,445,676	–	–	157,445,676
Long-term debt (including current portion)**	100,888,369	295,992,179	148,727,650	545,608,198
Derivative liabilities**	459,320	294,403	–	753,723
Tenants' deposits**	187,177	3,066,376	19,107,547	22,361,100
Other noncurrent liabilities***	–	3,371,317	5,335,747	8,707,064
	₱279,792,066	₱302,724,275	₱173,170,944	₱755,687,285

**Excluding nonfinancial liabilities of ₱10.6 billion.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱15.4 billion.*

Credit Risk

The Group trades only with recognized and creditworthy related and third parties. The Group policy requires customers who wish to trade on credit terms to undergo credit verification. In addition, receivable balances are monitored on a regular basis to keep exposure to bad debts at the minimum. Given the Group's diverse customer base, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Group which consist of cash and cash equivalents, time deposits and certain derivative instruments, the Group's credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Receivables from sales of real estate have minimal credit risk and are effectively collateralized by the respective units sold since title to the real estate properties are not transferred to the buyers until full payment is made.

As at December 31, 2023 and 2022, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

High Quality. This pertains to a counterparty who is not expected to default in settling its obligations, thus credit risk is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Quality. Other financial assets not belonging to the high quality category are included in this category.

	2023			2022		
	High Quality	**Standard Quality**	**Total**	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	**₱101,671,685**	**₱–**	**₱101,671,685**	₱104,545,323	₱–	₱104,545,323
Time deposits including noncurrent portion	**22,927,147**	**–**	**22,927,147**	32,919,429	–	32,919,429
Financial assets at FVOCI	**25,530,724**	**1,534,894**	**27,065,618**	25,167,902	736,813	25,904,715
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	**86,090,325**	**7,966,598**	**94,056,923**	61,877,471	8,441,661	70,319,132
Advances and other receivables - net (includes nontrade receivables, bonds and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)**	**24,377,006**	**–**	**24,377,006**	25,535,428	–	25,535,428
Escrow fund	**843,732**	**–**	**843,732**	621,490	–	621,490
Derivative assets (including noncurrent portion)	**6,779,389**	**–**	**6,779,389**	10,126,829	–	10,126,829
	₱268,220,008	**₱9,501,492**	**₱277,721,500**	₱260,793,872	₱9,178,474	₱269,972,346

**Excluding non-financial assets of ₱44.3 billion and ₱51.2 billion as at December 31, 2023 and 2022, respectively.*
***Excluding non-financial assets of ₱235.1 million and ₱204.3 million as at December 31, 2023 and 2022, respectively.*

Equity Price Risk
Management closely monitors the equity securities in its investment portfolio. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The sensitivity analysis for a reasonably possible change in equity indices, with all other variables held constant, of the Group's investments in listed shares of stock, follows:

	Change in Equity Price	Effect on Equity
		(In Millions)
2023	**+1.63%**	**₱507.6**
	-1.63%	**(507.6)**
2022	+2.44%	₱670.3
	-2.44%	(670.3)

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

The Group manages its capital structure and makes appropriate adjustments based on changes in economic conditions. Accordingly, the Group may adjust dividend payments to shareholders, secure new and/or pay off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by maintaining its net debt at no higher than 50% of the sum of net debt and equity.

Net Gearing Ratio

	2023	2022
	(In Thousands)	
Bank loans	**₱13,414,239**	₱20,811,524
Long-term debt (current and noncurrent)	**488,287,650**	484,896,917
Less:		
Cash and cash equivalents (excluding cash on hand)	**(101,671,685)**	(104,545,323)
Time deposits (current and noncurrent)	**(22,927,147)**	(32,919,429)
Net interest-bearing debt (a)	**377,103,057**	368,243,689
Total equity	**772,200,205**	692,190,011
Net interest-bearing debt and total equity (b)	**₱1,149,303,262**	₱1,060,433,700
Gearing ratio - net (a/b)	**33%**	35%

Gross Gearing Ratio

	2023	2022
	(In Thousands)	
Bank loans	**₱13,414,239**	₱20,811,524
Long-term debt	**488,287,650**	484,896,917
Total interest-bearing debt (a)	**501,701,889**	505,708,441
Total equity	**772,200,205**	692,190,011
Total interest-bearing debt and total equity (b)	**₱1,273,902,094**	₱1,197,898,452
Gearing ratio - gross (a/b)	**39%**	42%

29. Financial Instruments

The Group's financial assets and liabilities by category and by class, except for those with carrying amounts that are reasonable approximations of fair values, follow:

	December 31, 2023				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	**₱25,505,874**	**₱25,505,874**	**₱25,505,874**	**₱–**	**₱–**
Unlisted shares of stock	**1,534,894**	**1,534,894**	**–**	**–**	**1,534,894**
Club shares	**24,850**	**24,850**	**–**	**24,850**	**–**
Derivative assets	**6,779,389**	**6,779,389**	**–**	**6,779,389**	**–**
	33,845,007	**33,845,007**	**25,505,874**	**6,804,239**	**1,534,894**
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	**22,324,681**	**22,657,988**	**–**	**22,657,988**	**–**
	₱56,169,688	**₱56,502,995**	**₱25,505,874**	**₱29,462,227**	**₱1,534,894**
Liabilities Measured at Fair Value					
Derivative liabilities	**₱317,081**	**₱317,081**	**₱–**	**₱317,081**	**₱–**
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	**374,758,859**	**362,191,802**	**–**	**–**	**362,191,802**
Tenants' deposits and others*	**36,941,440**	**35,731,981**	**–**	**–**	**35,371,981**
	411,700,299	**397,923,783**	**–**	**–**	**397,923,783**
	₱412,017,380	**₱398,240,864**	**₱–**	**₱317,081**	**₱398,240,864**

**Excluding nonfinancial liabilities of ₱20.8 billion and noncurrent derivative liabilities of ₱306.6 million.*

			December 31, 2022		
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	₱25,146,102	₱25,146,102	₱25,146,102	₱–	₱–
Unlisted shares of stock	736,813	736,813	–	–	736,813
Club shares	21,800	21,800	–	21,800	–
Derivative assets	10,126,829	10,126,829	–	10,126,829	–
	36,031,544	36,031,544	25,146,102	10,148,629	736,813
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	24,130,581	24,301,426	–	24,301,426	–
	₱60,162,125	₱60,332,970	₱25,146,102	₱34,450,055	₱736,813
Liabilities Measured at Fair Value					
Derivative liabilities	₱753,723	₱753,723	₱–	₱753,723	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	397,849,704	388,216,528	–	–	388,216,528
Tenants' deposits and others*	31,592,352	29,501,687	–	–	29,501,687
	429,442,056	417,718,215	–	–	417,718,215
	₱430,195,779	₱418,471,938	₱–	₱753,723	₱417,718,215

**Excluding nonfinancial liabilities of ₱15.4 billion and noncurrent derivative liabilities of ₱294.4 million.*

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2023 and 2022.

The fair values of unlisted shares of stock classified under Level 3 were determined through the income valuation approach. This valuation approach assumes that the value of any asset can be estimated by ascertaining the amount and timing of future cash flows or earnings that are generated by that asset. As at December 31, 2023 and 2022, the Group's unlisted shares of stock were valued using discount rates of 17.2% to 18.2% and 20.4% to 21.4%, respectively.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

	2023	2022
Time deposits (noncurrent portion)	**2.2% - 3.9%**	3.1% - 4.0%
Tenants' deposits	**2.1% - 6.9%**	2.7% - 6.9%

Long-term Debt. The fair value of long-term debt is estimated based on the following assumptions:

Debt	Fair Value Assumptions
Fixed Rate	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 0.02% to 8.3% and 3.1% to 8.4% as at December 31, 2023 and 2022, respectively.
Variable Rate	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 8.2% to 8.3% and 7.4% to 8.5% as at December 31, 2023 and 2022, respectively.

Derivative Instruments. The fair values are based on quotes obtained from counterparties. The rollforward analysis of the fair value changes of derivative instruments follows:

	2023	2022
	(In Thousands)	
Balance at beginning of year	**₱9,373,106**	(₱1,709,480)
Net changes in fair value during the year	**(1,194,648)**	11,819,742
Fair value on settled derivatives	**(1,716,150)**	(737,156)
	₱6,462,308	₱9,373,106

Derivative Instruments Accounted for as Cash Flow Hedges
As at December 31, 2023, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:

	Notional Amount	Agreed Equivalent	Fair Value	Interest Rate	Foreign Exchange Rate	Maturity
			(In Thousands)			
Parent						
Cross Currency Swaps	$280,000	₱14,751,000	₱876,193	5.4% - 5.8%	₱51.15 - ₱56.20	2024 - 2025
Cross Currency Swaps	£90,700	6,298,557	334,506	5.7% - 5.8%	68.52 - 70.49	2025 - 2028
SM Prime						
Cross Currency Swaps	$150,000	₱7,276,500	₱1,096,049	3.6% - 3.7%	₱48.50 - ₱48.52	2024
Cross Currency Swaps	286,000	¥1,919,208	962,344	3.9% - 4.0%	¥6.69 - ¥6.72	2024
Principal Only Swaps	270,000	¥1,753,285	281,166	–	¥6.38 - ¥6.68	2026 - 2027
Foreign Exchange Forward Swaps	800,000	₱44,725,405	108,803	–	₱53.94 - ₱60.39	2024 - 2026
Interest Rate Swaps	670,000	–	2,803,247	2.3% - 2.6%	–	2025 - 2026

As the terms of the swaps have been negotiated to match the terms of the hedged loans and advances, the hedges were assessed to be highly effective.

Other Derivative Instruments Not Designated as Accounting Hedges
Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱592.0 million, ₱995.0 million and ₱216.0 million gain in 2023, 2022 and 2021, respectively.

30. EPS Computation

	Years Ended December 31		
	2023	2022	2021
	(In Thousands Except Per Share Data)		
Net income attributable to owners of the Parent (a)	**₱76,989,043**	₱61,653,665	₱40,411,896
Weighted average number of common shares outstanding (b)	**1,222,023**	1,211,846	1,204,583
Basic/Diluted EPS (a/b)	**₱63.00**	₱50.88	₱33.55

31. Change in Liabilities Arising From Financing Activities

	2023			2022		
	Bank Loans (Note 17)	**Long-term Debt** (Note 19)	**Lease Liabilities** (Note 27)	Bank Loans (Note 17)	Long-term Debt (Note 19)	Lease Liabilities (Note 27)
			(In Thousands)			
Balance at beginning of year	**₱20,811,524**	**₱484,896,917**	**₱35,389,448**	₱27,167,173	₱445,325,439	₱33,691,435
Availments	**45,599,966**	**107,590,529**	**3,572,284**	66,878,421	100,256,801	4,848,225
Payments	**(52,906,823)**	**(103,343,041)**	**(5,219,712)**	(73,264,105)	(72,630,533)	(4,853,925)
Cumulative translation adjustment on cash flow hedges	**(86,678)**	**(1,609,567)**	**–**	5,535	2,229,038	–
Foreign exchange movement	**(3,750)**	**408,406**	**–**	–	9,718,606	–
Business combination (Note 5)	**–**	**–**	**–**	24,500	22,183	–
Others	**–**	**344,406**	**1,577,716**	–	(24,617)	1,703,713
Balance at end of year	**₱13,414,239**	**₱488,287,650**	**₱35,319,736**	₱20,811,524	₱484,896,917	₱35,389,448

There are no non-cash changes in accrued interest and dividends payable. Others include debt accretion and debt issue cost amortization.

SM INVESTMENTS

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