SM INVESTMENTS

Together, We Recover

2021 Financial Supplements

Contents

We Are SM

Who We Are

Our company was built by our founder, Henry Sy, starting as a small shoe store in the late 1950s in downtown Manila. Today, we are the country's leading holding company, with a broad presence in retail, banking and property. We touch the lives of millions of Filipinos.

Service is proudly in our DNA: we always keep the welfare of our employees, customers, partners and stakeholders front of mind.

We have grown by making sure our people and our partners grow with us. We continue to commit ourselves to improving the quality of life for our communities.

Through the pandemic, we have continued to adapt and be innovative in meeting our customers' needs and we will carry on doing so.

There are huge opportunities ahead and we will be a leader in responsible, inclusive and sustainable business practices as we continue to grow for the benefit of all.

Our Vision and Commitment

Sustainability is at the heart of 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, to look after the welfare of our employees and deliver sustainable returns to our shareholders, while at all times upholding the highest standards of corporate governance and environmental stewardship across all our businesses.

What We Stand For

- Entrepreneurship
- Drive and Enthusiasm
- Teamwork
- Integrity
- Leadership

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, 2021 and 2020, 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.

JOSE T. SIO
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 2022

Report of the Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's 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. It reviews its Charter annually.

The Committee is composed of three (3) non-executive directors, two (2) of whom are 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 2021, they attended the annual corporate governance training conducted by an SEC accredited training provider and other updates on new relevant laws, accounting standards, taxes, and other regulatory requirements. 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 an 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. 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), a government-owned and controlled corporation for the last 5 years. She is a fellow and trustee of the Institute of Corporate Directors. She is also 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 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.

- **Alfredo E. Pascual** is the Lead Independent Director of SMIC. He was the President and CEO of the Institute of Corporate Directors (ICD) in 2018 and 2019. From 2011 to 2017, he led the University of the Philippines (UP) System as President and Board Co-Chair. Before UP, Mr. Pascual worked at the Asian Development Bank (ADB) for 19 years in several positions, including Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership (Infrastructure Development). At ADB, he had postings in India and Indonesia and held board directorships at ADB's investee companies in China, India, and the Philippines. Mr. Pascual was a finance professor at the Asian Institute of Management (AIM). Currently, he is an independent director at other publicly-listed companies and a trustee at nonprofits and other organizations. He is the President of the Management Association of the Philippines (MAP) and the global Association of Former Employees of ADB (AFE-ADB). He finished his MBA and BS in Chemistry (cum laude) from UP.

- **Jose T. Sio** is the Chairman of the Board of SMIC. He is also a Director of China Banking Corporation, Belle Corporation, Atlas Consolidated Mining and Development Corporation, NLEX Corporation, and Ortigas Land Corporation, Trustee of Far Eastern University, Incorporated, and Adviser to the Board of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a master's degree in Business Administration (MBA) from New York University, is a certified public accountant, and is a former Senior Partner of SyCip Gorres Velayo & Co. (SGV). He was voted CFO of the Year in 2009 by the Financial Executives of the Philippines. He was also awarded as Best CFO (Philippines) in various years by several Hong Kong-based publications.

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

The Audit Committee						
Office	Name	2021 Meetings and Attendance				
		2/24	5/3	8/2	11/5	11/17
Chairperson (ID)	Tomasa H. Lipana	√	√	√	√	√
Member (ID)	Alfredo E. Pascual	√	√	√	√	√
Member (NED)	Jose T. Sio	√	√	√	√	√

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.

2. The Committee reviewed and approved the 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 2021, 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, and related 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, 2021, second quarter ended June 30, 2021, and third quarter ended September 30, 2021.

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, 2021.

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 2022.

28 February 2022

Tomasa H. Lipana	**Alfredo E. Pascual**	**Jose T. Sio**	**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, 2021 and 2020, 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, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021 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.

Recoverability of Goodwill

As at December 31, 2021, the Group reported ₱24,627.3 million goodwill attributable mainly to SM Prime Holdings, Inc., Supervalue, Inc., Super Shopping Market, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated and others. The Group performed an annual testing per cash generating unit (CGU) to assess whether goodwill might be impaired. Management's process requires significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic such as revenue growth rate. Given the significant management estimates and assumptions, and the uncertainty of internal and external factors, including future market circumstances, this is considered as a key audit matter.

The assumptions, sensitivities and results of the annual impairment testing are disclosed in Note 16 to the consolidated financial statements.

Audit Response

We involved our internal specialist in assessing the methodologies and assumptions used by the Group in calculating each CGU's recoverable amount. For the fair value less cost of disposal calculations, we evaluated the approach used by the Group and tested the calculations performed with reference to the observable market prices and allowable costs for disposing the asset. For the value-in-use calculations, we assessed the prospective financial information (PFI) for each CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used such as revenue growth rate. We compared the key assumptions used, such as revenue growth rate against the historical performance of the CGU, industry outlook and other relevant external data, taking into consideration the impact associated with coronavirus pandemic. We also involved our internal specialist in recalculating the discount rates used for each CGU. We tested the parameters used in the determination of the discount rate against market data. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

Accounting for Investments in Associate Companies

As at December 31, 2021, the Group's investments in associate companies amounted to ₱295,741.7 million, representing 28.4% and 22.0% 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, significant management judgments and estimates made by the associate companies in determining expected credit loss and valuation of financial instruments, 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 investments with indicators of possible impairment, we obtained management's impairment analysis and gained an understanding of their impairment assessment process. We discussed the current and projected financial performance of the associate companies with management and assessed whether these were reflected in the impairment analysis. We also involved our internal specialist in assessing the Group's methodology and assumptions used in calculating the associate companies' recoverable amount. We assessed the PFI for the CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used 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. For growth rate, we compared it with the long-term average growth rate for the products or industries. We compared the other key assumptions such as gross margins, projected earnings before interest and taxes, effective tax rates, non-cash charges, net working capital changes, capital expenditures and others against the historical performance of the associate companies, industry outlook and other relevant external data, taking into consideration the impact associated with the coronavirus pandemic. We also involved our internal specialist in recalculating the discount rates used for each CGU. We tested the parameters used in the determination of the discount rates against market data. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

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 detailed the other auditor's scope of work, risk assessment, audit strategy and reporting requirements. We discussed with the other auditor their key audit areas, including areas of significant judgments and estimates, planning and execution of audit procedures, and results of their work for the year ended December 31, 2021.

We reviewed the working papers of the other auditor and obtained relevant conclusion statements related to their audit procedures. We focused on the other auditor's procedures on the review of the classification and measurement of financial assets, considering disposals of investment securities classified under the hold-to-collect business model, valuation of financial instruments, and testing of the expected credit loss model updated for the impact of the coronavirus pandemic.

Real Estate Revenue and Cost Recognition

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 past history with the buyer, age of the outstanding receivables and pricing of the property. Management regularly evaluates the historical sales cancellations and back-outs, after considering the impact of coronavirus pandemic, if it would still support its current threshold of buyer's equity before commencing revenue recognition.

Effective January 1, 2021, the Group adopted PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04). In determining the transaction price, the Group considers whether the selling price of the real estate property includes significant financing component.

Effective January 1, 2021, the Group adopted PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02). 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 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 also considered the impact of the coronavirus pandemic to the level of cancellations during the year. We traced the analysis to supporting documents such as notice of sales cancellation.

For the determination of the transaction price, we obtained an understanding of the Group's process in implementing PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04), including the determination of the population of contracts with customers related to real estate sale, the selection of the transition approach and election of available practical expedient. 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 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, 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, including implementation of PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02), and performed tests of the relevant controls. We obtained the certified POC reports prepared by the third-party project managers and assessed their competence and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries, including inquiries on how the coronavirus pandemic affected the POC during the period, and obtained 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 and performed tests of the relevant controls. 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, 2021, the merchandise inventories of the Group amounted to ₱30,185.7 million, representing 10.0% 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 visited selected warehouses and stores and observed the physical inventory counts. 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 obtained the reconciliations performed by management 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.

Accounting for Business Combinations

The Group acquired additional 22.4% of 2GO Group, Inc. (2GO) in April and June 2021 for a total consideration of ₱4,693.0 million and additional 40.0% of Goldilocks Bakeshop, Inc. (GBI) in August 2021 for a total consideration of ₱4,039.6 million, thereby obtaining control over 2GO and GBI as of the acquisition dates. The previously held interests in 2GO and GBI were revalued based on the acquisition dates fair values which resulted to a total remeasurement loss of ₱7,358.1 million. The total goodwill recognized in 2GO and GBI based on the final purchase price allocation performed was ₱6,548.6 million. We consider the accounting for these acquisitions as a key audit matter because it required significant management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values, specifically the acquired property and equipment, and in determining the fair values of previously held interests.

The Group's disclosures about increased ownership in 2GO and GBI and the purchase price allocations are disclosed in Note 5 to the consolidated financial statements.

Audit Response

We read the purchase agreements covering the acquisitions, the considerations paid and the final purchase price allocations. We evaluated the identification of 2GO and GBI's underlying assets and liabilities based on our understanding of 2GO and GBI's business and management's explanations on the rationale for the acquisitions. We assessed the competence, capabilities and objectivity of the external appraisers who valued the property and equipment by considering their qualifications, experience and reporting responsibilities. We compared the key assumptions used such as the list prices, current replacement and reproduction cost and adjustment factors by reference to relevant market data. We recomputed the remeasurement loss of previously-held interests based on the acquisition-date fair values. We also reviewed the presentation and the disclosures of the transactions in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20IS (Definitive Information Statement), SEC Form 17A and Annual Report for the year ended December 31, 2021, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20IS (Definitive Information Statement), SEC Form 17A and Annual Report for the year ended December 31, 2021 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 Julie Christine O. Mateo.

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
Tax Identification No. 198-819-116
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 93542-SEC (Group A)
Valid to cover audit of 2020 to 2024 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-068-2020, December 3, 2020, valid until December 2, 2023
PTR No. 8854345, January 3, 2022, Makati City

February 28, 2022

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 27)	**₱88,744,225**	₱78,159,197
Time deposits (Notes 8 and 27)	**311,233**	31,012
Financial assets at fair value through other comprehensive income (FVOCI) (Notes 9 and 27)	**547,041**	568,146
Receivables and contract assets (Notes 10 and 27)	**74,599,491**	60,526,230
Inventories (Note 11)	**86,767,188**	72,056,045
Other current assets (Notes 12 and 27)	**51,088,161**	43,170,378
Total Current Assets	**302,057,339**	254,511,008
Noncurrent Assets		
Financial assets at FVOCI - net of current portion (Notes 9 and 27)	**27,946,993**	27,278,240
Investments in associate companies and joint ventures (Note 13)	**305,072,026**	296,265,722
Time deposits - net of current portion (Notes 8, 27 and 28)	**3,905,618**	1,356,442
Property and equipment (Note 14)	**38,555,519**	26,087,448
Investment properties (Note 15)	**463,765,374**	435,466,724
Right-of-use assets (Note 26)	**44,775,919**	41,979,029
Intangibles (Note 16)	**31,615,767**	24,588,503
Deferred tax assets (Note 25)	**4,732,558**	4,671,969
Other noncurrent assets (Notes 16 and 27)	**119,159,561**	112,318,650
Total Noncurrent Assets	**1,039,529,335**	970,012,727
	₱1,341,586,674	₱1,224,523,735
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21, 27 and 30)	**₱26,232,427**	₱24,126,000
Accounts payable and other current liabilities (Notes 18, 26 and 27)	**163,974,670**	149,231,108
Income tax payable	**2,224,660**	2,649,041
Current portion of long-term debt (Notes 19, 21, 27 and 30)	**63,706,559**	60,121,438
Dividends payable (Note 27)	**3,110,847**	3,829,207
Total Current Liabilities	**259,249,163**	239,956,794
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 27, 28 and 30)	**374,155,880**	330,731,798
Lease liabilities - net of current portion (Notes 26 and 30)	**31,061,609**	28,868,164
Deferred tax liabilities (Note 25)	**15,796,870**	12,614,979
Tenants' deposits and others (Notes 24, 26, 27 and 28)	**48,883,227**	47,624,102
Total Noncurrent Liabilities	**469,897,586**	419,839,043
Total Liabilities	**729,146,749**	659,795,837

(Forward)

	December 31	
	2021	2020
Equity Attributable to Owners of the Parent		
Capital stock (Note 20)	**₱12,045,829**	₱12,045,829
Additional paid-in capital	**75,827,181**	75,823,506
Equity adjustments from common control transactions (Note 20)	**(5,424,455)**	(5,424,455)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)
Cumulative translation adjustment	**2,193,170**	895,922
Net fair value changes on cash flow hedges	**(980,127)**	(2,741,387)
Net unrealized gain on financial assets at FVOCI (Note 9)	**15,171,942**	16,506,435
Remeasurement loss on defined benefit asset/obligation (Note 24)	**(8,317,835)**	(6,066,075)
Retained earnings (Note 20):		
Appropriated	**37,000,000**	37,000,000
Unappropriated	**308,946,422**	275,818,556
Total Equity Attributable to Owners of the Parent	**436,436,741**	403,832,945
Non-controlling Interests	**176,003,184**	160,894,953
Total Equity	**612,439,925**	564,727,898
	₱1,341,586,674	₱1,224,523,735

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		
	2021	2020	2019
REVENUES			
Sales:			
Merchandise	**₱302,607,313**	₱289,726,442	₱354,088,848
Real estate	**45,116,570**	47,023,795	44,499,529
Shipping, logistics and other services	**5,656,888**	–	–
Rent (Notes 15, 21 and 26)	**29,642,244**	26,904,979	51,573,157
Equity in net earnings of associate companies and joint ventures (Note 13)	**26,768,811**	17,036,367	26,038,426
Royalty, management and service fees (Note 21)	**4,394,077**	3,936,537	7,348,479
Cinema ticket sales, amusement and others	**498,924**	1,095,445	7,739,761
Dividend income (Note 21)	**586,703**	430,696	480,513
Others	**12,786,125**	8,031,444	10,200,616
	428,057,655	394,185,705	501,969,329
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 11)	**227,708,698**	220,245,198	262,434,661
Real estate (Notes 11 and 15)	**18,687,157**	20,583,982	20,806,612
Cost of services	**7,516,230**	–	–
Selling, general and administrative expenses (Note 22)	**97,879,839**	95,482,554	113,257,931
	351,791,924	336,311,734	396,499,204
OTHER INCOME (CHARGES)			
Interest expense (Notes 21 and 23)	**(18,759,841)**	(18,023,610)	(19,511,745)
Interest income (Notes 21 and 23)	**2,201,191**	2,436,015	3,881,156
Gain (loss) on disposal of investments and properties - net	**672,121**	(19,373)	193,878
Gain (loss) on fair value changes on derivatives - net	**317,743**	(6,503)	6,379
Impairment loss on investment (Note 13)	**–**	(1,000,000)	(3,987,000)
Foreign exchange gain - net and others (Note 27)	**773,776**	155,162	561,705
	(14,795,010)	(16,458,309)	(18,855,627)
INCOME BEFORE INCOME TAX	**61,470,721**	41,415,662	86,614,498
PROVISION FOR INCOME TAX (Note 25)			
Current	**6,957,046**	6,407,055	16,218,229
Deferred	**1,782,037**	683,565	951,955
	8,739,083	7,090,620	17,170,184
NET INCOME	**₱52,731,638**	₱34,325,042	₱69,444,314
Attributable to			
Owners of the Parent (Note 29)	**₱38,499,890**	₱23,389,950	₱44,568,244
Non-controlling interests	**14,231,748**	10,935,092	24,876,070
	₱52,731,638	₱34,325,042	₱69,444,314
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 29)	**₱31.96**	₱19.42	₱37.00

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31		
	2021	2020	2019
NET INCOME	**₱52,731,638**	₱34,325,042	₱69,444,314
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Share in unrealized gain (loss) on financial assets at fair value through other comprehensive income (FVOCI) of associates (Notes 9 and 13)	**(2,254,430)**	2,280,460	4,505,589
Cumulative translation adjustment	**2,088,002**	(322,636)	(1,011,736)
Net fair value changes on cash flow hedges	**2,353,722**	(1,556,934)	(1,712,763)
	2,187,294	400,890	1,781,090
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain (loss) on defined benefit obligation (Note 24)	**(2,389,787)**	4,108,271	(8,209,190)
Net unrealized gain (loss) on financial assets at FVOCI	**1,500,421**	(302,553)	(176,975)
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	**(198,464)**	(776,519)	553,736
	(1,087,830)	3,029,199	(7,832,429)
TOTAL COMPREHENSIVE INCOME	**₱53,831,102**	₱37,755,131	₱63,392,975
Attributable to			
Owners of the Parent	**₱37,718,970**	₱26,317,136	₱40,223,919
Non-controlling interests	**16,112,132**	11,437,995	23,169,056
	₱53,831,102	₱37,755,131	₱63,392,975

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 and 2019

(Amounts in Thousands Except Per Share Data)

	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment
As at January 1, 2021	**₱12,045,829**	**₱75,823,506**	**(₱5,424,455)**	**(₱25,386)**	**₱895,922**
Net income	**–**	**–**	**–**	**–**	**–**
Other comprehensive income	**–**	**–**	**–**	**–**	**1,297,248**
Total comprehensive income	**–**	**–**	**–**	**–**	**1,297,248**
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	**–**	**–**	**–**	**–**	**–**
Effect of business combination (Note 5)	**–**	**–**	**–**	**–**	**–**
Decrease in previous year's non-controlling interests	**–**	**–**	**–**	**–**	**–**
As at December 31, 2021	**₱12,045,829**	**₱75,827,181**	**(₱5,424,455)**	**(₱25,386)**	**₱2,193,170**
As at January 1, 2020	₱12,045,829	₱75,815,923	(₱5,424,455)	(₱25,386)	₱1,308,228
Net income	–	–	–	–	–
Other comprehensive income	–	–	–	–	(412,306)
Total comprehensive income	–	–	–	–	(412,306)
Realized gain on sale of financial assets at FVOCI (Note 9)	–	–	–	–	–
Transactions with non-controlling interests	–	7,583	–	–	–
Cash dividends - ₱4.25 per share (Note 20)	–	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–	–
Increase in previous year's non-controlling interests	–	–	–	–	–
As at December 31, 2020	₱12,045,829	₱75,823,506	(₱5,424,455)	(₱25,386)	₱895,922

Equity Attributable to Owners of the Parent							
Net Fair Value Changes on Cash Flow Hedges	**Net Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)**	**Remeasure-ment Loss on Defined Benefit Asset/ Obligation**	**Appropriated Retained Earnings**	**Unappropriated Retained Earnings**	**Total**	**Non-controlling Interests**	**Total Equity**
(₱2,741,387)	**₱16,506,435**	**(₱6,066,075)**	**₱37,000,000**	**₱275,818,556**	**₱403,832,945**	**₱160,894,953**	**₱564,727,898**
–	**–**	**–**	**–**	**38,499,890**	**38,499,890**	**14,231,748**	**52,731,638**
1,761,260	**(1,587,668)**	**(2,251,760)**	**–**	**–**	**(780,920)**	**1,880,384**	**1,099,464**
1,761,260	**(1,587,668)**	**(2,251,760)**	**–**	**38,499,890**	**37,718,970**	**16,112,132**	**53,831,102**
–	**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)**
–	**–**	**–**	**–**	**–**	**–**	**3,073,712**	**3,073,712**
–	**–**	**–**	**–**	**–**	**–**	**(286,834)**	**(286,834)**
(₱980,127)	**₱15,171,942**	**(₱8,317,835)**	**₱37,000,000**	**₱308,946,422**	**₱436,436,741**	**₱176,003,184**	**₱612,439,925**
(₱1,406,026)	₱14,399,640	(₱8,633,269)	₱37,000,000	₱257,546,591	₱382,627,075	₱153,524,403	₱536,151,478
–	–	–	–	23,389,950	23,389,950	10,935,092	34,325,042
(1,335,361)	2,107,659	2,567,194	–	–	2,927,186	502,903	3,430,089
(1,335,361)	2,107,659	2,567,194	–	23,389,950	26,317,136	11,437,995	37,755,131
–	(864)	–	–	864	–	–	–
–	–	–	–	–	7,583	(7,583)	–
–	–	–	–	(5,118,849)	(5,118,849)	–	(5,118,849)
–	–	–	–	–	–	(4,664,320)	(4,664,320)
–	–	–	–	–	–	604,458	604,458
(₱2,741,387)	₱16,506,435	(₱6,066,075)	₱37,000,000	₱275,818,556	₱403,832,945	₱160,894,953	₱564,727,898

	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment
As at January 1, 2019	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,014,573
Net income	–	–	–	–	–
Other comprehensive income	–	–	–	–	(706,345)
Total comprehensive income	–	–	–	–	(706,345)
Realized gain on sale of financial assets at FVOCI	–	–	–	–	–
Transactions with non-controlling interests	–	403	–	–	–
Cash dividends - ₱9.12 per share	–	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–	–
Effect of business combination	–	–	–	–	–
Increase in previous year's non-controlling interests	–	–	–	–	–
As at December 31, 2019	₱12,045,829	₱75,815,923	(₱5,424,455)	(₱25,386)	₱1,308,228

See accompanying Notes to Consolidated Financial Statements.

Equity Attributable to Owners of the Parent							
Net Fair Value Changes on Cash Flow Hedges	Net Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)	Remeasurement Loss on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
₱62,444	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012
–	–	–	–	44,568,244	44,568,244	24,876,070	69,444,314
(1,468,470)	4,400,401	(6,569,911)	–	–	(4,344,325)	(1,707,014)	(6,051,339)
(1,468,470)	4,400,401	(6,569,911)	–	44,568,244	40,223,919	23,169,056	63,392,975
–	(1,749,741)	–	–	1,749,741	–	–	–
–	–	–	–	–	403	(81,462)	(81,059)
–	–	–	–	(10,984,448)	(10,984,448)	–	(10,984,448)
–	–	–	–	–	–	(9,824,854)	(9,824,854)
–	–	–	–	–	–	1,358,352	1,358,352
–	–	–	–	–	–	500	500
(₱1,406,026)	₱14,399,640	(₱8,633,269)	₱37,000,000	₱257,546,591	₱382,627,075	₱153,524,403	₱536,151,478

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2021	**2020**	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱61,470,721**	₱41,415,662	₱86,614,498
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 13)	**(26,768,811)**	(17,036,367)	(26,038,426)
Depreciation and amortization (Notes 14, 15, 16, 22 and 26)	**20,696,369**	18,763,579	19,370,843
Interest expense (Note 23)	**18,759,841**	18,023,610	19,511,745
Provisions (reversal of provisions) - net (Notes 10 and 22)	**(4,277,758)**	1,620,414	2,609,386
Interest income (Note 23)	**(2,201,191)**	(2,436,015)	(3,881,156)
Loss (gain) on disposal of investments and properties - net	**(672,121)**	19,373	(193,878)
Dividend income (Note 21)	**(586,703)**	(430,696)	(480,513)
Unrealized foreign exchange (gain) loss - net	**(490,845)**	(124,982)	220,432
Loss (gain) on fair value changes on derivatives - net	**(317,743)**	6,503	(6,379)
Impairment loss on investment (Note 13)	**–**	1,000,000	3,987,000
Gain on sale of financial assets at fair value through profit or loss (FVPL) - net	**–**	–	(27,812)
Income before working capital changes	**65,611,759**	60,821,081	101,685,740
Increase in:			
Receivables and contract assets	**(2,788,404)**	(6,930,842)	(2,848,713)
Inventories	**(37,303,043)**	(16,077,988)	(21,514,263)
Other current assets	**(6,836,921)**	(2,313,171)	(8,187,276)
Increase (decrease) in:			
Accounts payable and other current liabilities	**35,531,070**	11,163,508	21,611,185
Tenants' deposits and others	**1,330,169**	(397,461)	(2,498,565)
Net cash generated from operations	**55,544,630**	46,265,127	88,248,108
Income tax paid	**(7,402,297)**	(7,035,228)	(16,576,112)
Net cash provided by operating activities	**48,142,333**	39,229,899	71,671,996
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Property and equipment	**365,861**	58,896	343,228
Investment properties	**914,962**	3,197	117,429
Financial assets at fair value through other comprehensive income (FVOCI) and FVPL	**–**	–	3,814,634
Additions to:			
Investment properties (Note 15)	**(42,155,574)**	(38,415,299)	(42,295,103)
Property and equipment (Note 14)	**(10,449,085)**	(6,096,154)	(7,446,414)
Financial assets at FVOCI and FVPL	**(1,427)**	(3,124,660)	(3,261,682)
Investments in associate companies and joint ventures (Note 13)	**(358,120)**	(390,350)	(5,330,780)
Decrease (increase) in:			
Other noncurrent assets	**12,084,333**	(11,145,362)	(1,543,199)
Time deposits	**(2,829,397)**	1,056,006	25,111,241
Dividends received	**5,180,690**	4,751,956	5,558,665
Interest received	**2,018,965**	2,439,829	4,048,370
Purchase consideration, net of cash from acquisition of subsidiaries (Note 5)	**(5,684,648)**	–	327,140
Net cash used in investing activities	**(40,913,440)**	(50,861,941)	(20,556,471)

(Forward)

	Years Ended December 31		
	2021	**2020**	**2019**
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Bank loans	**₱52,175,839**	₱82,880,520	₱25,266,865
Long-term debt	**129,529,420**	75,253,912	52,895,468
Payments of:			
Bank loans	**(53,324,257)**	(77,464,985)	(21,376,865)
Long-term debt	**(92,624,775)**	(36,158,696)	(64,799,259)
Interest	**(18,034,064)**	(17,142,063)	(22,606,473)
Dividends	**(9,653,454)**	(10,158,925)	(20,510,816)
Lease liabilities (Notes 26 and 30)	**(4,630,284)**	(3,838,044)	(2,854,295)
Proceeds from maturity of derivatives	**–**	–	395,722
Net cash provided by (used in) financing activities	**3,438,425**	13,371,719	(53,589,653)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,667,318**	1,739,677	(2,474,128)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(82,290)**	205,746	(625,313)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**78,159,197**	76,213,774	79,313,215
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱88,744,225**	₱78,159,197	₱76,213,774

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

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, 2022.

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 accompanying consolidated financial statements have been prepared under the going concern assumption. The Group believes that its businesses would remain relevant despite challenges posed by the COVID-19 pandemic. Despite the adverse impact of the COVID-19 pandemic on short-term business results, long-term prospects remain attractive.

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			
		2021		2020	
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.	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 (Mindpro)	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**	–	–
Mountain Bliss Resort & Development Corp. and Subsidiary	Real estate development	**100**	**–**	100	–

(Forward)

Company	Principal Activities	Percentage of Ownership 2021 Direct	2021 Indirect	2020 Direct	2020 Indirect
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**	**–**	63	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	**77**	**–**	77	–
Others					
Primebridge Holdings, Inc.	Investment	**100**	**–**	100	–
Multi-Realty Development Corporation	Investment	**91**	**–**	91	–
Henfels Investments Corporation	Investment	**99**	**–**	99	–
Belleshares Holdings, Inc.	Investment	**99**	**–**	99	–
Digital Advantage Corp.	Investment	**94**	**–**	94	–
2GO Group, Inc. (Note 5)	Integrated Supply Chain	**53**	**–**	–	–
Goldilocks Bakeshop, Inc. (Note 5)	Bakery products and other food items	**74**	**–**	–	–
Globalfund Holdings Inc.	Investment	**98**	**2**	–	100

*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, 2021 and 2020.

The summarized financial information of SM Prime follows:

Financial Position

	December 31 2021	2020
	(In Thousands)	
Current assets	**₱195,664,769**	₱157,074,976
Noncurrent assets	**608,738,511**	565,283,949
Total assets	**804,403,280**	722,358,925
Current liabilities	**141,025,499**	135,987,903
Noncurrent liabilities	**329,017,008**	275,653,394
Total liabilities	**470,042,507**	411,641,297
Total equity	**₱334,360,773**	₱310,717,628
Attributable to:		
Owners of the Parent	**₱332,919,204**	₱309,284,067
Non-controlling interests	**1,441,569**	1,433,561
	₱334,360,773	₱310,717,628

Statements of Income

	Years Ended December 31		
	2021	2020	2019
		(In Thousands)	
Revenues	**₱82,315,484**	₱81,899,298	₱118,311,490
Costs and expenses	**49,900,933**	52,825,112	61,619,162
Other charges	**4,681,026**	6,610,445	7,530,334
Income before income tax	**27,733,525**	22,463,741	49,161,994
Provision for income tax	**5,822,122**	4,324,004	10,373,321
Net income	**21,911,403**	18,139,737	38,788,673
Other comprehensive income (loss)	**4,180,611**	(4,311,847)	(30,088)
Total comprehensive income	**₱26,092,014**	₱13,827,890	₱38,758,585
Attributable to:			
Owners of the Parent	**₱21,786,516**	₱18,006,512	₱38,085,601
Non-controlling interests	**124,887**	133,225	703,072
Net income	**₱21,911,403**	₱18,139,737	₱38,788,673
Attributable to:			
Owners of the Parent	**₱25,968,260**	₱13,688,396	₱38,058,471
Non-controlling interests	**123,754**	139,494	700,114
Total comprehensive income	**₱26,092,014**	₱13,827,890	₱38,758,585
Dividends paid to non-controlling interests	**(₱129,050)**	(₱288,100)	(₱633,700)

Cash Flows

	Years Ended December 31		
	2021	2020	2019
		(In Thousands)	
Net cash provided by operating activities	**₱30,667,161**	₱17,190,284	₱51,727,582
Net cash used in investing activities	**(44,113,678)**	(43,943,981)	(48,615,244)
Net cash provided by (used in) financing activities	**22,623,545**	22,817,505	(7,310,020)
Effect of exchange rate changes on cash and cash equivalents	**(62,790)**	(2,153)	31,174
Net increase (decrease) in cash and cash equivalents	**₱9,114,238**	(₱3,938,345)	(₱4,166,508)

3. Summary of Significant Accounting Policies, Changes and Improvements

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

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Time Deposits
Time deposits (shown under current assets) are cash placements with original maturities of more than three months but less than one year. Time deposits with maturities of more than twelve months after the reporting period are presented under noncurrent assets.

Determination of Fair Value
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 takes into account 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.

The Group recognizes transfers into and transfers out of fair value hierarchy levels by re-assessing categorization based on the lowest level input that is significant to the fair value measurement as a whole, as at the date of the event or change in circumstances that caused the transfer.

"Day 1" Difference. Where the transaction price in a nonactive market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data that is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the amount of "Day 1" difference.

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 market place 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 at FVOCI (Debt Instruments)
The Group measures debt instruments at FVOCI when:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of income and computed in the same manner as financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change is recycled to profit or loss.

As at December 31, 2021 and 2020, the Group does not have any debt instrument measured at FVOCI.

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 Assets
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 its 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 sale 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 before taking into account any credit enhancements held by the Group.

For debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. The Group considers there to be a significant increase in credit risk when contractual payments become past due.

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, 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.

Amortized cost is calculated by taking into account 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

Initial Recognition and Subsequent Measurement
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 “Cumulative translation adjustment” 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 are valued at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisition, such as purchase price and transport costs, is primarily determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

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.

Investments in Associate Companies and Joint Ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in associate companies and joint ventures are accounted for under the equity method of accounting. Under the equity method, investments in associate companies and joint ventures are carried at cost plus post-acquisition changes in the Group's share in net assets of the associate or joint venture.

On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's or joint venture's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- Goodwill relating to an associate or joint venture is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's or joint venture's profits or losses; and,
- Any excess of the Group's share in the net fair value of the associate's and joint venture's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired.

The consolidated statement of income reflects the share in the results of operations of the associate or joint venture. Where there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share in any changes and discloses this in the consolidated statement of comprehensive income. Profits and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's interest in the associate or joint venture.

Appropriate adjustments to the investor's share of the associate's or joint venture's profit or loss after acquisition are made to account for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate or joint venture, such as for goodwill or property, plant and equipment.

After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investment in the associate companies and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate companies and joint ventures is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the investment's recoverable amount and carrying value and recognizes the impairment loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate companies and joint ventures upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs necessary in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

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	5–8 years
Furniture, fixtures and office equipment	3–10 years
Machinery and equipment	2–10 years
Leasehold improvements	5–10 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.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further depreciation and amortization is charged to current operations.

When any property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and accumulated provision for impairment loss is removed from the accounts and any resulting gain or loss is charged to profit or loss.

Investment Properties

This account consists of investment properties and the noncurrent portion of land and development. Investment properties include property held to earn rentals and for capital appreciation. 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.

Expenditures incurred after the investment property has been put in operation such as repairs and maintenance costs are charged to profit or loss.

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

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.

Investment property is derecognized when disposed or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are charged to profit or loss.

Transfers are made to (from) investment property when there is a change in use evidenced by ending (commencement) of owner-occupation, or, commencement of lease to another party (commencement of development with a view to sell).

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

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 "Selling, general and administrative 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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments,* is measured at fair value with the changes in fair value recognized in the statement of income in accordance with PFRS 9. Other contingent considerations that are not within the scope of PFRS 9 are measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Acquisitions 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 shall be recognized directly in equity.

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.

Allocation of Impairment Loss. An impairment loss is recognized for a CGU if the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units.

Measurement Period. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. The measurement period ends as soon as the Group receives the information it was seeking as of the acquisition date or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

<u>Intangible Assets</u>
The cost of trademarks and brand names acquired in a business combination is the fair value as at the date of acquisition. The useful life of trademarks and brand names is assessed based on an analysis of all relevant factors. If there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group, the trademark / brand name is considered to be indefinite.

Trademarks and brand names with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level. Trademarks and brand names with finite useful lives are amortized on a straight-line basis over the estimated useful lives of the assets. The useful life of an intangible asset is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset at the date of disposal and are recognized in profit or loss.

<u>Impairment of Nonfinancial Assets</u>
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.

<u>Capital Stock and Additional Paid-in Capital</u>
Capital stock is stated at par value of the share. Proceeds and/or fair value of considerations received in excess of par value, if any, is recognized as additional paid-in capital. Incremental costs directly attributable to the issuance of new shares is deducted from the proceeds, net of tax.

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 has been passed to the buyer at the time when the performance obligation has been satisfied. The performance obligation is generally satisfied when the customer purchases the goods. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Revenue and Cost from Sale 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 sale of real estate, under trade receivables, is accounted for as unbilled revenue from sale of real estate.

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 sale 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 sale 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 sale 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 any other 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 under condominium and residential units for sale and current portion of land and development).

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 is 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.

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. Revenue is 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 Amusement Tickets. Revenue is 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. Revenue is recognized upon delivery of the securities to and confirmation of the sale by the broker.

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

Royalty, Management and Service Fees. Revenue and/or expense is recognized when earned and/or incurred, in accordance with the terms of the agreements.

Interest. Revenue is recognized when interest accrues, taking into account the effective yield.

Selling, General, Administrative and Other Expenses. Costs and expenses are recognized as incurred.

Pension Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting the net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and,
- remeasurements of net defined benefit liability or asset.

Service cost which includes current service costs, past service costs and gains or losses on nonroutine settlements, is recognized as expense. Past service cost is recognized on the earlier of the date of the plan amendment or curtailment, or the date when restructuring-related cost is recognized.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which these arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can these be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if these have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Foreign Currency-denominated Transactions
Transactions in foreign currencies are initially recorded in the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange as at reporting date. Nonmonetary items denominated in foreign currency are translated using the exchange rate as at the date of initial recognition. All differences are recognized in profit or loss.

Foreign Currency Translation
The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange as at reporting date and their respective statements of income are translated at the weighted average rate for the year. The exchange differences arising from the translation are included in the consolidated statement of comprehensive income and are presented within the “Cumulative translation adjustment” account in the consolidated statement of changes in equity. On disposal of a foreign subsidiary, the deferred cumulative amount of exchange differences recognized in equity relating to that particular foreign operation is recognized in profit or loss.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rent is recognized as revenue in the period it is earned.

Lease Modification. Lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease e.g., addition or termination of the right to use one or more underlying assets, or the extension or shortening of the contractual lease term.

In case of a lease modification, the lessor shall account for any such modification by recognizing a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. In case of change in lease payments for an operating lease that does not meet the definition of a lease modification, the lessor shall account for any such change as a negative variable lease payment and recognize lower lease income.

Group as Lessee. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right to use the underlying asset.

- *ROU Assets.* The Group recognizes ROU assets at the commencement date of the lease. ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimates of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, except when those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

- *Lease Liabilities.* At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-subtance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects the exercise of an option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

  In calculating the present value of lease payments, the Group uses the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term Leases and Leases of Low-value Assets.* The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have lease terms of 12 months or less from the commencement date and those that do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. These leases are recognized as expense on a straight-line basis over the lease term.

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.

Borrowing Cost

Borrowing cost is capitalized as part of the cost of the asset if it is directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing cost commences when the activities to prepare the asset are in progress and expenditures and borrowing cost are incurred. Borrowing cost is capitalized until the assets are substantially ready for their intended use. Borrowing cost is capitalized when it is probable that it will result in future economic benefits to the Group. All other borrowing costs are expensed as incurred. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

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.

<u>Basic/Diluted Earnings Per Common Share (EPS)</u>
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.

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

<u>Events after the Reporting Period</u>
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.

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous year except for the adoption of new standards, starting January 1, 2021.

Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements.

The Group adopted these amendments beginning January 1, 2021.

- Adoption of the Deferred Provisions of Philippine Interpretations Committee (PIC) Q&A 2018-12, *PFRS 15 Implementation Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-04*

On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 25, 2018 and February 8, 2019, the Philippine SEC issued SEC Memorandum Circular No. 14, Series of 2018, and SEC Memorandum Circular No. 3, Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of 3 years until December 31, 2020. On December 15, 2020, the Philippine SEC issued SEC Memorandum Circular No. 34, Series of 2020, which further extended the deferral of certain provisions of this PIC Q&A until December 31, 2023. A summary of the PIC Q&A provisions covered by the SEC deferral follows:

	Deferral Period
a. Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04)	Until December 31, 2023
b. Treatment of land in the determination of the POC discussed in PIC Q&A 2018-12-E	Until December 31, 2023
c. Treatment of uninstalled materials in the determination of the POC discussed in PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02)	Until December 31, 2020
d. Accounting for CUSA Charges discussed in PIC Q&A No. 2018-12-H	Until December 31, 2020

In November 2020, the PIC issued the following Q&As which provide additional guidance on the real estate industry issues covered by the above SEC deferrals:

- PIC Q&A 2020-04 on determining whether the transaction price includes a significant financing component.
- PIC Q&A 2020-02 on determining which uninstalled materials should not be included in calculating the POC.

On July 8, 2021, the SEC issued SEC MC No. 8, series of 2021 amending the transition provision of the above PIC Q&A providing real estate companies the accounting policy option of applying either the full retrospective approach or modified retrospective approach. With this, real estate companies are finally able to fully comply with PFRS 15 and revert to full PFRS financial reporting for the calendar year 2021.

For the calendar year ended 2021, the Group did not avail of the relief provided by the SEC and instead adopted the PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04) effective January 1, 2021, using the modified retrospective approach.

- Adoption of IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, *Borrowing Cost*)

In March 2019, IFRIC published an Agenda Decision on whether borrowing costs can be capitalized on real estate inventories that are under construction and for which the related revenue is recognized over time under paragraph 35(c) of IFRS 15 (PFRS 15). IFRIC concluded that borrowing costs cannot be capitalized for such real estate inventories as they do not meet the definition of a qualifying asset under PAS 23, *Borrowing Costs,* considering that these inventories are ready for their intended sale in their current condition.

On February 11, 2020, the Philippine SEC issued Memorandum Circular No. 4, Series of 2020, providing relief to the real estate industry by deferring the mandatory implementation of the above IFRIC Agenda Decision until December 31, 2020. Further, on December 15, 2020, the Philippine SEC issued SEC Memorandum Circular No. 34, Series of 2020, which extends the relief on the application of the IFRIC Agenda Decision provided to the real estate industry until December 31, 2023. Effective January 1, 2024, the real estate industry will adopt the IFRIC Agenda Decision and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. A real estate company may opt not to avail of the deferral and instead comply in full with the requirements of the IFRIC Agenda Decision.

The Group did not avail of the relief provided by the SEC and instead adopted the IFRIC Agenda Decision effective January 1, 2021, using modified retrospective approach as provided under the SEC Memorandum Circular No. 8, series of 2021.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021, with earlier application permitted.

Group as Lessee. The Group adopted the amendments beginning January 1, 2021. The adoption of these amendments for rent concessions on certain land, retail stores, office spaces and warehouses has no significant impact for the year ended December 31, 2021.

Group as Lessor. For the year ended December 31, 2021 and 2020, the Group waived rentals and other charges amounting to ₱17,118.1 million and ₱18,779.9 million, respectively, in addition to deferral of rental payments. These concessions significantly reduced rental income. These rental waivers and deferrals are not accounted as a lease modification under PFRS 16 since COVID-19 is a force majeure under the general law.

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform.
  - Relief from discontinuing hedging relationships.
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

  Following are the information that are required to be disclosed:

  - Nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

Future Changes in Accounting Policies
The following are the new standards, amendments to standards and improvements that were issued but are not yet effective as at December 31, 2021.

Unless otherwise indicated, the Group does not expect the future adoption of these new standards, amendments to standards and improvements to have a significant impact on the consolidated financial statements.

The Group intends to adopt the applicable standards, amendments to standards and improvements when these become effective.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential 'day 2' gains or losses arising from liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets or Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21, Levies, if incurred separately.

  The amendments also clarified that contingent assets do not qualify for recognition as at the acquisition date.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, P*lant and Equipment: Proceeds before Intended Use*

  The amendments prohibit the deduction from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Such proceeds shall be recognized in profit or loss.

  The amendment is effective January 1, 2022 with retroactive modification for items of property, plant and equipment made available for use on or after the beginning of the earliest period presented at the time of adoption.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective on or after January 1, 2022.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards, Subsidiary as a first-time adopter*
    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with early adoption permitted.

  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period at the time of first adoption.

    The amendment is effective on or after January 1, 2022 with early adoption permitted.

  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

    The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

    The amendment is to be applied prospectively, on or after the January 1, 2022 with early adoption permitted.

Effective beginning on or after January 1, 2023

- 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.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  These amendments are effective on or after January 1, 2023.

- 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 the effects on an accounting estimate of a change in input or a change in measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  These amendments are effective on or after January 1, 2023 with early adoption permitted.

- 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. These amendments are effective on or after January 1, 2023 with early adoption permitted.

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, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024.

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.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  On December 15, 2021, the Financial Reporting Standards Council (FRSC) 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 for two (2) years after its effective date as decided by the IASB. PFRS 17 is effective on or after January 1, 2025, with comparative figures required. Early application is 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 associate or joint venture.

  On January 13, 2016, the FRSC 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. Under these arrangements, the Group bears significant risks and rewards associated with the sale of goods. 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.

Lease Modification - as Lessor. Throughout the government-imposed community quarantine, the Group waived rentals and offered deferral of payments to certain tenants. Such rental waivers and deferrals are not accounted as a lease modification under PFRS 16 since COVID-19 is a force majeure under the general law.

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 of 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. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Group.

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 sale 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 2021 and 2020, 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 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, 2021. See Notes 14, 15 and 26 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 25 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 24 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 28 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 26 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

Acquisition

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 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 26)	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 noninterest-bearing with trade receivables 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 ₱3,602.6 million 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 ₱8,835.0 million 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 ₱434,759.9 million and ₱38,375.3 million, 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 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 26)	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 its carrying amount. GBI's receivables comprise mainly of trade and nontrade receivables, royalties and advances carried at cost. These are noninterest-bearing 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 ₱2,946.0 million 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 ₱5,016.9 million 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 ₱433,908.2 million and ₱38,563.3 million, respectively.

The Group remeasured its previously held interest in 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 Selling, general and administrative expenses for the year ended December 31, 2021 is the remeasurement loss recognized for 2GO at ₱4,917.6 million and ₱2,440.5 million for GBI, representing the loss from remeasuring the Group's equity interest in 2GO and GBI before the business combination to fair value, in accordance with PFRS 3, *Business Combinations.*

6. Segment Information

The Group has identified three reportable operating segments as follows: property, retail, and banking and others.

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 and others segment primarily includes the operations of the Parent Company which is engaged in asset management and capital investments as well as its associate companies which include the banks.

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 Segment Financial Data

	Year Ended December 31, 2021				
	Property	**Retail**	**Banking and Others**	**Eliminations**	**Consolidated**
			(In Thousands)		
Revenues:					
External customers	**₱80,178,590**	**₱303,789,225**	**₱44,089,840**	**₱–**	**₱428,057,655**
Revenues from contracts with customers	**45,615,494**	**294,694,316**	**13,569,885**	**–**	**353,879,695**
Merchandise sales	**–**	**294,694,316**	**7,912,997**	**–**	**302,607,313**
Real estate sales	**45,116,570**	**–**	**–**	**–**	**45,116,570**
Cinema ticket sales, amusement and others	**498,924**	**–**	**–**	**–**	**498,924**
Shipping, logistics and other services	**–**	**–**	**5,656,888**		**5,656,888**
Rent	**26,218,182**	**1,093,378**	**2,330,684**	**–**	**29,642,244**
Equity in net earnings of associate companies and joint ventures	**1,187,419**	**527,733**	**25,053,659**	**–**	**26,768,811**
Royalty, management and service fees	**698,143**	**2,392,634**	**1,303,300**	**–**	**4,394,077**
Dividend income	**77,149**	**–**	**509,554**	**–**	**586,703**
Others	**6,382,203**	**5,081,164**	**1,322,758**	**–**	**12,786,125**
Inter-segment	**9,423,189**	**2,108**	**2,384,449**	**(11,809,746)**	**–**
	₱89,601,779	**₱303,791,333**	**₱46,474,289**	**(₱11,809,746)**	**₱428,057,655**
Segment results:					
Income before income tax	**₱28,243,532**	**₱14,180,061**	**₱19,047,128**	**₱–**	**₱61,470,721**
Provision for (benefit from) income tax	**5,942,801**	**3,261,945**	**(465,663)**	**–**	**8,739,083**
Net income	**₱22,300,731**	**₱10,918,116**	**₱19,512,791**	**₱–**	**₱52,731,638**
Net income attributable to:					
Owners of the Parent	**₱11,000,880**	**₱7,697,477**	**₱19,801,533**	**₱–**	**₱38,499,890**
Non-controlling interests	**11,299,851**	**3,220,639**	**(288,742)**	**–**	**14,231,748**

	Year Ended December 31, 2020				
	Property	Retail	Banking and Others	Eliminations	Consolidated
			(In Thousands)		
Revenues:					
External customers	₱76,881,024	₱296,637,376	₱20,667,305	₱–	₱394,185,705
Revenues from contracts with customers	48,119,240	289,726,442	–	–	337,845,682
Merchandise sales	–	289,726,442	–	–	289,726,442
Real estate sales	47,023,795	–	–	–	47,023,795
Cinema ticket sales, amusement and others	1,095,445	–	–	–	1,095,445
Shipping, logistics and other services	–	–	–	–	–
Rent	23,481,703	1,061,700	2,361,576	–	26,904,979
Equity in net earnings of associate companies and joint ventures	694,473	313,554	16,028,340	–	17,036,367
Royalty, management and service fees	593,767	2,192,823	1,149,947	–	3,936,537
Dividend income	88,616	–	342,080	–	430,696
Others	3,903,225	3,342,857	785,362	–	8,031,444
Inter-segment	9,695,786	151,810	2,562,464	(12,410,060)	–
	₱86,576,810	₱296,789,186	₱23,229,769	(₱12,410,060)	₱394,185,705
Segment results:					
Income before income tax	₱23,442,549	₱7,200,165	₱10,772,948	₱–	₱41,415,662
Provision for income tax	4,349,645	2,509,821	231,154	–	7,090,620
Net income	₱19,092,904	₱4,690,344	₱10,541,794	₱–	₱34,325,042
Net income attributable to:					
Owners of the Parent	₱9,670,834	₱3,375,743	₱10,343,373	₱–	₱23,389,950
Non-controlling interests	9,422,070	1,314,601	198,421	–	10,935,092

	Year Ended December 31, 2019				
	Property	Retail	Banking and Others	Eliminations	Consolidated
			(In Thousands)		
Revenues:					
External customers	₱106,759,524	₱366,036,864	₱29,172,941	₱–	₱501,969,329
Revenues from contracts with customers	52,239,290	354,088,848	–	–	406,328,138
Merchandise sales	–	354,088,848	–	–	354,088,848
Real estate sales	44,499,529	–	–	–	44,499,529
Cinema ticket sales, amusement and others	7,739,761	–	–	–	7,739,761
Shipping, logistics and other services	–	–	–	–	–
Rent	47,959,728	1,398,662	2,214,767	–	51,573,157
Equity in net earnings of associate companies and joint ventures	1,492,093	963,196	23,583,137	–	26,038,426
Royalty, management and service fees	503,423	5,516,233	1,328,823	–	7,348,479
Dividend income	99,707	–	380,806	–	480,513
Others	4,465,283	4,069,925	1,665,408	–	10,200,616
Inter-segment	15,127,079	189,391	3,315,815	(18,632,285)	–
	₱121,886,603	₱366,226,255	₱32,488,756	(₱18,632,285)	₱501,969,329
Segment results:					
Income before income tax	₱50,151,617	₱20,463,932	₱15,998,949	₱–	₱86,614,498
Provision for income tax	10,508,037	6,235,716	426,431	–	17,170,184
Net income	₱39,643,580	₱14,228,216	₱15,572,518	₱–	₱69,444,314
Net income attributable to:					
Owners of the Parent	₱19,410,225	₱9,840,717	₱15,317,302	₱–	₱44,568,244
Non-controlling interests	20,233,355	4,387,499	255,216	–	24,876,070

In 2021, 2020 and 2019, 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 segment financial data.

7. Cash and Cash Equivalents

This account consists of:

	2021	2020
	(In Thousands)	
Cash on hand and in banks (Note 21)	**₱28,563,623**	₱26,603,364
Temporary investments (Note 21)	**60,180,602**	51,555,833
	₱88,744,225	₱78,159,197

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. These investments earn interest at prevailing rates (see Note 23).

8. Time Deposits

This account consists of time deposits as follows:

	2021	2020
	(In Thousands)	
Current	**₱311,233**	₱31,012
Noncurrent	**3,905,618**	1,356,442
	₱4,216,851	₱1,387,454

The time deposits bear interest ranging from 0.4% to 3.8% in 2021 and 0.5% to 1.6% in 2020.

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 23.

9. Financial Assets at FVOCI

This account consists of:

	2021	2020
	(In Thousands)	
Shares of stock		
Listed	**₱26,764,759**	₱26,133,219
Unlisted	**1,714,725**	1,701,227
Club shares	**14,550**	11,940
	28,494,034	27,846,386
Less current portion	**547,041**	568,146
Noncurrent portion	**₱27,946,993**	₱27,278,240

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 at FVOCI, as the Group considers these investments to be strategic in nature.

The movements in net unrealized gain on financial assets at FVOCI and share in unrealized loss on financial assets at FVOCI of associates attributable to the owners of the Parent follow:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱16,506,435**	₱14,399,640
Share in net unrealized gain (loss) on financial assets at FVOCI of associates	**(2,129,429)**	2,200,527
Gain (loss) due to changes in fair value of financial assets at FVOCI	**541,761**	(92,868)
Transferred to retained earnings - realized loss (gain) on sale of financial assets at FVOCI	**253,175**	(864)
Balance at end of year	**₱15,171,942**	₱16,506,435

10. Receivables and Contract Assets

This account consists of:

	2021	2020
	(In Thousands)	
Trade:		
Real estate buyers*	**₱110,932,754**	₱97,178,460
Third-party tenants	**7,473,461**	5,868,337
Shipping and logistics**	**3,111,428**	–
Related-party tenants (Note 21)	**380,963**	972,723
Others	**366,205**	38,512
Royalty, management and service fees (Note 21)	**1,980,327**	2,437,479
Due from related parties (Note 21)	**617,465**	1,180,589
Dividends (Note 21)	**579,053**	732,953
	125,441,656	108,409,053
Less allowance for ECL	**1,323,187**	1,066,130
	124,118,469	107,342,923
Less noncurrent portion of receivables from real estate buyers (Note 16)	**49,518,978**	46,816,693
Current portion	**₱74,599,491**	₱60,526,230

* *Includes unbilled revenue from sales of real estate amounting to ₱98,589.0 million and ₱86,631.4 million as at December 31, 2021 and 2020, respectively.*

** *Includes contract assets representing shipping and logistics services delivered but not yet invoiced amounting to ₱639.0 million as at December 31, 2021.*

The terms and conditions of these receivables follow:

- Receivables from real estate buyers pertain mainly to sale of condominium and residential units at various terms of payment that are noninterest-bearing. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱358.9 million and ₱7,170.2 million as at December 31, 2021 and 2020, respectively, and, on with recourse basis, ₱324.2 million and ₱1,808.7 million as at December 31, 2021 and 2020, respectively (see Note 21). The corresponding liability from the assignment of receivables on with recourse basis bears interest at 4.5% in 2021 and 4.3% to 4.5% in 2020. The fair value of these assigned receivables and liability approximates cost.

  The transaction price allocated to the remaining performance obligations totaling ₱34,308.2 million and ₱28,108.3 million as at December 31, 2021 and 2020, respectively, are expected to be recognized over the construction period ranging from one to five years.

- Trade receivables from tenants and royalty, management and service fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.

- Trade receivables from tenants, shipping and logistics, royalty, management and service fee receivables are noninterest-bearing and are normally collectible on 30- to 90-day terms.

- Dividends receivables are noninterest-bearing and are normally collectible within the next financial year.

- The terms and conditions relating to Due from related parties are discussed in Note 21.

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:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱1,066,130**	₱1,053,549
Provisions - net of writeoff (Note 22)	**257,057**	12,581
Balance at end of year	**₱1,323,187**	₱1,066,130

The aging of receivables follow:

	2021	2020
	(In Thousands)	
Neither past due nor impaired	**₱113,304,925**	₱98,262,466
Past due but not impaired:		
Less than 30 days	**2,896,901**	2,029,881
31-90 days	**2,094,140**	1,350,479
91-120 days	**955,920**	2,055,131
Over 120 days	**4,866,583**	3,644,966
Impaired	**1,323,187**	1,066,130
	₱125,441,656	₱108,409,053

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

11. Inventories

This account consists of:

	2021	2020
	(In Thousands)	
Merchandise inventories - at cost	**₱30,185,662**	₱28,352,564
Land and development - current	**37,229,527**	34,933,442
Condominium and residential units for sale	**19,351,999**	8,770,039
	₱86,767,188	₱72,056,045

Merchandise Inventories
The movements in this account follow:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱28,352,564**	₱33,157,622
Purchases	**228,460,783**	215,440,140
Effect of business combination (Note 5)	**1,081,013**	–
Total goods available for sale	**257,894,360**	248,597,762
Less cost of merchandise sales	**227,708,698**	220,245,198
Balance at end of year	**₱30,185,662**	₱28,352,564

The merchandise inventories are stated at cost as at December 31, 2021 and 2020.

Land and Development
The movements in "Land and development - current" accounted as real estate inventories follow:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱34,933,442**	₱37,935,968
Development cost incurred	**25,409,833**	18,139,432
Transfer from investment property (Note 15)	**5,448,334**	1,830,013
Cost of real estate sold	**(16,867,820)**	(18,447,226)
Transfer to condominium and residential units for sale	**(12,318,589)**	(4,850,262)
Reclassification and others	**624,327**	325,517
Balance at end of year	**₱37,229,527**	₱34,933,442

Land and development includes the cost of land as well as construction cost of ongoing residential projects.

Included in land and development accounted as real estate inventories are contract fulfillment assets amounting to ₱1,839.9 million and ₱1,745.0 million as at December 31, 2021 and 2020, respectively, representing the unamortized portion of land cost.

The estimated cost to complete the projects amounted to ₱111,500.0 million and ₱106,678.6 million as at December 31, 2021 and 2020, respectively.

Land and development is stated at cost. There is no allowance for inventory writedown as at December 31, 2021 and 2020.

Condominium and Residential Units for Sale
The movements in this account follow:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱8,770,039**	₱6,026,426
Transfer from real estate inventories	**12,318,589**	4,850,262
Cost of real estate sold	**(1,819,337)**	(2,136,756)
Repossessed inventories and others	**82,708**	30,107
Balance at end of year	**₱19,351,999**	₱8,770,039

The condominium and residential units for sale are stated at cost as at December 31, 2021 and 2020.

12. Other Current Assets

This account consists of:

	2021	2020
	(In Thousands)	
Prepaid taxes and other prepayments	**₱18,465,016**	₱14,249,890
Bonds and deposits	**9,912,846**	9,983,733
Non-trade receivables	**8,280,351**	4,854,679
Receivables from banks	**5,406,748**	5,537,179
Input tax	**4,078,202**	5,113,251
Uniform and supplies inventory	**1,032,107**	1,165,786
Derivative assets	**753,506**	2,747
Accrued interest receivable (Note 21)	**370,911**	188,685
Escrow fund (Notes 16 and 21)	**335,583**	144,209
Others	**2,452,891**	1,930,219
	₱51,088,161	₱43,170,378

- 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 noninterest-bearing and are applied to progress billings depending on the percentage of project accomplishment.

- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 23).
- 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.
- Escrow fund pertains to amounts deposited with an escrow agent, a requisite for the issuance of temporary license to sell by the Housing and Land Use Regulatory Board (HLURB), pending issuance of a license to sell and certificate of registration. Amounts deposited include all amounts received from buyers including down payments, reservation and monthly amortization, among others.

13. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱296,265,722**	₱280,971,638
Additions	**358,120**	390,350
Step acquisition (Note 5)	**(9,774,630)**	–
Effect of business combination (Note 5)	**509,194**	–
Reclassifications	**(12,427)**	32,934
Equity in net earnings	**26,768,811**	17,036,367
Dividends received and others	**(4,973,879)**	(4,443,565)
Share in other comprehensive gain (loss) of associate companies	**(4,185,761)**	3,262,981
Translation adjustment	**116,876**	15,017
Provision for impairment loss	**–**	(1,000,000)
Balance at end of year*	**₱305,072,026**	₱296,265,722

** Investment in associate companies amounted to ₱295,741.7 million and ₱287,655.9 million as at December 31, 2021 and 2020, respectively.*

The Group regularly tests for impairment of its investments comparing the expected cash flows against the carrying values. In 2020, the Group recognized ₱1.0 billion of impairment loss due to the adverse impact of COVID-19 on certain investments. In 2019, the impairment loss recognized in profit and loss amounted to ₱4.0 billion.

The recoverable amount of investments in associate companies is determined based on 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 2.1% to 4.0%.

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 10.5% to 12.6% as at December 31, 2021 and 2020.

The associate companies and joint ventures of the Group follow:

	Percentage of Ownership				
	2021		2020		
Company	**Gross**	**Effective**	Gross	Effective	Principal Activities
Associates					
BDO Unibank, Inc. (BDO)	**47**	**45**	47	45	Financial services
China Banking Corporation (China Bank)	**23**	**23**	23	23	Financial services
Belle Corporation (Belle)	**27**	**26**	27	26	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation (Atlas)	**34**	**34**	34	34	Mining
Sodexo Benefits and Rewards Services Philippines, Inc.	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**19**	25	19	Retail
Win With Love, Inc.	**33**	**13**	33	13	Retail
CityMall Commercial Centers, Inc.	**34**	**34**	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	**5**	**5**	5	5	Gaming
Ortigas Land Corporation (formerly OCLP Holdings, Incorporated)	**40**	**20**	40	20	Real estate development
Feihua Real Estate (Chongqing) Company Ltd. (FREC)	**50**	**25**	50	25	Real estate development
Fitness Health & Beauty Holdings Corp.	**40**	**31**	40	31	Retail
Premier Shoes Distribution Corp.	**49**	**38**	49	38	Retail
Ecco Philippines, Inc.	**50**	**39**	50	39	Retail
Andwil Corporation	**50**	**20**	-	-	Retail
2Go Group, Inc. (Note 5)	**-**	**-**	30	30	Integrated supply chain
Neo Associates (a)	**34**	**34**	34	34	Real estate development
Goldilocks Bakeshop, Inc. (Note 5)	**-**	**-**	34	34	Bakery products and other food items
Asia-Pacific Computer Technology Center, Inc.	**42**	**42**	42	42	Investment
GPAY Network, PH, Inc.	**35**	**35**	35	35	Providing electronic money through electronic instruments
AIC Group of Companies Holding Corp.	**35**	**35**	35	35	Investment
MCCP Transport Philippines, Inc.	**33**	**18**	-	-	Integrated supply chain
Mober Technology PTE Inc.	**50**	**26**	-	-	Integrated supply chain
Clarmil Manufacturing Incorporated	**42**	**31**	-	-	Bakery products and other food items
Three Bears Group Holdings Corporation	**35**	**26**	-	-	Bakery products and other food items
Joint Ventures					
Waltermart Mall (b)	**51**	**25**	51	25	Shopping mall development
Metro Rapid Transit Service, Inc.	**51**	**25**	51	25	Transportation
ST 6747 Resources Corporation	**50**	**25**	50	25	Real estate development
Kerry Logistics (Phils), Inc.	**49**	**26**	-	-	Integrated supply chain

The principal place of business and country of incorporation of the associate companies and joint ventures listed above is in the Philippines except for FREC 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. and WM Development Inc.

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

	2021	2020
	(In Millions)	
Total assets	**₱3,623,749**	₱3,374,900
Total liabilities	**3,199,201**	2,981,879
Total equity	**424,548**	393,021
Proportion of the Group's ownership	**45%**	45%
	192,403	178,138
Goodwill and others	**27,341**	29,676
Carrying amount of the Group's investment	**₱219,744**	₱207,814

	2021	2020	2019
		(In Millions)	
Interest income	**₱144,879**	₱157,031	₱160,572
Interest expense	**(13,533)**	(23,331)	(40,681)
Other expenses - net	**(88,491)**	(105,446)	(75,723)
Net income	**42,855**	28,254	44,168
Other comprehensive income (loss)	**(5,810)**	(725)	515
Total comprehensive income	**₱37,045**	₱27,529	₱44,683
Group's share in net income	**₱20,019**	₱13,208	₱20,592
Group's share in other comprehensive income (loss)	**(₱5,405)**	₱4,325	(₱936)

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

	2021	2020	2019
		(In Millions)	
Share in net income	**₱6,750**	₱3,828	₱5,446
Share in other comprehensive income (loss)	**1,219**	(1,062)	(9)
Share in total comprehensive income	**₱7,969**	₱2,766	₱5,437

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

	2021	2020
	(In Thousands)	
BDO	**₱263,000,272**	₱232,855,091
China Bank	**15,748,155**	15,112,172
Belle	**3,516,400**	4,454,106
Atlas	**7,479,289**	7,830,828
PLC	**11,377,831**	11,774,732

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 December 31, 2019	₱–	₱14,326,958	₱4,010,449	₱8,588,993	₱9,884,981
Additions	–	659,964	197,056	464,927	527,832
Reclassifications	–	416,344	(24,817)	(45,252)	669,489
Disposals/retirements	–	(130)	(9,120)	(99,936)	(31,676)
As at December 31, 2020	–	15,403,136	4,173,568	8,908,732	11,050,626
Additions	73,712	3,778,529	273,618	1,126,989	760,423
Effect of business combination (Note 5)	1,655,830	581,758	195,673	15,569	255,995
Reclassifications	–	58,852	(1,966,055)	45,010	(167,670)
Disposals/retirements	–	(77)	(15,861)	(65,324)	(114,689)
As at December 31, 2021	**₱1,729,542**	**₱19,822,198**	**₱2,660,943**	**₱10,030,976**	**₱11,784,685**
Accumulated Depreciation and Amortization					
As at December 31, 2019	₱–	₱6,524,772	₱2,847,421	₱6,866,473	₱8,380,192
Depreciation and amortization	–	707,728	365,100	662,284	829,839
Reclassifications	–	(20,844)	(3,766)	(28,391)	445,821
Disposals/retirements	–	(32)	(7,065)	(70,007)	(25,515)
As at December 31, 2020	–	7,211,624	3,201,690	7,430,359	9,630,337
Depreciation and amortization	–	588,297	218,853	756,204	808,175
Reclassifications	–	(8,879)	(1,507,780)	(2,947)	(5,488)
Disposals/retirements	–	(77)	(9,724)	(62,809)	(95,174)
As at December 31, 2021	**₱–**	**₱7,790,965**	**₱1,903,039**	**₱8,120,807**	**₱10,337,850**
Net Book Value					
As at December 31, 2021	**₱1,729,542**	**₱12,031,233**	**₱757,904**	**₱1,910,169**	**₱1,446,835**
As at December 31, 2020	–	8,191,512	971,878	1,478,373	1,420,289

As at December 31, 2021, a certain vessel is mortgaged as collateral to a 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)						
₱10,337,665	₱20,599,451	₱1,047,794	₱–	₱–	₱2,718,921	₱71,515,212
907,077	787,008	14,012	–	–	2,538,278	6,096,154
56,251	105,969	–	–	–	(737,665)	440,319
(56,161)	(404,282)	(5,933)	–	–	(9,649)	(616,887)
11,244,832	21,088,146	1,055,873	–	–	4,509,885	77,434,798
1,065,265	1,331,713	50,369	516,381	26,093	1,445,993	10,449,085
565,060	314,584	119,112	8,292,637	345,843	140,097	12,482,158
47,570	2,589,222	(20,317)	–	–	(4,279,324)	(3,692,712)
(45,846)	(352,804)	(8,100)	(305,905)	–	(11,734)	(920,340)
₱12,876,881	**₱24,970,861**	**₱1,196,937**	**₱8,503,113**	**₱371,936**	**₱1,804,917**	**₱95,752,989**
₱7,173,549	₱14,402,453	₱599,479	₱–	₱–	₱–	₱46,794,339
1,007,121	1,151,824	60,550	–	–	–	4,784,446
16,330	(124,214)	549	–	–	–	285,485
(39,421)	(368,990)	(5,890)	–	–	–	(516,920)
8,157,579	15,061,073	654,688	–	–	–	51,347,350
1,042,329	1,577,809	100,782	1,077,060	44,531	–	6,214,040
3,884	1,711,919	(13,003)	–	–	–	177,706
(39,065)	(329,950)	(4,827)	–	–	–	(541,626)
₱9,164,727	**₱18,020,851**	**₱737,640**	**₱1,077,060**	**₱44,531**	**₱–**	**₱57,197,470**
₱3,712,154	**₱6,950,010**	**₱459,297**	**₱7,426,053**	**₱327,405**	**₱1,804,917**	**₱38,555,519**
3,087,253	6,027,073	401,185	–	–	4,509,885	26,087,448

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 December 31, 2019	₱74,946,694	₱75,010,749	₱256,054,842	₱42,705,274	₱54,184,595	₱502,902,154
Additions	6,619,150	3,540,562	2,072,819	1,486,926	24,695,842	38,415,299
Reclassifications (Note 11)	(1,830,013)	(620,425)	7,509,703	862,027	(7,962,160)	(2,040,868)
Translation adjustment	–	15,655	469,724	37,418	42,657	565,454
Disposals	(4,113,632)	(44,242)	(80)	(121,218)	–	(4,279,172)
As at December 31, 2020	75,622,199	77,902,299	266,107,008	44,970,427	70,960,934	535,562,867
Additions	10,389,753	6,248,816	2,076,809	1,868,856	21,571,340	42,155,574
Reclassifications (Note 11)	(3,703,930)	(937,539)	12,948,381	1,480,656	(16,339,759)	(6,552,191)
Translation adjustment	–	151,173	3,718,179	292,203	617,031	4,778,586
Disposals	(189,848)	(139,625)	(236)	(310,873)	–	(640,582)
As at December 31, 2021	**₱82,118,174**	**₱83,225,124**	**₱284,850,141**	**₱48,301,269**	**₱76,809,546**	**₱575,304,254**
Accumulated Depreciation, Amortization and Impairment Loss						
As at December 31, 2019	₱–	₱2,366,460	₱60,326,773	₱27,186,924	₱–	₱89,880,157
Depreciation and amortization	–	251,543	7,589,858	2,358,514	–	10,199,915
Reclassifications	–	–	735	–	–	735
Translation adjustment	–	12,180	111,470	25,372	–	149,022
Disposals	–	(26,301)	(8)	(107,377)	–	(133,686)
As at December 31, 2020	–	2,603,882	68,028,828	29,463,433	–	100,096,143
Depreciation and amortization	–	281,520	7,695,570	2,589,460	–	10,566,550
Reclassifications	–	–	9,384	(9,728)	–	(344)
Translation adjustment	–	90,772	837,982	183,511	–	1,112,265
Disposals	–	(59,694)	(167)	(175,873)	–	(235,734)
As at December 31, 2021	**₱–**	**₱2,916,480**	**₱76,571,597**	**₱32,050,803**	**₱–**	**₱111,538,880**
Net Book Value						
As at December 31, 2021	**₱82,118,174**	**₱80,308,644**	**₱208,278,544**	**₱16,250,466**	**₱76,809,546**	**₱463,765,374**
As at December 31, 2020	75,622,199	75,298,417	198,078,180	15,506,994	70,960,934	435,466,724

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱28,532.4 million, ₱25,843.3 million and ₱50,172.0 million in 2021, 2020 and 2019, respectively. The corresponding direct operating expenses amounted to ₱18,901.8 million, ₱19,635.6 million and ₱27,459.7 million in 2021, 2020 and 2019, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱74,517.7 million and ₱70,277.9 million as at December 31, 2021 and 2020, respectively.

Portions of investment properties located in China amounting to ₱1,872.5 million and ₱1,738.0 million as at December 31, 2021 and 2020, respectively, are mortgaged as collaterals to secure domestic borrowings (see Note 19).

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱84,200.6 million and ₱65,457.5 million as at December 31, 2021 and 2020, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱20,598.5 million and ₱22,641.0 million as at December 31, 2021 and 2020, respectively.

Interest capitalized to the construction of investment properties amounted to ₱4,004.7 million and ₱3,539.8 million as at December 31, 2021 and 2020, respectively. Capitalization rates used range from 2.4% to 4.6% in 2021 and 2.4% to 4.7% in 2020.

As at December 31, 2021, the fair value of substantially all investment properties amounting to ₱1,980.0 billion 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 would 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%.

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

Management believes that the impact of COVID-19 on the fair value measurement of investment properties is short-term and temporary.

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

16. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	2021	2020
	(In Thousands)	
Goodwill	**₱24,766,063**	₱17,456,385
Less accumulated impairment loss	**138,787**	91,620
Net book value	**24,627,276**	17,364,765
Trademarks, brand names and copyright	**6,988,491**	7,223,738
	₱31,615,767	₱24,588,503

Goodwill is attributable mainly to SM Prime, Supervalue, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated, PULSI, 2GO and GBI (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 2020, provisions for impairment of ₱458.0 million was 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 4.1% to 4.7%.

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 8.2% to 12.9% and 10.2% to 14.4% as at December 31, 2021 and 2020, respectively.

Fair value less cost of disposal. The fair value of the CGUs were in reference to the 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 2021 and 2020 to materially exceed its recoverable amount.

Other Noncurrent Assets
This account consists of:

	2021	2020
	(In Thousands)	
Bonds and deposits	**₱59,598,624**	₱56,259,937
Receivables from real estate buyers* (Note 10)	**49,518,978**	46,816,693
Long-term notes (Notes 21 and 28)	**5,371,668**	4,999,359
Deferred input VAT	**2,092,464**	1,804,670
Derivative assets (Note 28)	**965,006**	–
Defined benefit asset (Note 24)	**753,637**	546,515
Land use rights	**353,626**	353,217
Escrow fund (Note 21)	**132,460**	132,460
Others	**373,098**	1,405,799
	₱119,159,561	₱112,318,650

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

- Bonds and deposits include other assets used to secure certain obligations of the Group as well as deposits for its leased properties.

- Long-term notes pertain to a 7-year loan amounting to US$108.4 million that was extended to Carmen Copper Corporation (CCC), a wholly owned subsidiary of Atlas. The loan bears a 5.4% fixed interest.

- 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 pertains mainly to 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.

17. Bank Loans

This account consists of:

	2021	2020
	(In Thousands)	
Parent Company -		
Peso-denominated loans	**₱12,250,000**	₱–
Subsidiaries:		
China Yuan renminbi-denominated loans	**3,882,427**	–
Peso-denominated loans	**10,100,000**	24,126,000
	₱26,232,427	₱24,126,000

These unsecured loans bear interest ranging from 1.0% to 4.5% in 2021 and 1.0% to 5.3% in 2020 .

These loans have maturities of less than one year. Interest on bank loans is disclosed in Note 23.

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2021	2020
	(In Thousands)	
Trade	**₱93,232,308**	₱82,599,493
Accrued expenses	**18,880,701**	12,713,644
Nontrade	**10,797,606**	14,474,774
Tenants and customers' deposits*	**13,770,713**	12,411,589
Payable arising from acquisition of land	**7,918,778**	7,357,422
Payables to government agencies	**6,345,264**	4,722,145
Accrued interest (Note 21)	**3,017,462**	3,112,821
Subscriptions payable	**1,966,477**	2,021,790
Due to related parties (Note 21)	**872,591**	823,779
Lease liabilities (Note 26)	**2,553,084**	2,011,714
Gift checks redeemable and others	**4,619,686**	6,981,937
	₱163,974,670	₱149,231,108

* *Includes unearned revenue from sale of real estate amounting to ₱6,102.4 million and ₱7,615.0 million as at December 31, 2021 and 2020, respectively.*

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors. These are noninterest-bearing and are normally settled on 30-to 60-day terms.

- Accrued expenses pertain to selling, general and administrative expenses which are normally settled within the next financial year. Accrued expenses consist of:

	2021	2020
	(In Thousands)	
Payable to contractors	**₱7,153,158**	₱4,045,630
Utilities	**2,885,190**	2,618,176
Co-loading termination cost	**1,194,687**	–
Salaries and wages	**924,780**	681,653
Marketing and advertising and others	**6,722,886**	5,368,185
	₱18,880,701	₱12,713,644

- 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 represents 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 2021 and 2020, revenue recognized from unearned revenue from sales of real estate at the beginning of the year amounted to ₱1,490.8 million and ₱3,689.4 million, respectively.

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

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

- The terms and conditions relating to Due to related parties are discussed in Note 21.

- Gift checks are redeemable at face value.

19. Long-term Debt

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	2021	2020
					(In Thousands)	
Parent Company						
U.S. dollar-denominated	June 10, 2014 - July 16, 2019	March 28, 2022 - June 28, 2024	Fixed 4.9%; Three-Month LIBOR + margin; semi-annual and quarterly	Unsecured	**₱44,224,229**	₱42,604,024
Peso-denominated	July 16, 2012 - December 7, 2021	January 17, 2021 - May 14, 2031	Fixed 2.9%-6.9%; Three-Month PHP BVAL + margin; semi-annual and quarterly	Unsecured	**65,173,610**	79,023,014
Subsidiaries						
U.S. dollar-denominated*	March 21, 2016 - September 27, 2021	January 29, 2021 - March 30, 2026	LIBOR USD + spread; semi-annual and quarterly	Unsecured	**73,177,366**	49,754,404
China Yuan Renminbi-denominated**	October 16, 2017 - October 28, 2021	October 16, 2022 - June 1, 2031	Fixed 4.2%-5.9%; LPR; annually	Secured	**8,497,291**	2,559,639
Peso-denominated ***	June 19, 2012 - December 29, 2021	February 8, 2021 - December 15, 2031	Fixed 2.5%-6.5%; BVAL + margin	Unsecured/ Secured	**249,461,959**	218,882,964
					440,534,455	392,824,045
Less debt issue cost					**2,672,016**	1,970,809
					437,862,439	390,853,236
Less current portion					**63,706,559**	60,121,438
					₱374,155,880	₱330,731,798

BVAL – Bloomberg Valuation
LIBOR – London Interbank Offered Rate
LPR – China Loan Prime Rate
**Hedged against foreign exchange and interest rate risks using derivative instruments (see Note 23)*
*** 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:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**₱1,970,809**	₱1,650,800
Additions	**1,501,100**	924,470
Amortization and others	**(799,893)**	(604,461)
Balance at end of year	**₱2,672,016**	₱1,970,809

Repayment Schedule
The repayment schedule of long-term debt as at December 31, 2021 follows:

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱64,375,537	₱668,978	₱63,706,559
Over 1 year to 5 years	335,669,308	1,833,375	333,835,933
Over 5 years	40,489,610	169,663	40,319,947
	₱440,534,455	₱2,672,016	₱437,862,439

Covenants
The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. As at December 31, 2021 and 2020, the Group is in compliance with the terms of its debt covenants.

20. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2021	2020
Authorized - ₱10 par value per share	**2,790,000,000**	2,790,000,000
Issued and subscribed	**1,204,582,867**	1,204,582,867

As at December 31, 2021 and 2020, 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

The total number of shareholders of the Company is 1,261 and 1,256 as at December 31, 2021 and 2020, respectively.

b. Redeemable preferred shares

	Number of Shares	
	2021	2020
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2021 and 2020.

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.

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, 2021 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		(In Thousands)
Debt service	2022 - 2024	₱27,000,000
Investments	2022 - 2024	10,000,000
		₱37,000,000

- Unappropriated

The Parent Company's cash dividend declarations in 2021 and 2020 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 28, 2021	**May 13, 2021**	**May 27, 2021**	**₱4.25**	**₱5,119,477**
June 24, 2020	July 9, 2020	July 23, 2020	4.25	5,119,477

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱274,720.9 million and ₱254,371.2 million as at December 31, 2021 and 2020, 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 ₱30,295.3 million and ₱17,267.6 million as at December 31, 2021 and 2020, 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, Management and Service Fees

The Parent Company and SM Retail receive management and service fees from retail entities under common stockholders for management, consultancy, manpower and other services. In addition to management and 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 Carmen Copper Corporation (see Notes 16 and 27).

- 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			
	2021	2020	2019	**2021**	2020	Terms	Conditions
			(In Thousands)				
Banking Group							
Cash placement and investment in marketable securities				**₱69,348,747**	₱60,776,796	Interest-bearing	Unsecured; no impairment
Interest receivable				**56,294**	54,407	–	–
Interest income	**₱1,186,646**	₱1,639,790	₱2,738,310			–	–
Interest-bearing debt				**57,560,251**	34,555,640	Interest-bearing	Unsecured
Interest payable				**157,990**	87,662	–	–
Interest expense	**2,022,309**	1,837,740	1,885,429			–	–
Rent receivable				**115,722**	60,454	Noninterest-bearing	Unsecured; no impairment
Rent income	**692,948**	466,976	1,018,963			–	–
Receivable financed	**358,861**	7,170,156	7,689,986			Without recourse	Unsecured
Dividends receivable				**-**	13,462	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits				**17,849,650**	16,808,050	Interest-bearing 4.5%	Unsecured; no impairment
Royalty, management and service fee receivable				**8,441**	8,077	Noninterest-bearing	Unsecured; no impairment
Royalty, management and service fee income	**47,481**	15,478	2,799			–	–
Escrow fund				**298,044**	276,669	Interest-bearing	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				**265,241**	912,269	Noninterest-bearing	Unsecured; no impairment
Rent income	**1,062,615**	937,306	2,144,633			–	–
Royalty, management and service fee receivable				**1,951,068**	2,049,081	Noninterest-bearing	Unsecured; no impairment
Royalty, management and service fee income	**1,642,340**	1,448,870	1,713,152			–	–
Due from related parties				**617,465**	1,180,589	Noninterest-bearing	Unsecured; no impairment
Due to related parties				**872,591**	823,779	Noninterest-bearing	Unsecured
Dividends receivable				**329,800**	526,507	Noninterest-bearing	Unsecured
Interest receivable				**8,244**	7,763	–	–
Interest income	**352,192**	362,183	387,437			–	–
Notes receivable				**5,371,668**	4,999,359	Interest-bearing 5.4 %	Unsecured; no impairment

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 2021, 2020 and 2019 consist of short-term employee benefits amounting to ₱3,197.9 million, ₱3,204.2 million and ₱3,270.9 million, respectively, and post-employment benefits amounting to ₱457.0 million, ₱517.8 million and ₱372.7 million, respectively.

22. Selling, General and Administrative Expenses

This account consists of:

	2021	2020	2019
		(In Thousands)	
Personnel cost (Note 21)	**₱22,887,305**	₱24,832,719	₱29,924,102
Depreciation and amortization (Notes 14, 15, 16 and 26)	**19,799,590**	18,763,579	19,370,843
Utilities	**15,685,288**	14,769,462	18,028,601
Taxes and licenses	**8,662,092**	9,275,332	9,714,573
Outside services	**8,424,616**	8,180,283	7,048,795
Remeasurement loss (Note 5)	**7,358,144**	–	–
Provisions (reversal of provisions) - net	**(4,277,758)**	1,620,414	2,609,386
Marketing and selling	**4,263,815**	3,826,199	6,803,530
Repairs and maintenance	**3,789,946**	2,984,440	3,067,465
Supplies	**1,742,850**	1,577,357	2,474,260
Pension (Note 24)	**1,253,169**	1,320,622	1,145,678
Rent (Note 26)	**1,200,679**	1,114,634	4,474,401
Insurance	**877,686**	953,741	864,113
Data processing	**827,128**	600,271	788,316
Transportation and travel	**772,406**	790,018	1,179,285
Entertainment, representation and amusement	**372,204**	382,134	378,813
Communications	**311,256**	313,823	343,261
Donations	**204,679**	306,217	359,975
Professional fees	**195,795**	379,769	311,659
Royalty, management and service fees (Note 21)	**173,467**	145,011	197,555
Others	**3,355,482**	3,346,529	4,173,320
	₱97,879,839	₱95,482,554	₱113,257,931

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

23. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2021	2020	2019
		(In Thousands)	
Interest income on:			
Time deposits and other noncurrent assets (Notes 8 and 16)	**₱797,114**	₱713,251	₱1,221,890
Cash in banks and temporary investments (Note 7)	**932,957**	1,454,905	2,038,322
Others (Note 12)	**471,120**	267,859	620,944
	₱2,201,191	₱2,436,015	₱3,881,156
Interest expense on:			
Long-term debt (Note 19)	**₱15,850,586**	₱14,857,593	₱16,585,412
Lease liabilities (Note 26)	**1,994,871**	1,874,726	1,676,045
Bank loans (Note 17)	**847,889**	1,087,746	1,006,880
Others	**66,495**	203,545	243,408
	₱18,759,841	₱18,023,610	₱19,511,745

24. Pension Benefits

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

Net benefit expense (included under "Selling, general and administrative expenses" and "Cost of services") consists of:

	2021	2020	2019
		(In Thousands)	
Current service cost	**₱1,249,919**	₱1,133,762	₱1,050,358
Net settlement loss (gain)	**2,573**	(2,923)	–
Net interest cost	**95,847**	196,309	98,138
Past service cost - curtailment	**(14,120)**	(6,526)	(2,818)
	₱1,334,219	₱1,320,622	₱1,145,678

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 December 31, 2019	₱13,878,528	₱9,806,407	₱–	₱4,072,121
Net benefit expense (Note 22):				
Current service cost	886,876	–	–	886,876
Settlement loss	563	–	–	563
Net interest cost	526,669	361,494	15	165,190
	1,414,108	361,494	15	1,052,629
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(523,091)	–	523,091
Actuarial changes arising from:				
Changes in financial assumptions	(1,948,734)	–	–	(1,948,734)
Changes in demographic assumptions	(107,954)	–	–	(107,954)
Experience adjustment	13,285	–	–	13,285
Others	–	–	(32)	(32)
	(2,043,403)	(523,091)	(32)	(1,520,344)
Reclassifications from defined benefit assets	(3,733,524)	(2,810,818)	–	(922,706)
Actual contributions	–	622,667	–	(622,667)
Benefits paid	(1,141,453)	(1,140,586)	–	(867)
Transfer to related parties	(80,911)	(125,999)	–	45,088
Other adjustments	–	–	17	17
As at December 31, 2020	8,293,345	6,190,074	–	2,103,271
Net benefit expense (Note 22):				
Current service cost	**940,087**	**–**	**–**	**940,087**
Settlement loss	**2,573**	**–**	**–**	**2,573**
Net interest cost	**362,138**	**254,671**	**120**	**107,587**
Past service cost - curtailment	**(10,072)**	**–**		**(10,072)**
	1,294,726	**254,671**	**120**	**1,040,175**
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**14,299**	**–**	**(14,299)**
Actuarial changes arising from:				
Changes in financial assumptions	**(589,082)**	**–**	**–**	**(589,082)**
Changes in demographic assumptions	**(21,150)**	**–**	**–**	**(21,150)**
Experience adjustment	**980,910**	**–**	**–**	**980,910**
Others	**–**	**–**	**(120)**	**(120)**
	370,678	**14,299**	**(120)**	**356,259**
Reclassifications from defined benefit assets	**(834,319)**	**(108,961)**	**–**	**(725,358)**
Effect of common control business combination	**1,928,359**	**758,160**		**1,170,199**
Actual contributions	**–**	**422,975**	**–**	**(422,975)**
Benefits paid	**(1,198,692)**	**(1,193,786)**	**–**	**(4,906)**
Transfer to related parties	**1,993**	**5,116**	**–**	**(3,123)**
Other adjustments	**(2,316)**	**–**	**–**	**(2,316)**
As at December 31, 2021	**₱9,853,774**	**₱6,342,548**	**₱–**	**₱3,511,226**

- 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 December 31, 2019	₱320,581	₱426,932	₱11,294	(₱95,057)
Net benefit expense (Note 22):				
Current service cost	246,886	–	–	246,886
Settlement gain	(3,486)	–	–	(3,486)
Net interest cost	212,714	182,217	622	31,119
Past service cost - curtailment	(6,526)	–	–	(6,526)
	449,588	182,217	622	267,993
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(156,981)	–	156,981
Actuarial changes arising from:				
Changes in financial assumptions	(1,474,549)	–	–	(1,474,549)
Changes in demographic assumptions	(15,423)	–	–	(15,423)
Experience adjustment	195,578	–	–	195,578
Others	–	–	50,700	50,700
	(1,294,394)	(156,981)	50,700	(1,086,713)
Reclassifications from defined benefit liabilities	3,477,855	2,788,251	–	689,604
Actual contributions	–	322,326	–	(322,326)
Benefits paid	(296,125)	(296,125)	–	–
Transfer from the plan	83,842	83,842	–	–
Amount not recognized due to asset limit	–	–	62,605	62,605
Other adjustments	–	–	(62,621)	(62,621)
As at December 31, 2020	2,741,347	3,350,462	62,600	(546,515)
Net benefit expense (Note 22):				
Current service cost	**309,832**	**–**	**–**	**309,832**
Net interest cost	**119,971**	**132,379**	**668**	**(11,740)**
Past service cost - curtailment	**(4,048)**	**–**	**–**	**(4,048)**
	425,755	**132,379**	**668**	**294,044**
Remeasurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**21,473**	**–**	**(21,473)**
Actuarial changes arising from:				
Changes in financial assumptions	**(464,387)**	**–**	**–**	**(464,387)**
Changes in demographic assumptions	**(176)**	**–**	**–**	**(176)**
Experience adjustment	**(168,812)**	**–**	**–**	**(168,812)**
Others	**–**	**–**	**8,550**	**8,550**
	(633,375)	**21,473**	**8,550**	**(646,298)**
Reclassifications from defined benefit liabilities	**423,823**	**123,921**	**–**	**299,902**
Actual contributions	**–**	**149,118**	**–**	**(149,118)**
Benefits paid	**(210,465)**	**(210,284)**	**–**	**(181)**
Transfer from the plan	**(106)**	**(106)**	**–**	**–**
Amount not recognized due to asset limit	**–**	**–**	**71,824**	**71,824**
Other adjustments	**(5,471)**	**–**	**(71,824)**	**(77,295)**
As at December 31, 2021	**₱2,741,508**	**₱3,566,963**	**₱71,818**	**(₱753,637)**

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

	2021	2020
Discount rate	**3.3% - 5.6%**	2.7% - 5.6%
Future salary increases	**2.0% - 9.0%**	2.0% - 9.0%

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:

	2021	2020
	(In Thousands)	
Cash and cash equivalents	**₱107,595**	₱66,755
Investment in debt and other securities	**1,741,789**	2,033,788
Investment in common trust funds	**3,961,750**	3,720,297
Investment in equity securities	**222,710**	141,993
Investment in government securities	**3,631,950**	3,354,562
Others	**243,717**	223,141
	₱9,909,511	₱9,540,536

- 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 2.6% to 7.5% in 2021 and 2020. These have maturities from April 2022 to December 2028 and February 2021 to October 2026 in 2021 and 2020, 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 2.4% to 11.9% and 2.6% to 6.3% in 2021 and 2020, respectively. These bonds have maturities from January 2022 to August 2028 and February 2023 to September 2025 in 2021 and 2020, 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:

	2021	2020
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱107,595**	₱66,755
Investment in common trust funds	**3,961,750**	3,720,297
Transactions:		
Interest income from cash and cash equivalents	**99,689**	41,161

The Group expects to contribute about ₱1,085.0 million to its Pension Plan in 2022.

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, 2021 and 2020, with all other assumptions held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
2021		
Discount rates	**50**	**(₱739,516)**
	(50)	**792,026**
Future salary increases	**100**	**1,037,314**
	(100)	**(903,627)**
No attrition rate	**–**	**1,193,088**
2020		
Discount rates	50	(₱458,782)
	(50)	451,759
Future salary increases	100	881,326
	(100)	(766,679)
No attrition rate	–	1,772,843

The average duration of the Group's defined benefit obligation is 3 to 32 years in 2021 and 3 to 30 years in 2020.

The maturity analysis of the undiscounted benefit payments follows:

	2021	2020
	(In Thousands)	
Year 1	**₱2,408,251**	₱2,152,675
Year 2	**1,193,797**	807,739
Year 3	**1,502,274**	889,078
Year 4	**1,692,685**	899,571
Year 5	**1,750,994**	943,484
Year 6 -10	**11,971,084**	5,316,001

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

25. Income Tax

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

	2021	2020
	(In Thousands)	
Deferred tax assets:		
Excess of fair values over cost of investment properties	**₱755,221**	₱936,986
NOLCO	**1,547,244**	957,572
Lease liabilities	**9,412,623**	8,700,166
Accrued leases	**130,647**	101,619
Provision for doubtful accounts and others	**1,010,581**	686,475
Unamortized past service cost and defined benefit liability	**1,167,741**	535,173
MCIT	**625,335**	589,212
	14,649,392	12,507,203
Deferred tax liabilities:		
Appraisal increment on investment property	**4,635,324**	2,843,288
ROU assets	**7,955,496**	6,995,580
Trademarks and brand names	**1,470,771**	1,879,000
Capitalized interest	**2,606,754**	2,442,990
Unrealized gross profit on sale of real estate	**8,379,622**	5,426,854
Excess of fair values over cost of equity instruments	**184,935**	146,893
Unamortized past service cost and defined benefit asset	**76,797**	83,053
Others	**404,005**	632,555
	25,713,704	20,450,213
Net deferred tax liabilities	**₱11,064,312**	₱7,943,010

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

	2021	2020
	(In Thousands)	
Deferred tax assets	**₱4,732,558**	₱4,671,969
Deferred tax liabilities	**15,796,870**	12,614,979
	₱11,064,312	₱7,943,010

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱3,715.4 million and ₱5,737.5 million as at December 31, 2021 and 2020, 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 ₱1,104.4 million, ₱17.9 million, and ₱1,051.9 million, respectively, pertaining to the one-time impact of CREATE for the year ended December 31, 2020.

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

	2021	2020	2019
Statutory income tax rate	**25%**	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	**(11)**	(12)	(9)
Interest income subjected to final tax	**(1)**	(2)	(1)
Others	**1**	1	–
Effective income tax rate	**14%**	17%	20%

26. 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:

	2021	2020
	(In Millions)	
Within one year	**₱9,141**	₱8,594
Over one year to five years	**18,963**	18,199
Over five years	**9,385**	9,256
	₱37,489	₱36,049

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, 2021		
	Land Use Rights	**Retail Stores, Office Spaces, Warehouses and Others**	**Total**
		(In Thousands)	
Cost			
As at beginning of year	**₱24,343,193**	**₱23,428,730**	**₱47,771,923**
Additions	**1,631,609**	**2,420,420**	**4,052,029**
Effect of business combination (Note 5)	**–**	**1,699,473**	**1,699,473**
Translation adjustment	**1,173,704**	**–**	**1,173,704**
Disposals	**(196,065)**	**(411,323)**	**(607,388)**
As at end of year	**26,952,441**	**27,137,300**	**54,089,741**
Accumulated Depreciation and Amortization			
As at beginning of year	**1,014,825**	**4,778,069**	**5,792,894**
Depreciation and amortization	**592,597**	**3,078,340**	**3,670,937**
Translation adjustment	**34,084**	**–**	**34,084**
Disposals	**(51,624)**	**(132,469)**	**(184,093)**
As at end of year	**1,589,882**	**7,723,940**	**9,313,822**
Net Book Value	**₱25,362,559**	**₱19,413,360**	**₱44,775,919**

	December 31, 2020		
	Land Use Rights	Retail Stores, Office Spaces and Warehouses	Total
		(In Thousands)	
Cost			
As at beginning of year	₱20,955,223	₱20,291,858	₱41,247,081
Additions	3,276,229	4,175,989	7,452,218
Translation adjustment	111,741	–	111,741
Disposals	–	(1,039,117)	(1,039,117)
As at end of year	24,343,193	23,428,730	47,771,923
Accumulated Depreciation and Amortization			
As at beginning of year	505,171	3,077,734	3,582,905
Depreciation and amortization	504,613	2,566,999	3,071,612
Translation adjustment	5,041	–	5,041
Disposals	–	(866,664)	(866,664)
As at end of year	1,014,825	4,778,069	5,792,894
Net Book Value	₱23,328,368	₱18,650,661	₱41,979,029

The rollforward analysis of lease liabilities follows:

	December 31, 2021	December 31, 2020
	(In Thousands)	
As at beginning of year	**₱30,879,878**	₱29,134,546
Additions	**4,052,029**	4,175,989
Effect of business combination	**1,906,990**	–
Interest expense (Note 23)	**1,994,871**	1,874,726
Rent concessions	**(207,182)**	(275,102)
Terminations	**(381,609)**	(192,237)
Payments	**(4,630,284)**	(3,838,044)
As at end of year	**33,614,693**	30,879,878
Less current portion (Note 18)	**2,553,084**	2,011,714
Noncurrent portion	**₱31,061,609**	₱28,868,164

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

	2021	2020
	(In Thousands)	
Depreciation of ROU assets	**₱3,670,937**	₱3,071,612
Interest expense on lease liabilities	**1,994,871**	1,874,726

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:

	2021	2020
	(In Millions)	
Within one year	**₱4,391**	₱4,119
Over one year to five years	**15,560**	14,858
Over five years	**37,099**	40,043
	₱57,050	₱59,020

Tenants' deposits amounted to ₱22,201.3 million and ₱22,551.7 million as at December 31, 2021 and 2020, respectively.

27. 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, non-trade 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.

<u>Interest Rate Risk</u>
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, 2021 and 2020, after taking into account the effect of the swaps, approximately 82.7% and 79.8%, 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)
2021	**100**	**(₱238.3)**
	50	**(119.1)**
	(100)	**238.3**
	(50)	**119.1**
2020	100	(₱169.1)
	50	(84.5)
	(100)	169.1
	(50)	84.5

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:

	2021		2020	
	US$	**PhP**	US$	PhP
		(In Thousands)		
Current assets:				
Cash and cash equivalents	**$3,796**	**₱193,604**	$3,162	₱151,858
Receivables and contract assets	**1,318**	**67,223**	986	47,335
Other current assets	**139**	**7,065**	–	–
Noncurrent assets:				
Time deposits	**401,115**	**20,456,444**	353,502	16,976,245
Other noncurrent assets	**151,741**	**7,738,654**	138,486	6,650,501
Total assets	**558,109**	**28,462,990**	496,136	23,825,939
Current liabilities:				
Accounts payable and other current liabilities	**27,267**	**1,390,600**	1,155	55,446
Current portion of long-term debt	**107,858**	**5,500,668**	–	–
Noncurrent liabilities:				
Long-term debt - net of current portion	**348,963**	**17,796,754**	475,850	22,851,753
Total liabilities	**484,088**	**24,688,022**	477,005	22,907,199
Net	**$74,021**	**₱3,774,968**	$19,131	₱918,740

As at December 31, 2021 and 2020, approximately 27.7% and 22.8%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The Group recognized net foreign exchange gain of ₱796.2 million, ₱301.7 million and ₱561.7 million in 2021, 2020 and 2019, 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, 2021	**₱50.999**
December 31, 2020	48.02
December 31, 2019	50.64

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)
2021	**₱1.50**	**₱111.0**
	1.00	**74.0**
	(1.50)	**(111.0)**
	(1.00)	**(74.0)**
2020	₱1.50	₱28.7
	1.00	19.1
	(1.50)	(28.7)
	(1.00)	(19.1)

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:

	2021	2020
	(In Thousands)	
Cash and cash equivalents	**₱88,744,225**	₱78,159,197
Current portion of time deposits	**311,233**	31,012

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

	2021			
	Less than 1 Year	**1 to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Bank loans	**₱26,232,427**	**₱–**	**₱–**	**₱26,232,427**
Accounts payable and other current liabilities*	**143,523,327**	**–**	**–**	**143,523,327**
Long-term debt (including current portion)**	**74,981,225**	**368,529,413**	**47,368,238**	**490,878,876**
Derivative liabilities**	**335,367**	**3,092,624**	**–**	**3,427,991**
Dividends payable	**3,110,847**	**–**	**–**	**3,110,847**
Lease liabilities	**4,391,495**	**15,560,176**	**37,098,569**	**57,050,240**
Tenants' deposits**	**38,427**	**20,982,320**	**1,824,398**	**22,845,145**
Other noncurrent liabilities***	**–**	**4,421,067**	**1,699,633**	**6,120,700**
	₱252,613,115	**₱412,585,600**	**₱87,990,838**	**₱753,189,553**

**Excluding payables to government agencies of ₱6,345.3 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱10,561.8 million.*

	2020			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
		(In Thousands)		
Bank loans	₱24,126,000	₱–	₱–	₱24,126,000
Accounts payable and other current liabilities*	131,739,712	–	–	131,739,712
Long-term debt (including current portion)**	68,844,675	354,465,676	18,264,810	441,575,161
Derivative liabilities**	357,662	5,767,463	–	6,125,125
Dividends payable	3,829,207	–	–	3,829,207
Lease liabilities	4,118,901	14,857,947	40,042,860	59,019,708
Tenants' deposits**	351,473	21,641,732	130,122	22,123,327
Other noncurrent liabilities***	–	5,756,541	794,710	6,551,251
	₱233,367,630	₱402,489,359	₱59,232,502	₱695,089,491

**Excluding payables to government agencies of ₱4,772.0 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱8,806.2 million.*

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 sale 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, 2021 and 2020, 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.

	2021			2020		
	High Quality	**Standard Quality**	**Total**	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	**₱86,930,685**	**₱–**	**₱86,930,685**	₱76,819,031	₱–	₱76,819,031
Time deposits including noncurrent portion	**4,216,851**	**–**	**4,216,851**	1,387,454	–	1,387,454
Financial assets at FVOCI	**26,779,309**	**1,714,725**	**28,494,034**	26,145,159	1,701,227	27,846,386
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	**61,770,134**	**4,364,178**	**66,134,312**	50,056,968	6,736,112	56,793,080
Advances and other receivables - net (includes non-trade receivables, bonds and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)**	**23,794,763**	**–**	**23,794,763**	20,442,625	–	20,442,625
Escrow fund	**468,043**	**–**	**468,043**	276,669	–	276,669
Other noncurrent assets:						
Bonds and deposits	**17,849,650**	**–**	**17,849,650**	16,808,050	–	16,808,050
Long-term notes	**5,371,668**	**–**	**5,371,668**	4,999,359	–	4,999,359
Derivative assets (including noncurrent portion)	**1,718,512**	**–**	**1,718,512**	2,747	–	2,747
	₱228,899,615	**₱6,078,903**	**₱234,978,518**	₱196,938,062	₱8,437,339	₱205,375,401

**Excluding non-financial assets amounting to ₱42,427.5million and ₱44,272.2 million as at December 31, 2021 and 2020, respectively.*
***Excluding non-financial assets amounting to ₱176.1million and ₱121.7 million as at December 31, 2021 and 2020, 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)
2021	**+0.57%**	**₱109.5**
	-0.57%	**(109.5)**
2020	+1.2%	₱359.1
	-1.2%	(359.1)

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

	2021	2020
	(In Thousands)	
Bank loans	**₱26,232,427**	₱24,126,000
Long-term debt (current and noncurrent)	**437,862,439**	390,853,236
Less:		
Cash and cash equivalents (excluding cash on hand)	**(86,930,685)**	(76,819,031)
Time deposits (current and noncurrent)	**(4,216,851)**	(1,387,454)
Net interest-bearing debt (a)	**372,947,330**	336,772,751
Total equity	**612,439,925**	564,727,898
Net interest-bearing debt and total equity (b)	**₱985,387,255**	₱901,500,649
Gearing ratio - net (a/b)	**38%**	37%

Gross Gearing Ratio

	2021	2020
	(In Thousands)	
Bank loans	**₱26,232,427**	₱24,126,000
Long-term debt	**437,862,439**	390,853,236
Total interest-bearing debt (a)	**464,094,866**	414,979,236
Total equity	**612,439,925**	564,727,898
Total interest-bearing debt and total equity (b)	**₱1,076,534,791**	₱979,707,134
Gearing ratio - gross (a/b)	**43%**	42%

28. 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:

	2021				
	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	**₱26,764,759**	**₱26,764,759**	**₱26,764,759**	**₱–**	**₱–**
Unlisted shares of stock	**1,714,725**	**1,714,725**	**–**	**–**	**1,714,725**
Club shares	**14,550**	**14,550**	**–**	**14,550**	**–**
Derivative assets	**1,718,512**	**1,718,512**	**–**	**1,718,512**	**–**
	30,212,546	**30,212,546**	**26,764,759**	**1,733,062**	**1,714,725**
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	**3,905,618**	**3,905,618**	**–**	**3,905,618**	**–**
Other noncurrent assets: Bonds and deposits	**17,849,650**	**19,348,542**	**–**	**–**	**19,348,542**
Long-term notes	**5,371,668**	**6,075,947**	**–**	**–**	**6,075,947**
	27,126,936	**29,330,107**	**–**	**3,905,618**	**25,424,489**
	₱57,339,482	**₱59,542,653**	**₱26,764,759**	**₱5,638,680**	**₱27,139,214**
Liabilities Measured at Fair Value					
Derivative liabilities	**₱3,427,991**	**₱3,427,991**	**₱–**	**₱3,427,991**	**₱–**
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion, net of debt issue cost)	**374,155,880**	**393,546,958**	**–**	**–**	**393,546,958**
Lease liabilities - noncurrent portion	**31,061,609**	**39,909,300**	**–**	**–**	**39,909,300**
Tenants' deposits and others*	**31,717,585**	**31,556,541**	**–**	**–**	**31,556,541**
	436,935,074	**465,012,799**	**–**	**–**	**465,012,799**
	₱440,363,065	**₱468,440,790**	**₱–**	**₱3,427,991**	**₱465,012,799**

**Excluding nonfinancial liabilities amounting to ₱10,561.8 million*

	2020				
	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	₱26,133,219	₱26,133,219	₱26,133,219	₱–	₱–
Unlisted shares of stock	1,701,227	1,701,227	–	–	1,701,227
Club shares	11,940	11,940	–	11,940	–
Derivative assets	2,747	2,747	–	2,747	–
	27,849,133	27,849,133	26,133,219	14,687	1,701,227
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	1,356,442	1,356,442	–	1,356,442	–
Other noncurrent assets: Bonds and deposits	16,808,050	19,271,918	–	–	19,271,918
Long-term notes	4,999,359	6,068,924	–	–	6,068,924
	23,163,851	26,697,284	–	1,356,442	25,340,842
	₱51,012,984	₱54,546,417	₱26,133,219	₱1,371,129	₱27,042,069
Liabilities Measured at Fair Value					
Derivative liabilities	₱6,125,125	₱6,125,125	₱–	₱6,125,125	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion, net of debt issue cost)	330,731,798	332,475,152	–	–	332,475,152
Lease liabilities - noncurrent portion	28,868,164	30,776,929	–	–	30,776,929
Tenants' deposits and others*	30,947,183	28,784,888	–	–	28,784,888
	390,547,145	392,036,969	–	–	392,036,969
	₱396,672,270	₱398,162,094	₱–	₱6,125,125	₱392,036,969

**Excluding nonfinancial liabilities amounting to ₱8,806.2 million*

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2021 and 2020.

The fair values of unlisted shares of stock classified under Level 3 were determined through the income valuation approach. This valuation approach is based on the assumption 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, 2021 and 2020, the Group's unlisted shares of stock were valued using discount rates of 9.3% to 16.1% and 9.6% to 14.5%, 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:

	2021	2020
Other noncurrent assets:		
Bond and deposits	**1.0%**	0.3%
Long-term notes	**0.2%-1.0%**	0.2% - 0.3%
Tenants' deposits	**1.0%-4.6%**	1.0% - 5.5%

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 0.3% to 6.2% and 0.2% to 4.7% as at December 31, 2021 and 2020, 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 4.3% to 5.2% and 3.7% to 4.4% as at December 31, 2021 and 2020, 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:

	2021	2020
	(In Thousands)	
Balance at beginning of year	**(₱6,122,378)**	(₱1,139,775)
Net changes in fair value during the year	**4,730,641**	(4,989,106)
Fair value on settled derivatives	**(317,743)**	6,503
	(₱1,709,480)	(₱6,122,378)

Derivative Instruments Accounted for as Cash Flow Hedges
As at December 31, 2021, 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:

Cross-currency swaps:

	Notional Amount									
	(In US$)	(In Ph₱)	(In CN¥)	Principal	Fair Value	Receive	Pay	US$:Ph₱	US$:CN¥	Maturity
			(In Thousands)							
Parent:										
	$53,000	₱2,761,300		₱2,702,947	(₱141,332)	LIBOR + spread	5.3%	₱52.10		March 6, 2023
	100,000	5,210,000		5,099,900	(360,490)	LIBOR + spread	5.9%	52.10		April 16, 2023
	56,159	3,000,000		2,864,040	(309,427)	LIBOR + spread	6.1%	53.42		July 26, 2023
	100,000	5,140,000		5,099,900	(243,067)	LIBOR + spread	5.5%	51.40		June 28, 2024
	100,000	5,115,000		5,099,900	(211,456)	LIBOR + spread	5.4%	51.15		June 28, 2024
SM Prime:										
	50,000	2,666,500		2,549,950	(227,875)	LIBOR + spread	6.4%	53.33		June 14, 2023
	60,000	3,199,200		3,059,940	(302,194)	LIBOR + spread	6.4%	53.32		June 14, 2023
	100,000	4,827,000		5,099,900	265,854	LIBOR + spread	3.3%	48.27		September 30, 2022
	75,000	3,639,000		3,824,925	208,157	LIBOR + spread	3.6% - 3.7%	48.52		April 5, 2024
	75,000	3,637,500		3,824,925	210,916	LIBOR + spread	3.6% - 3.7%	48.50		April 5, 2024
	25,000		¥172,100	1,274,975	(117,797)	LIBOR + spread	5.4%		¥6.884	March 27, 2022
	25,000		172,300	1,274,975	(114,061)	LIBOR + spread	5.4%		6.892	March 27, 2022
	50,000		327,315	2,549,950	(103,509)	LIBOR + spread	5.0%		6.546	June 30, 2022
	50,000		335,940	2,549,950	(164,625)	LIBOR + spread	4.0%		6.719	February 28, 2024
	50,000		335,725	2,549,950	(149,445)	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		335,750	2,549,950	(164,052)	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		334,400	2,549,950	(163,367)	LIBOR + spread	3.9%		6.688	February 28, 2024
	50,000		335,750	2,549,950	(162,006)	LIBOR + spread	3.9%		6.715	February 28, 2024
	36,000		241,643	1,836,000	(114,275)	LIBOR + spread	3.9%		6.712	February 28, 2024

Principal only, Foreign exchange and Interest rate swaps:

			Fair Value					
	Notional Amount	Principal	Principal only swap	Foreign exchange swap	Interest rate swap	Rate	US$ Swap Rate	Maturity
			(In Thousands)					
SM Prime	$100,000	₱5,099,900	₱-	₱-	₱383,753	2.3%	-	March 29, 2026
	150,000	7,649,850	-	213,085	-	2.4%	₱48.8 - ₱50.9	March 30, 2026
	150,000	7,649,850	-	213,085	-	2.5%	₱48.8 - ₱50.9	March 30, 2026
	270,000	13,769,730	(300,347)	-	162,180	2.6%	¥6.4845 - ¥6.6496	January 25, 2026
	50,000	2,549,950	-	30,741	(39,332)	2.4%	₱50.3	March 21, 2025
	50,000	2,549,950	-	30,741	(39,332)	2.4%	₱50.3	March 21, 2025

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 ₱216.0 million gain in 2021 and ₱6.5 million loss in 2020.

29. EPS Computation

	2021	2020	2019
	(In Thousands Except Per Share Data)		
Net income attributable to owners of the Parent (a)	**₱38,499,890**	₱23,389,950	₱44,568,244
Weighted average number of common shares outstanding (b)	**1,204,583**	1,204,583	1,204,583
EPS (a/b)	**₱31.96**	₱19.42	₱37.00

30. Change in Liabilities Arising From Financing Activities

	2021			2020		
	Bank Loans (Note 17)	**Long-term Debt** (Note 19)	**Lease Liabilities** (Note 26)	Bank Loans (Note 17)	Long-term Debt (Note 19)	Lease Liabilities (Note 26)
			(In Thousands)			
Balance at beginning of year	**₱24,126,000**	**₱390,853,236**	**₱30,879,878**	₱18,710,465	₱356,435,927	₱29,134,546
Availments	**52,175,839**	**129,529,420**	**4,052,029**	82,880,520	75,253,912	4,175,989
Payments	**(53,324,257)**	**(92,624,775)**	**(4,630,284)**	(77,464,985)	(36,158,696)	(3,838,044)
Cumulative translation adjustment on cash flow hedges	**–**	**4,467,951**	**–**	–	(702,490)	–
Foreign exchange movement	**218,345**	**2,202,275**	**–**	–	(3,685,613)	–
Business combination (Note 5)	**3,036,500**	**3,984,077**	**1,906,990**			
Others	**–**	**(549,745)**	**1,406,080**	–	(289,804)	1,407,387
Balance at end of year	**₱26,232,427**	**₱437,862,439**	**₱33,614,693**	₱24,126,000	₱390,853,236	₱30,879,878

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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