

COVER SHEET

SEC Registration Number

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Company Name

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	S	U	B	S	I	D	I	A	R	I	E	S																	

Principal Office (No./Street/Barangay/City/Town/Province)

1	0	t	h		F	l	o	o	r	,		O	n	e	E	-	c	o	m		C	e	n	t	e	r	,		
H	a	r	b	o	r		D	r	i	v	e	,		M	a	l	l		o	f		A	s	i	a		C	o	m
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Form Type

2	0	-I	S
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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's Email Address

-

Company's Telephone Number/s

857-0100

Mobile Number

-

No. of Stockholders

1,255

Annual Meeting
Month/Day

April 24, 2019

Fiscal Year
Month/Day

12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Mr. Frederic C. DyBuncio

Email Address

-

Telephone Number/s

857-0100

Mobile Number

-

Contact Person's Address

10 th Floor, OneE-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300
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Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.



INVESTMENTS CORPORATION

Notice of Annual Stockholders' Meeting

April 24, 2019 at 2:30 p.m.

**Function Room 1, SMX Convention Center Manila, Seashell Drive, J.W. Diokno Boulevard
Mall of Asia Complex, Pasay City 1300**

To all Stockholders:

The 2019 Annual Stockholders' Meeting of SM Investments Corporation will be held on April 24, 2019 at 2:30 p.m. at the Function Room 1, SMX Convention Center Manila, Seashell Drive, J.W. Diokno Boulevard, Mall of Asia Complex, Pasay City. The agenda of the meeting is set forth below:

A G E N D A

1. Call to order
2. Certification of Notice and Quorum
3. Approval of Minutes of the Annual Meeting of Stockholders held on April 25, 2018
4. Annual Report for the Year 2018 (Open Forum)
5. Amendment of the Second Article (Purpose) of the Articles of Incorporation (AOI)
6. Amendment of the Fourth Article (Term) of the AOI
7. Ratification of the acts of the Board of Directors and the Management from the date of the last annual stockholders' meeting up to the date of this meeting
8. Election of Members of the Board of Directors for 2019-2020
9. Appointment of External Auditors
10. Other Matters
11. Adjournment

Attached are the rationale for the above agenda items for reference.

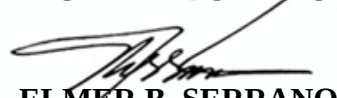
The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange (PSE) on **March 25, 2019** as the record date for the determination of stockholders entitled to notice of, to attend, and to vote at such meeting and any adjournment thereof.

In case you cannot personally attend the meeting, you may accomplish the attached proxy form (which need not be notarized) and submit the same to the office of the Corporate Secretary at the 33rd Floor, The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City 1600 at least seven (7) business days (or until April 11, 2019) before the annual meeting, as provided in the By-laws. Validation of proxies will be conducted on April 15, 2019 at the Office of the Corporate Secretary. For your convenience in registering your attendance, please bring proof of identity with photo such as passport, driver's license, or company I.D.

Certificated stockholders can also cast their votes through the Company's secure online voting facility for this meeting. The voting procedure for online voting is set forth in the Definitive Information Statement.

Pasig City, February 28, 2019.

BY THE ORDER OF THE BOARD OF DIRECTORS


ELMER B. SERRANO
Corporate Secretary
SM INVESTMENTS CORPORATION

Rationale for Agenda Items:

Agenda Item 3: To acknowledge and consider for approval the Minutes of Annual Stockholders' Meeting (ASM) held on April 25, 2018.

The minutes of the ASM held on April 25, 2018 were made and submitted to the Securities and Exchange Commission (SEC) within the period prescribed by pertinent laws, rules and regulations. The minutes were also posted on the website of SM Investments Corporation (SMIC). The Board of Directors recommends that the stockholders consider subject minutes for approval on April 24, 2019.

Agenda Item 4: To acknowledge and consider for approval the Annual Report of the Company for 2018.

The Company's 2018 performance results have been duly summarized in the Annual Report which includes the Audited Financial Statements (AFS) of the Company for the year ended 2018. The AFS have been audited by the external auditors who expressed an unqualified opinion on the aforementioned financial statements, and have been reviewed and recommended for approval by the Audit Committee and the Board of Directors. Any stockholder who would like to receive a hard copy of the 2018 Annual Report may request for a copy from the Investor Relations Office.

Agenda Item 5: To approve the amendment of the Second Article of the Articles of Incorporation.

The Company's Articles of Incorporation shall be amended to include in the Company's primary purpose the authority to charge for the use of the Company's intellectual property rights. Such amendment will effectively give the Company better flexibility and leverage in the conduct of its business and transactions.

Agenda Item 6: To approve the amendment of the Fourth Article of the Articles of Incorporation.

The Company's Articles of Incorporation shall be amended pursuant to the Revised Corporation Code wherein corporations are now granted perpetual term of existence. Such amendment will effectively allow the Company to exist in perpetuity.

Agenda Item 7: To acknowledge and ratify all the acts of the Board of Directors and Management from the date of the last ASM to the date of this meeting.

The Company's performance in 2018, as detailed in the Annual Report, is attributed to the strategic directions and key policies set by the Board of Directors which were effectively executed and complied with by Management in conformance with good corporate governance and ethical best practices.

Agenda Item 8: To elect the Board of Directors for 2019 to 2020.

Qualifications of the nominated Directors have been reviewed and the nominated Directors were determined to be qualified and are being recommended by the Company's Corporate Governance Committee for election. Their proven competence, expertise and qualifications based on current regulatory standards and the Company's own norms, will help sustain the Company's solid performance for the benefit of all its stockholders.

Agenda Item 9: To consider and approve the Audit Committee's recommendation for the appointment of the external auditor.

Based on the recommendation of the Audit Committee, the Board nominates SyCip Gorres Velayo & Co. (SGV & Co.) as the Company's external auditor for 2019. SGV & Co. is one of the top auditing firms in the country which is duly accredited with the SEC. The stockholders are also endorsed to delegate to the Board the authority to approve the appropriate audit fee for 2019.

Pasig City, February 28, 2019.

PROXY

The undersigned stockholder of SM Investments Corporation (the “**Company**”) hereby appoints _____ or in his absence, the Chairman of the meeting, as attorney and proxy, with power of substitution, to represent and vote _____ shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 24, 2019 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous annual stockholders’ meeting.
___ Yes ___ No ___ Abstain
2. Approval of 2018 Annual Report.
___ Yes ___ No ___ Abstain
3. Approval of the amendment of the Second Article of the Articles of Incorporation
___ Yes ___ No ___ Abstain
4. Approval of the amendment of the Fourth Article of the Articles of Incorporation
___ Yes ___ No ___ Abstain
5. Ratification of all acts and resolutions of the Board of Directors and Executive Officers.
___ Yes ___ No ___ Abstain
6. Election of Directors.
___ a) Vote for all nominees listed below:

1. Teresita T. Sy
2. Henry T. Sy, Jr.
3. Harley T. Sy
4. Jose T. Sio
5. Frederic C. DyBuncio
6. Joseph R. Higdon (Independent Director)
7. Tomasa H. Lipana (Independent Director)
8. Alfredo E. Pascual (Independent Director)

___ b) Withhold authority for all nominees listed above

___ c) Withhold authority to vote for the nominees listed below:

_____	_____
_____	_____
_____	_____
_____	_____

7. Election of SyCip Gorres Velayo & Co. as external auditor.
___ Yes ___ No ___ Abstain
8. At their discretion, the proxies named above are authorized to vote upon such other matters as may be properly come before the meeting.
___ Yes ___ No ___ Abstain

Printed Name of Stockholder

Signature of Stockholder /
Authorized Signatory

Date

(SAMPLE PROXY FORM FOR CORPORATIONS)

SECRETARY'S CERTIFICATE

I, _____, Filipino, of legal age and with office address at _____, do hereby certify that:

1. I am the duly appointed Corporate Secretary of _____ (the "**Company**"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at _____;
2. As of record date, the Company holds _____ (_____) shares in SM Investments Corporation;
3. Based on the records, during the lawfully convened meeting of the Board of Directors of the Company held on _____, the following resolution was passed and approved:

"RESOLVED, That _____ be authorized and appointed, as he is hereby authorized and appointed, as the Company's proxy (the "**Proxy**") to attend all meetings of the stockholders of SM Investments Corporation (**SMIC**) whether the meeting is regular or special, or at any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Company held in SMIC and to act upon all matters and resolution that may come before or presented during meetings, or any adjournments thereof, in the name, place and stead of the Company.

"RESOLVED, FINALLY, That SMIC be furnished with a certified copy of this resolution and SMIC may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

4. The foregoing resolution has not been modified, amended or revoked in accordance with the records of the Company presently in my custody.

IN WITNESS WHEREOF, I have signed this instrument in _____ on _____.

Printed Name and Signature of the
Corporate Secretary

SUBSCRIBED AND SWORN TO BEFORE ME on _____ in _____
_____. Affiant exhibited to me his Competent Evidence of Identity by way of _____
_____ issued on _____ at _____.

Doc. No. _____;
Page No. _____;
Book No. _____;
Series of _____.

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 11, 2019 (THURSDAY)**, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED 'FOR' THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

PROFILES OF THE BOARD OF DIRECTORS

		HENRY SY, SR. (†) <i>Chairman Emeritus</i>			
EDUCATION/EXPERIENCE	Henry Sy, Sr. was the Chairman Emeritus of the Board of Directors of SMIC. He was the founder of the SM Group and was Chairman Emeritus of SM Prime Holdings, Inc., SM Development Corporation, and Highlands Prime, Inc., BDO Unibank, Inc., and Honorary Chairman of China Banking Corporation until his passing. Mr. Sy opened the first ShoeMart store in 1958 and has since evolved into a dynamic group of companies with three lines of businesses – retail, banking, and property.				
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	SM Prime Holdings, Inc.	Chairman Emeritus			
	BDO Unibank, Inc.	Chairman Emeritus			
	China Banking Corporation	Honorary Chairman			

*Mr. Sy, Sr. passed away on January 19, 2019.

JOSE T. SIO Chairman of the Board		
Member, Audit Committee Member, Risk Management Committee Member, Compensation Committee Member, Related Party Transaction Committee		
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 and NLEX Corporation, and Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a master’s degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at Sycip Gorres Velayo & Co. Mr. Sio 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 business publications.		
EDUCATION/EXPERIENCE		
BOARD ATTENDANCE 100%; 6 of 6 meetings		
DATE OF FIRST APPOINTMENT May 2005		
NO. OF YEARS ON THE BOARD 14 years		
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES Belle Corporation China Banking Corporation Atlas Mining and Development Corporation Director Director Director		

TERESITA T. SY*Vice Chairperson of the Board*

Chairperson, Compensation Committee
Chairperson, Executive Committee

EDUCATION/EXPERIENCE

Teresita T. Sy, is the Vice Chairperson of SMIC. She has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in SM Group's development. At present, she is the Chairperson of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

BOARD ATTENDANCE 100%; 6 of 6 meetings

DATE OF FIRST APPOINTMENT May 1979

NO. OF YEARS ON THE BOARD 40 years

DIRECTORSHIP/S IN OTHER REPORTING COMPANIES BDO Unibank, Inc. Chairperson of the Board

HENRY T. SY, JR.*Vice Chairman of the Board***EDUCATION/EXPERIENCE**

Henry T. Sy, Jr., is the Vice Chairman of SMIC and Chairman of SM Prime Holdings, Inc. and SM Development Corporation. He is also the Vice Chairman and President of Highlands Prime, Inc. He is likewise the President of National Grid Corporation of the Philippines. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. He graduated with a Management degree from De La Salle University.

BOARD ATTENDANCE 100%; 6 of 6 meetings

DATE OF FIRST APPOINTMENT May 1979

NO. OF YEARS ON THE BOARD 40 years

DIRECTORSHIP/S IN OTHER REPORTING COMPANIES SM Prime Holdings, Inc. Chairman of the Board

FREDERIC C. DYBUNCIO*President/CEO*

Member, Executive Committee

EDUCATION/EXPERIENCE

Frederic C. DyBuncio is the President and Chief Executive Officer of SMIC. Prior to joining SMIC, he was a career banker who spent over 20 years with JPMorgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various managerial/executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He obtained his undergraduate degree in Business Management from the Ateneo de Manila University, and his master's degree in Business Administration from the Asian Institute of Management.

BOARD ATTENDANCE

100%; 6 of 6 meetings

**DATE OF FIRST
APPOINTMENT**

April 2017

**NO. OF YEARS ON THE
BOARD**

2 years

**DIRECTORSHIP/S IN
OTHER REPORTING
COMPANIES**

2GO Group,
Inc. President/CEO/Director
Phoenix
Petroleum
Philippine
s, Inc. Director
Atlas Mining
and Vice Chairman of the
Development Board
Corporation

HARLEY T. SY*Executive Director*

Member, Executive Committee

EDUCATION/EXPERIENCE

Harley T. Sy, is Executive Director of SMIC. He is a Director of China Banking Corporation and other companies within the SM Group and Adviser to the Board of Directors of BDO Private Bank. He is the Co-Vice Chairman and Treasurer of SM Retail, Inc. He holds a degree in Bachelor of Science in Commerce, Major in Finance from the De La Salle University.

BOARD ATTENDANCE

100%; 6 of 6 meetings

**DATE OF FIRST
APPOINTMENT**

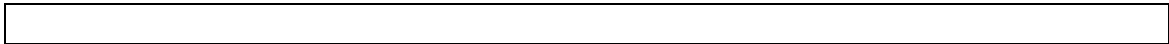
May 1993

**NO. OF YEARS ON THE
BOARD**

26 years

**DIRECTORSHIP/S IN
OTHER REPORTING
COMPANIES**

China Banking Corporation Director



JOSEPH R. HIGDON

Lead Independent Director



Chairman, Corporate Governance Committee
Chairman, Related Party Transaction Committee
Member, Risk Management Committee
Member, Compensation Committee

EDUCATION/EXPERIENCE

Joseph R. Higdon, an American, is an Independent Director of SMIC. Until his retirement, he was a Senior Vice-President of Capital Research and Management Company, a United States investment company. He joined Capital Research in 1974 and worked there until 2006. He analyzed Philippine Stocks from 1989 until 2006. He was a US Peace Corps volunteer in the Philippines from 1962 to 1964. He is also an Independent Director of International Container Terminal Services, Inc. and Security Bank Corporation. For six years until 2012, he served as a member of the Advisory Board for the Coca-Cola Bottling Company, Philippines.

BOARD ATTENDANCE

100%; 6 of 6 meetings

**DATE OF FIRST
APPOINTMENT**

April 2010

**NO. OF YEARS ON THE
BOARD**

9 years

**DIRECTORSHIP/S IN
OTHER REPORTING
COMPANIES**

Security Bank Corporation	Independent Director
Philippine Equity Partners, Inc.	Independent Director
International Container Terminal Services, Inc.	Independent Director

Chairperson, Audit Committee
Member, Corporate Governance Committee



TOMASA H. LIPANA

Independent Director

EDUCATION/EXPERIENCE

Tomasa H. Lipana 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, QBE Seaboard Insurance Philippines, Inc. and Trade and Investments Development Corporation of the Philippines (PhilExim), a government-owned and controlled corporation. She was previously an Independent Director of Goldilocks Bakeshop Inc. and Inter-Asia Development Bank. 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 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.

BOARD ATTENDANCE

100%; 6 of 6 meetings

DATE OF FIRST APPOINTMENT	April 2016
NO. OF YEARS ON THE BOARD	3 years
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	Currently no directorships in other reporting companies.

ALFREDO E. PASCUAL

Independent Director



Chairman, Risk Management Committee
Member, Corporate Governance Committee
Member, Audit Committee
Member, Related Party Transaction Committee

EDUCATION/EXPERIENCE

Alfredo E. Pascual is an Independent Director of SMIC. In 2018, he assumed the CEO position at the Institute of Corporate Directors, following the completion of his six-year term as President of the University of the Philippines (UP) and Co-Chair of the UP Board of Regents. Prior to becoming an academic leader, Mr. Pascual worked at the Asian Development Bank for 19 years in such positions as Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership. Earlier on, he held senior executive positions in investment banking companies, such as First Metro Investment Corporation. He likewise took on an educator role as finance professor at the Asian Institute of Management (AIM) in the 1980s. Currently, Mr. Pascual also serves as Trustee on the board of the UP Foundation, Inc., the Shareholders Association of the Philippines (SharePHIL), and the Institute for Solidarity in Asia (ISA). He is a life member of the Financial Executives Institute of the Philippines and the President of the Rotary Club of Makati. He was a two-term Governor of the Management Association of the Philippines.

BOARD ATTENDANCE	100%; 6 of 6 meetings				
DATE OF FIRST APPOINTMENT	April 2017				
NO. OF YEARS ON THE BOARD	2 years				
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	<table> <tr> <td>Megawide Construction Corporation</td><td>Independent Director</td></tr> <tr> <td>Asiabest Group International Inc.</td><td>Independent Director</td></tr> </table>	Megawide Construction Corporation	Independent Director	Asiabest Group International Inc.	Independent Director
Megawide Construction Corporation	Independent Director				
Asiabest Group International Inc.	Independent Director				

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- [☒] Preliminary Information Statement
[☐] Definitive Information Statement

2. Name of Registrant as specified in its charter: **SM INVESTMENTS CORPORATION**

3. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**

4. SEC Identification Number: **0000016342**

5. BIR Tax Identification Code: **000-169-020-000**

6. Address of principal office: **10th Floor, OneE-com Center, Harbor Drive
Mall of Asia Complex, Pasay City
Postal Code 1300**

7. Registrant's telephone number, including area code: **(632) 857-0100 / fax (632) 857-0132**

8. Date, time and place of the meeting of security holders: **April 24, 2019, 2:30 p.m.
Function Room 1
SMX Convention Center Manila
Seashell Drive, J.W. Diokno Blvd.
Mall of Asia Complex
Pasay City 1300**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **March 26, 2019**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the:

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common shares	1,204,582,867

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

Yes ☒ No ☐

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
Philippine Stock Exchange

PART I

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. BUSINESS AND GENERAL INFORMATION

ITEM 1. Date, Time and Place of Meeting of Security Holders

- | | | |
|-------------------------------------|---|---|
| (a) Date | : | April 24, 2019 |
| Time | : | 2:30 p.m. |
| Place | : | Function Room 1, SMX Convention Center Manila
Seashell Drive, J.W. Diokno Boulevard
Mall of Asia Complex, Pasay City 1300 |
| Mailing
Address
of Registrant | : | SM Investments Corporation
10 th Floor, OneE-Com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300 |

- (b) The approximate date on which the Information Statement will be sent or given to the stockholders is on March 26, 2019.

Statement that proxies are not solicited

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND A PROXY.

Voting Securities

The record date for purposes of determining the stockholders entitled to vote is March 25, 2019. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 1,204,582,867 shares. Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

ITEM 2. Dissenters' Right of Appraisal

SM Investments Corporation (**SMIC** or the "**Company**") respects the inherent rights of stockholders under the law. SMIC recognizes that all stockholders should be treated fairly and equally whether they be controlling, majority or minority, local or foreign.

Pursuant to Section 81 of the Corporation Code of the Philippines, a stockholder has the right to dissent and demand payment of the fair value of his shares in the following instances:

- (a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any shares of any class, or of extending or shortening the term of corporate existence.
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- (c) In case of merger or consolidation.

Procedure:

The procedure for the exercise by a dissenting stockholder of his appraisal right is as follows:

- (a) A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.
- (b) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares. The failure of the stockholder to make the demand within the 30 day period shall be deemed a waiver on his appraisal right;
- (c) If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value thereof; and
- (d) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation.

No matter will be presented for stockholders' approval during the stockholders' meeting that may occasion the exercise of the right of appraisal.

ITEM 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

- (a) No director or officer of the Company since the beginning of the last fiscal year, nominee for election as director, or associate of the foregoing persons, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.
- (b) No director of the Company has informed in writing that he intends to oppose any action to be taken by the Company at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities and Principal Holders Thereof

(a) Voting Securities

As of January 31, 2019, the total number of common shares outstanding and entitled to vote in the stockholders' meeting is 1,204,582,867 shares. Out of the aforesaid outstanding common shares, 385,792,440 shares or 32.03% are held by foreigners. Each share is entitled to notice of and to one vote at the Annual Stockholders' Meeting.

(b) Record Date

The record date for purposes of determining the stockholders entitled to notice and to vote is March 25, 2019.

(c) Voting Rights

Stockholders shall be entitled to vote in person or by proxy and, unless otherwise provided by law, he shall have one vote for each share of stock entitled to vote and recorded in his name in the books of the Corporation. At all meetings of the stockholders, all elections and all questions shall be decided by the plurality of vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present, except in cases where other provision is made statute. Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or in his name by proxy if there be by proxy, and shall state the number of shares voted by him.

Stockholders may nominate directors and vote for nominees in person or by proxy.

Provided however, that in the election of Directors, each stockholder shall be entitled to cumulate his votes in the manner prescribed by Title III, Section 24 of the Corporation Code of the Philippines.

SMIC also provides an online voting facility where certificated stockholders can cast their votes if not attending in person.

Voting procedures are further detailed in Item 19.

(d) Security Ownership of Certain Record and Beneficial Owners as of January 31, 2019

As of January 31, 2019, the following are the owners of the Company's common stock in excess of 5% of total outstanding shares:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent (%)
Common	Teresita T. Sy (Director and Vice Chairperson) Forbes Park, Makati City	Same as the Record Owner	Filipino	85,440,508	7.09%
-do-	Harley T. Sy (Executive Director) Forbes Park, Makati City	Same as the Record Owner	Filipino	87,604,771	7.27%
-do-	Henry T. Sy, Jr. (Director and Vice Chairman) Forbes Park, Makati City	Same as the Record Owner	Filipino	87,503,008	7.26%
-do-	Hans T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	98,769,136	8.20%
-do-	Herbert T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	98,753,008	8.20%
-do-	Elizabeth T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	71,022,817	5.90%
-do-	PCD Nominee Corp. (Filipino)	Various clients ¹	Filipino	155,793,588	12.93%
-do-	PCD Nominee Corp. (Non-Filipino)	Various clients ¹	Foreign	385,598,488	32.01%

(1) The Company has no information as to the beneficial owners of the shares of stocks held by PCD Nominee Corp. The clients of PCD Nominee Corp. have the power to decide how their shares are to be voted.

Security Ownership of Management as of January 31, 2019

Title of Securities	Name of Beneficial Owner of Common Stock	Amount and Nature of Beneficial Ownership (D) direct / (I) indirect	Citizenship	Percent of Class
Common	Teresita T. Sy	P854,405,080 D	Filipino	7.09%
Common	Harley T. Sy	876,047,710 D	Filipino	7.27%
Common	Henry T. Sy, Jr.	875,030,080 D	Filipino	7.26%
Common	Jose T. Sio	210 D	Filipino	0.00%
Common	Frederic C. DyBuncio	100 D	Filipino	0.00%
Common	Joseph R. Higdon	1,870 D	American	0.00%
Common	Tomasa H. Lipana	1,500 D	Filipino	0.00%
Common	Alfredo E. Pascual	1,000 D	Filipino	0.00%
Common	Marcelo C. Fernando, Jr.	0	Filipino	0.00%
Common	Elizabeth Anne C. Uychaco	0	Filipino	0.00%

Common	Franklin C. Gomez	45,000	D	Filipino	0.00%
Common	Cecilia Reyes-Patricio	1,300	D	Filipino	0.00%
Common	Grace F. Roque	0		Filipino	0.00%
Common	Wellington L. Palmero	0		Filipino	0.00%
Common	Epitacio B. Borcelis, Jr.	1,980	D	Filipino	0.00%
Common	Hector B. Sarmiento	0		Filipino	0.00%
Common	Anastacio C. Balubar II	0		Filipino	0.00%
Common	Arthur A. Sy	0		Filipino	0.00%
Common	Elmer B. Serrano	0		Filipino	0.00%
		P2,605,534,930			21.63%

There are no persons holding more than 5% of a class under a voting trust or any similar agreements as of balance sheet date.

(a) Change in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

There are no existing or planned stock warrant offerings. There are no arrangements which may result in a change in control of the Company.

ITEM 5. Directors and Executive Officers of the Registrant

(a) The incumbent Directors and Executive Officers of the Company are as follows:

<u>Officers</u>	<u>Name</u>	<u>Age</u>	<u>Citizenship</u>
Chairman Emeritus	Henry Sy, Sr.	94	Filipino
Chairman	Jose T. Sio	79	Filipino
Vice Chairperson	Teresita T. Sy	68	Filipino
Vice Chairman	Henry T. Sy, Jr.	65	Filipino
Director and President & Chief Executive Officer	Frederic C. DyBuncio	59	Filipino
Executive Director	Harley T. Sy	59	Filipino
Lead Independent Director	Joseph R. Higdon	77	American
Independent Director	Tomas H. Lipana	70	Filipino
Independent Director	Alfredo E. Pascual	70	Filipino
Senior Vice President - Corporate Services	Elizabeth Anne C. Uychaco	63	Filipino
Senior Vice President - Corporate Tax Services	Cecilia Reyes-Patricio	61	Filipino
Senior Vice President - Treasury	Grace F. Roque	68	Filipino
Senior Vice President - Finance	Franklin C. Gomez	49	Filipino
Treasurer and Senior Vice President - Group Treasury	Marcelo C. Fernando, Jr.	58	Filipino
Senior Vice President - Corporate Legal Affairs and Assistant Corporate Secretary	Arthur A. Sy	49	Filipino
Chief Risk & Compliance Officer and Senior Vice President	Wellington Palmero	58	Filipino
Senior Vice President - Property Acquisition	Epitacio B. Borcelis, Jr.	65	Filipino

Senior Vice President - Data Analytics	Hector B. Sarmiento	47	Filipino
Chief Audit Executive and Vice President	Anastacio C. Balubar II	48	Filipino
Corporate Secretary	Elmer B. Serrano	51	Filipino

MANAGEMENT

Board of Directors

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next annual meeting and until their respective successors are appointed or elected and qualified.

The following are the business experience/s of the Company's incumbent Directors during the last five years:

Henry Sy, Sr. was the Chairman Emeritus of the Board of Directors of SMIC. He was the founder of the SM Group and was Chairman Emeritus of SM Prime Holdings, Inc., SM Development Corporation, Highlands Prime Inc., BDO Unibank, Inc., and Honorary Chairman of China Banking Corporation. Mr. Sy opened the first ShoeMart store in 1958 and has since evolved into a dynamic group of companies with three lines of businesses - retail, banking and property.

Jose T. Sio, is the Chairman of the Board of SMIC and Belle Corporation. He is also a Director of China Banking Corporation and Atlas Consolidated Mining and Development Corporation, and Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at Sycip Gorres Velayo & Co. Mr. Sio 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 business publications.

Teresita T. Sy, is the Vice Chairperson of SMIC. She has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in SM Group's development. At present, she is the Chairperson of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

Henry T. Sy, Jr., is the Vice Chairman of SMIC and Chairman of SM Prime Holdings, Inc. and SM Development Corporation. He is also the Vice Chairman and President of Highlands Prime, Inc. He is likewise the President of National Grid Corporation of the Philippines. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation and negotiation for potential sites as well as the input of design ideas. He graduated with a Management degree from De La Salle University.

Frederic C. DyBuncio is the President and Chief Executive Officer of SMIC. Prior to joining SMIC, he was a career banker who spent over 20 years with JPMorgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various managerial/executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He obtained his undergraduate degree in Business Management from the Ateneo de Manila University, and his master's degree in Business Administration from the Asian Institute of Management.

Harley T. Sy, is Executive Director of SMIC. He is a Director of China Banking Corporation and other companies within the SM Group and Adviser to the Board of Directors of BDO Private Bank. He is the Co-Vice Chairman and Treasurer of SM Retail, Inc. He holds a degree in Bachelor of Science in Commerce, Major in Finance from the De La Salle University.

Joseph R. Higdon*, an American, is an Independent Director of SMIC. Until his retirement, he was a Senior Vice-President of Capital Research and Management Company, a United States investment company. He joined Capital Research in 1974 and worked there until 2006. He analyzed Philippine Stocks from 1989 until 2006. He was a US Peace Corps volunteer in the Philippines from 1962 to 1964. He is also an Independent Director of International Container Terminal Services, Inc. and Security Bank Corporation. For six years until 2012, he served as a member of the Advisory Board for the Coca-Cola Bottling Company, Philippines.

Tomasa H. Lipana* 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, QBE Seaboard Insurance Philippines, Inc. and Trade and Investments Development Corporation of the Philippines (PhilExim), a government-owned and controlled corporation. She was previously an Independent Director of Goldilocks Bakeshop Inc. and Inter-Asia Development Bank. 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 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 an independent director of SMIC. He recently assumed the CEO position at the Institute of Corporate Directors, following the completion of his six-year term as President of the University of the Philippines (UP) and Co-Chair of the UP Board of Regents. Prior to becoming an academic leader, Mr. Pascual worked at the Asian Development Bank for 19 years in such positions as Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership. Earlier on, he held senior executive positions in investment banking companies, such as First Metro Investment Corporation. He likewise took on an educator role as finance professor at the Asian Institute of Management in the 1980s. Currently, Mr. Pascual also serves as a Trustee on the board of the UP Foundation, Inc., and of the Institute for Solidarity in Asia. He is a Governor of the Management Association of the Philippines, a life member of the Financial Executives Institute of the Philippines, and the President-elect of the Rotary Club of Makati.

** Independent director – the Company has complied with the Guidelines set forth by SRC (Securities Regulation Code) Rule 38 regarding the Nomination and Election of Independent Director. The Company's By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule.*

Period of Directorship

<u>Name</u>	<u>Period Served</u>
Henry Sy, Sr. ⁽⁺⁾	1960 to 2019
Jose T. Sio	2005 to present
Teresita T. Sy	1979 to present
Henry T. Sy, Jr.	1979 to present
Frederic C. DyBuncio	2017 to present
Harley T. Sy	1993 to present

<u>Name</u>	<u>Period Served</u>
Joseph R. Higdon	2010 to present
Tomas H. Lipana	2016 to present
Alfredo E. Pascual	2017 to present

Directorships in Other Reporting Companies

The following are directorships held by Directors in other reporting companies during the last five years:

<u>Name of Director</u>	<u>Name of Reporting Company</u>	<u>Position Held</u>
Jose T. Sio	Belle Corporation	Chairman
	China Banking Corporation	Director
	Atlas Consolidated Mining and Development Corporation	Director
Teresita T. Sy	BDO Unibank, Inc.	Chairperson
Henry T. Sy, Jr.	SM Prime Holdings, Inc.	Chairman
Frederic C. DyBuncio	Atlas Consolidated Mining and Development Corporation	Vice Chairman
	2Go Group, Inc.	Director
	Phoenix Petroleum Philippines, Inc.	Director
Harley T. Sy	China Banking Corporation	Director
Joseph R. Higdon	Security Bank Corporation	Independent Director
	Philippine Equity Partners, Inc.	Independent Director
	International Container Terminal Services, Inc.	Independent Director
Alfredo E. Pascual	Megawide Construction Corporation	Independent Director
	Asiabest Group International Inc.	Independent Director

Nomination of Directors

The Corporate Governance Committee created by the Board under its Corporate Governance Manual has reviewed the credentials of, and qualified the following for election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

1. Jose T. Sio
2. Teresita T. Sy
3. Henry T. Sy, Jr.
4. Frederic C. DyBuncio
5. Harley T. Sy
6. Joseph R. Higdon (Independent Director)
7. Tomas H. Lipana (Independent Director)
8. Alfredo E. Pascual (Independent Director)

Tony Ong King nominated to the Board, for inclusion in the Final List of Candidates for Independent Director, the following stockholders:

1. Joseph R. Higdon
2. Tomasa H. Lipana
3. Alfredo E. Pascual

Tony Ong King, Joseph R. Higdon, Tomasa H. Lipana, and Alfredo E. Pascual **are** not related either by consanguinity or affinity, nor has any other professional / business dealings with each other.

The Company has complied with the Guidelines set forth by SRC Rule 38 regarding the Nomination and Election of Independent Director. The same provision has been incorporated in the Amended By-Laws of the Company last April 27, 2006.

The Directors of the Company are elected at the Annual Stockholders' Meeting to hold office until the next annual meeting and until their respective successors are appointed or elected and qualified. The abovementioned nominated persons will be presented to the Company's shareholders for election at the annual stockholders' meeting. The nominated individuals possess all the qualifications and none of the disqualifications provided in the SRC and its Implementing Rules and Regulations. Further, no director has resigned or declined to stand for re-election to the Board of Directors since the date of the last Annual Shareholders' Meeting because of a disagreement with the Company on any matter relating to its operations, policies or practices.

The procedure for nomination of directors shall be as follows:

- Nomination of all directors shall be reviewed and qualified by the Corporate Governance Committee prior to the stockholders' meeting.
- The Corporate Governance Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for nomination of Independent Directors and which list shall contain all the information about these nominees.
- Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.
- In case of resignation, disqualification or cessation of Independent Directorship and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Corporate Governance Committee otherwise, said vacancies shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.
- The Corporate Governance Committee is composed of the following members, all of whom are Independent Directors:
 1. Joseph R. Higdon - Chairman (Independent Director)
 2. Tomasa H. Lipana - Member (Independent Director)
 3. Alfredo E. Pascual - Member (Independent Director)

All new directors undergo an orientation program soon after date of election. This is intended to familiarize the new directors on their statutory/fiduciary roles and responsibilities in the Board and its Committees, SMIC's strategic plans, enterprise risks, group structures, business

activities, compliance programs, Code of Business Conduct and Ethics, Personal Trading Policy and Corporate Governance Manual.

All directors are also encouraged to participate in continuing education programs at SMIC's expense to promote relevance and effectivity and to keep them abreast of the latest developments in corporate directorship and good governance.

Officers

Marcelo C. Fernando, Jr. is the Treasurer and Senior Vice President for Group Treasury of SMIC from July 2015. Prior to joining the company, he spent a combined 31 years in the banking industry, 29 of them with Citibank, N.A. His banking experience was mainly in the Markets business which was involved in the sales, trading and structuring of currencies, fixed income, money markets and commodities products and their derivatives. He was also responsible for liquidity management and balance sheet funding and gapping activities as Country Treasurer in the Philippines and during his posting in Thailand. Mr. Fernando also had regional responsibilities as Citibank's Markets Head for the ASEAN cluster which covered Indonesia, Malaysia, Philippines, Thailand and Vietnam. He obtained his Bachelor of Arts Degree in Economics from the University of the Philippines, Diliman (Cum Laude), and graduated with Distinction from the Masters in Business Management program of the Asian Institute of Management. Mr. Fernando is a fellow of the Institute of Corporate Directors.

Elizabeth Anne C. Uychaco is the Senior Vice President, Corporate Services of SMIC. She is currently a Board Director and Vice Chairperson of Belle Corporation and a Board Director of Republic Glass Holdings Corp., BDO Life Assurance Co., The Net Group, Goldilocks Bakeshop, Inc., and ACE Hardware Philippines, Inc. She was formerly the Senior Vice President and Chief Marketing Officer of Philippine American Life and General Insurance Company and a Board Director of Philam Call Center. Prior to that, she was the Vice President of Globe Telecom, Inc., Kuok Philippine Properties, Inc. and Transnational Diversified Corp. Ms. Uychaco graduated from St. Scholastica's College in 1978 with a Bachelor of Arts Degree. She obtained a Master's Degree in Business Economics from the University of Asia and the Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo School of Business in 1992.

Franklin C. Gomez is the Senior Vice President for Finance of SMIC. Prior to joining SMIC in 2013, he spent over 20 years at Unilever where he held several senior positions, his last being Finance Director and Chief Financial Officer of Unilever Indonesia since May 2009. His previous senior posts in the same company include Chief Financial Officer at Unilever Philippines; Innovation and Learning Director at the Finance Excellence Centre in London; and Finance Director of Selecta Wall's Ice Cream, Philippines. Mr. Gomez holds a Bachelor of Arts Degree in Economics and Bachelor of Science Degree in Commerce Major in Accountancy from the De La Salle University, Manila.

Cecilia Reyes-Patricio is the Senior Vice President, Corporate Tax Services Department of SMIC. Prior to joining SMIC in 1988, she was a financial and tax auditor at SyCip, Gorres, Velayo & Co. She holds a Master of Science Degree (with highest honors) in Commerce, Major in Taxation, from the Manuel Luis Quezon University. A Certified Public Accountant, she graduated Magna Cum Laude with a Bachelor of Science Degree in Business Administration from the University of the East.

Grace F. Roque is the Senior Vice President, Treasury of SMIC. She is also the Director of Metro Manila Shopping Mecca Corp. and of Mercantile Stores Group, Inc. She is also the Treasurer and Director of Mindanao Shoppers Daily Destination Corp. She holds a Bachelor's Degree in Economics from Maryknoll College and a Master's Degree in Business Administration from the University of the Philippines.

Wellington Palmero is the Senior Vice President, Chief Risk, and Compliance Officer of SMIC. Prior to joining SMIC, he was the Head of Citibank Compliance Service Center. He has also worked in several financial institutions and spent most of his working career with Goldman Sachs Hong Kong and New York. Mr. Palmero holds a Master's Degree in Business Administration from the University of Western Ontario.

Epitacio B. Borcelis, Jr. is the Senior Vice President for property acquisition of SM Investments Corporation. He has served as Corporate Counsel and is currently the Corporate Secretary of various companies under SM Group of Companies. He has worked with the SM Group for over forty (40) years and has varied experience in litigations, corporate housekeeping and property acquisitions. He is also a director of SM Development Corporation and other companies under the SM Group. He holds a Bachelor of Laws degree from the University of the East and a member of the Integrated Bar of the Philippines.

Hector B. Sarmiento is the Senior Vice President for Data Analytics in SMIC. Prior to joining SMIC he was Senior Vice President for Analytics and CRM for HSBC Philippines for 6.5 years, this included a regional assignment leading the HSBC Global Analytics Centre in Guangzhou, China for 2.5 years. Prior to HSBC, Mr. Sarmiento was Vice President for Decision Management in Citibank Philippines for 8.5 years. Before his banking experience he was in the Market Research industry for 5 years as the Director for Statistical Services for a local Philippine firm (Philippine Survey and Research Center or PSRC). Mr. Sarmiento obtained his Bachelor of Science Degree in Mathematics from the University of the Philippines, Diliman (Magna Cum Laude) and has a Master's Degree in Operations Research (minor in Statistics) from Oregon State University.

Anastacio C. Balubar II is the Vice President / Chief Audit Executive of SMIC. He is a Certified Public Accountant with 28 years of international and multi-cultural audit experience, having worked in the Philippines and Dubai, UAE with various large conglomerates involved in key sectors such as airline, real estate/property development, hospitality and leisure, shopping malls, and retail amongst others. He managed overseas audit assignments in Asia, UK, USA, and Middle East. As a seasoned audit professional, he considers himself a catalyst for change and advocates transparent leadership, strong corporate governance, and business excellence. He graduated from Pamantasan Ng Lungsod Ng Maynila (University of the City of Manila) with a Bachelor's Degree in Business Administration, Major in Accounting and obtained key certifications in various audit subjects as well as leadership and management masterclass.

Elmer B. Serrano is the Corporate Secretary of SMIC and Corporate Secretary of SM Prime Holdings, Inc. since November 2014. He is Name Partner of the law firm of Martinez Vergara Gonzalez & Serrano and has been practicing corporate law for over two decades. Atty. Serrano is currently the Corporate Information Officer of BDO Unibank, Inc. and 2GO Group, Inc. He is also the Corporate Secretary of Premium Leisure Corp., PremiumLeisure and Amusement, Inc., 2GO Group, Inc., Crown Equities, Inc., and Corporate Secretary of subsidiaries of BDO Unibank, Inc. namely, BDO Capital & Investment Corporation, BDO Securities Corporation, BDO Insurance Brokers, Inc., and Averon Holding Corporation. He was a director of OCLP Holdings, Inc. until November 2014. He is a graduate of the Ateneo Law School and holds a degree of B.S. Legal Management from the Ateneo de Manila University.

Arthur A. Sy is the Assistant Corporate Secretary and Senior Vice President for Corporate Legal Affairs of SM Investments Corporation. He is likewise the Assistant Corporate Secretary of SM Prime Holdings, Inc., Belle Corporation, and Premium Leisure Corp. Further, he is currently the Corporate Secretary of various major companies within the SM Group of Companies and is also the Corporate Secretary of National University. Admitted to practice in the Philippines and the State of New York, Atty. Sy holds a Bachelor of Arts

degree in Philosophy from the University of Santo Tomas and a Juris Doctor degree from the Ateneo de Manila University, School of Law.

Period of Officership

<u>Name</u>	<u>Office</u>	<u>Period Served</u>
Frederic C. DyBuncio	President and Chief Executive Officer	2017 to present
Marcelo C. Fernando, Jr.	Treasurer and Senior Vice President - Group Treasury	2015 to present
Elizabeth Anne C. Uychaco	Senior Vice President - Corporate Services	2009 to present
Franklin C. Gomez	Senior Vice President - Finance	2013 to present
Grace F. Roque	Senior Vice President - Treasury	2010 to present
Cecilia Reyes-Patricio	Senior Vice President - Corporate Tax Services	2010 to present
Wellington Palmero	Senior Vice President, Chief Risk and Compliance Officer	2017 to present
Epitacio B. Borcelis, Jr.	Senior Vice President - Legal for Property Acquisitions	2018 to present
Hector Sarmiento	Senior Vice President - Data Analytics	2018 to present
Anastacio C. Balubar II	Chief Audit Executive	2017 to present
Elmer B. Serrano	Corporate Secretary	2014 to present
Arthur A. Sy	Assistant Corporate Secretary and Senior Vice President - Corporate Legal Affairs	2017 to present

Directorships in Other Reporting Companies

The following are directorships held by an Officer in other reporting companies during the last five years:

<u>Name of Director</u>	<u>Name of Reporting Company</u>	<u>Position Held</u>
Elizabeth Anne C. Uychaco	Belle Corporation	Vice Chairperson/Director
	Republic Glass Holdings Corp.	Director

Nomination of Officers:

Incoming officers will be appointed at the organizational meeting to be held immediately after the Annual Stockholders' Meeting.

(b) Significant Employees

The Company has no employee who is not an executive officer but is expected to make a significant contribution to the business.

(c) Family Relationships

Mr. Henry Sy, Sr. is the father of Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy. All other directors and officers are not related either by consanguinity or affinity. There are no other family relationships known to the registrant other than the ones disclosed herein.

(d) Certain Relationships and Related Transactions

There are no known related party transactions other than those described in Note 21 (Related Party Transactions) of the Notes to the Consolidated Financial Statements incorporated herein by reference.

The members of the Related Party Transactions Committee are:

- | | | |
|-----------------------|---|---------------------------------|
| 1. Joseph R. Higdon | - | Chairman (Independent Director) |
| 2. Alfredo E. Pascual | - | Member (Independent Director) |
| 3. Jose T. Sio | - | Member |

(e) Involvement in Legal Proceedings

The Company is not aware of any of the following events having occurred during the past five years up to the date of this report that are material to an evaluation of the ability or integrity of any director, nominee for election as Director, executive officer, underwriter or controlling person of the Company:

- (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (2) any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- (4) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.
- (5) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Further, the Company is not involved in or aware of any material legal proceedings that may significantly affect the Company, or any of its subsidiaries or affiliates.

ITEM 6. Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer and executive officers of the Company are as follows:

Name and Position

1. Harley T. Sy
Executive Director*
2. Frederic C. DyBuncio
President and Chief Executive Officer*
3. Elizabeth Anne C. Uychaco
Senior Vice President - Corporate Services*
4. Franklin C. Gomez
Senior Vice President - Finance*
5. Marcelo C. Fernando, Jr.
Treasurer and Senior Vice President - Group Treasury*

Summary Compensation Table (in million pesos)

	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>
* President and four Most Highly Compensated Executive Officers	2019 (estimate)	110	18	5
	2018	100	17	4
	2017	89	15	4
All other Officers and Directors as a group unnamed	2019 (estimate)	355	59	15
	2018	323	54	13
	2017	245	41	10

The members of the Board of Directors receive a total of ₱100,000.00 per diem per Board meeting and a total of ₱20,000.00 per diem per Board Committee meeting. Aside from the aforementioned compensation, these officers do not receive any other form of remuneration.

There are no outstanding warrants or options held by directors and officers. There are no actions to be taken with regard to election, any bonus or profit-sharing, change in pension/retirement plan, granting of or extension of any options, warrants or rights to purchase any securities.

The members of the Compensation Committee are:

- | | | |
|---------------------|---|-------------------------------|
| 1. Teresita T. Sy | - | Chairperson |
| 2. Jose T. Sio | - | Member |
| 3. Joseph R. Higdon | - | Member (Independent Director) |

ITEM 7. Independent Public Accountants, External Audit Fees and Services

Sycip, Gorres, Velayo & Company (**SGV & Co.**) is the external auditor for the current year. The same external auditor will be recommended for re-appointment at the scheduled stockholders' meeting. Representatives of the said firm are expected to be present at the stockholders' meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to SRC Rule 68, Paragraph 3 (b) (iv) and (ix) (Rotation of External Auditors) which states that the signing partner shall be rotated after every five (5) years of engagement with a two-year cooling off period for the re-engagement of the same signing partner, the Company engaged Ms. Julie Christine O. Mateo of SGV & Co. for the examination of the Company's financial statements starting 2016. Previously, the Company engaged Ms. Belinda Beng Hui, Mr. Ramon D. Dizon, Ms. Melinda G. Manto and Mr. Joel M. Sebastian of SGV & Co. for the examination of the Company's financial statements from 2013 to 2015, 2008 to 2012, 2006 to 2007 and 2001 to 2005, respectively. Ms. Belinda Beng Hui was also another key audit partner (**OKAP**) of the Company for 7 years until 2015 for her involvement as an engagement partner in significant subsidiaries of the Company. In compliance with the local Code of Ethics which is based on the International Ethics Standards Board for Accountants Code of Ethics, an OKAP has to be rotated off after serving in that role for 7 years.

The aggregate fees of SGV & Co. for the audit of SMIC's annual financial statements in connection with the statutory and regulatory filings for the years ended December 31, 2018 and 2017 amounted to P2.3 million and P2.2 million, respectively. Services rendered include the audit of yearend financial statements and supplementary schedules for submission to SEC and assistance in the preparation of annual income tax returns. The professional fees for non-audit services rendered by SGV & Co. amounted to P1.5 million in 2018 and none in 2017.

SMIC did not engage any other firm for tax accounting, compliance, advice, planning, and any form of tax services covering the years 2018 and 2017.

The Audit Committee recommended to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approved the Committee's recommendation.

The members of the Audit Committee are:

- | | | |
|-----------------------|---|---------------------------------|
| 1. Tomasa H. Lipana | - | Chairman (Independent Director) |
| 2. Alfredo E. Pascual | - | Member (Independent Director) |
| 3. Jose T. Sio | - | Member |

The members of the Risk Management Committee are:

- | | | |
|-----------------------|---|---------------------------------|
| 1. Alfredo E. Pascual | - | Chairman (Independent Director) |
| 2. Joseph R. Higdon | - | Member (Independent Director) |
| 3. Jose T. Sio | - | Member |

ITEM 8. Compensation Plans

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

ITEM 9. Authorization or Issuance of Securities Other than for Exchange

No action will be presented for stockholders' approval at this year's annual meeting which involves authorization or issuance of any securities.

ITEM 10. Modification or Exchange of Securities

No action will be presented for stockholders' approval at this year's annual meeting which involves the modification of any class of SMIC's securities, or the issuance of one class of SMIC's securities in exchange for outstanding securities of another class.

ITEM 11. Financial and Other Information

The Management Report and Audited Financial Statements of SMIC are incorporated herein by reference.

Representatives of SMIC's external auditor, SGV & Co., will be present at the annual meeting, and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from the stockholders. SMIC has had no material disagreement with SGV & Co. on any matter of accounting principle or practices or disclosures in SMIC's financial statements.

ITEM 12. Mergers, Consolidations, Acquisitions and Similar Matters

No action will be presented for stockholders' approval at this year's annual meeting in respect of (1) the merger or consolidation of SMIC into or with any other person, or of any other person into or with SMIC, (2) acquisition by SMIC or any of its stockholders of securities of another person, (3) acquisition by SMIC of any other going business or of the assets thereof, (4) the sale or transfer of all or any substantial part of the assets of SMIC, or (5) liquidation or dissolution of SMIC.

ITEM 13. Acquisition or Disposition of Property

The Company and its subsidiaries purchased and sold parcels of land in the normal course of their business.

No action will be presented for stockholders' approval at this year's annual meeting in respect of any acquisition or disposition of property of SMIC.

ITEM 14. Restatement of Accounts

No action will be presented for stockholders' approval at this year's annual meeting which involves the restatement of any of SMIC's assets, capital or surplus account.

D. OTHER MATTERS

ITEM 15. Action with Respect to Reports

There is no action to be taken with respect to any report of SMIC or of its directors, officers or committees, except for the approval of the minutes of the previous annual meeting of SMIC.

At the annual meeting, stockholders will be asked to approve and ratify the acts of the Board of Directors during their term of office. The matters for stockholders' ratification are acts of the Board, its Committees and Management for the previous year up to the date of the annual meeting which were entered into or made in the ordinary course of business, the significant acts or transactions of which are covered by appropriate disclosures with the Securities and Exchange Commission and Philippine Stock Exchange, Inc., including:

- I. Approval of the amendment of the Second Article of the Articles of Incorporation (Amendment to include in Secondary Purpose the ability to guarantee obligations of the Company or entities in which it has lawful interests)
- II. Authority to waive rights in favor of Fine Properties Inc. over parcels of land.

There are no other matters that would require approval of the stockholders.

ITEM 16. Matters Not Required To Be Submitted

There is no action to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

ITEM 17. Amendment of Charter, By-Laws or Other Documents

Upon ratification by the stockholders, the Amended Articles of Incorporation of the Company will be amended to include in the Company's primary purpose (Second Article) the authority to charge for intellectual property rights. Such amendment will effectively give the Company better flexibility and leverage in the conduct of its business and transactions.

The Amended Articles of Incorporation will be further amended to allow the Company to exist in perpetuity (Fourth Article). Such amendment is pursuant to the Revised Corporation Code wherein corporations are now granted perpetual term of existence

ITEM 18. Other Proposed Action

Other than the matters indicated in the Notice and Agenda included in this Information Statement, there are no other actions proposed to be taken at the annual meeting.

ITEM 19. Voting Procedures

At each stockholders' meeting, holders of a majority of SMIC's issued and outstanding voting shares that are present or represented by proxy, shall constitute a quorum for the transaction of

business, except where otherwise provided by law. A majority of votes shall decide any matter submitted to the stockholders at the meeting, except in those cases where the law requires a greater number.

In the election of directors, the stockholders are entitled to cumulate their votes as discussed in Part I. B, Item 4(c) of this Information Statement.

All matters subject to vote, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

SMIC's By-Laws does not prescribe a manner of voting. However, election of directors may be conducted by ballot as requested by voting stockholders.

In the election of directors, the stockholders are entitled to cumulate their votes as discussed in Part B, Item 4(c) of this Information Statement.

SMIC's Corporate Secretary is tasked and authorized to count votes on any matter properly brought to the vote of the stockholders. The external auditor of the Company, SGV & Co. has been appointed to validate the ballots when necessary.

Stockholders holding SMIC common shares as of March 25, 2019 are entitled to vote on the following matters which are also indicated in the Notice and Agenda included in this Information Statement:

1. Approval of the minutes of the previous annual meeting held on April 25, 2018

The stockholders' approval of the minutes of the meeting held on April 26, 2017 will be sought at this year's annual meeting. The following was the agenda of the said meeting.

- Call to order
- Certification of notice and quorum
- Approval of minutes of annual meeting of stockholders held on April 26, 2017
- Annual Report for the Year 2017 (Open Forum)
- Amendment of the Second Article of the Articles of Incorporation
- Ratification of the acts of the Board of Directors and the Management from the date of the last annual stockholders' meeting up to the date of this meeting
- Election of directors for 2017-2018
- Appointment of external auditors
- Other Matters
- Adjournment

Required vote: A majority vote of stockholders present or represented at the meeting.

2. Audited Financial Statements as of December 31, 2018

SMIC's Audited Financial Statements as of December 31, 2018 is attached as Annex "A" to this Information Statement for review of the stockholders. This will enable the stockholders to assess the financial performance of SMIC for the period covered by said financial statements. Stockholders' approval of the financial statement will be sought at this year's annual meeting.

Required vote: A majority vote of stockholders present or represented at the meeting.

3. Approval and ratification of acts of the Board of Directors during their term of office

During their term, the Board approved resolutions and authorized actions in connection with their mandate to direct, manage and supervise the affairs and operations of SMIC. The acts of the Board of Directors, its Committees and management listed in Part D, Item 15, during their term of office, will be presented to the stockholders for approval and ratification. In compliance with the PSE Disclosure Rules, the Securities Regulation Code and its implementing rules, and in keeping with the policy on transparency as embodied in SMIC's Manual on Good Corporate Governance, SMIC regularly and promptly discloses actions taken by its Board and management. While stockholders' approval of such acts is not required under the Corporation Code and regulatory issuances, SMIC believes it to be sound corporate governance to present these to the stockholders for approval and ratification.

Required vote: A majority vote of stockholders present or represented at the meeting.

4. Election of Directors

At the annual meeting, stockholders will be asked to elect the directors for the ensuing year. As stated in Section 3 of Article IV of the Company's By-Laws, "At each meeting of the stockholders for the election of directors, at which a quorum is present, the persons receiving the highest number of votes of the stockholders present in person or by proxy and entitled to vote shall be the directors."

Section 24 of The Corporation Code of the Philippines states that "At all elections of directors or trustees, there must be present, either in person or by representative authorized to act by written proxy, the owners of a majority of the outstanding capital stock... entitled to vote".

Required vote: Candidates receiving the highest number of votes shall be declared elected.

5. Appointment of External Auditor

Pursuant to SMIC's By-laws, Manual on Corporate Governance, and Audit and Risk Management Committee Charter, the Board, upon the recommendation of the Board Audit Committee, shall recommend to the stockholders, appointment of an external auditor to undertake independent audit and provide objective assurance that the Company's financial reports are in compliance with pertinent accounting standards and regulatory requirements.

At the annual meeting, the stockholders will be requested to approve the re-appointment of SGV & Co. as external auditor of SMIC for the ensuing fiscal year.

Required vote: A majority vote of stockholders present or represented at the meeting.

PART III

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Pasay City on FEB 28 2019.

By: **SM INVESTMENTS CORPORATION**

A handwritten signature in black ink, appearing to read 'Elmer B. Serrano', is written over the printed name.

ELMER B. SERRANO
Corporate Secretary

MANAGEMENT REPORT

A.i Audited Consolidated Financial Statements

The Company's audited consolidated financial statements for the year ended December 31, 2017 are incorporated herein by reference.

A.ii Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in and disagreements with accountants on accounting and financial disclosures.

A.iii Management's Discussion and Analysis or Plan of Operation

Calendar Years Ended December 31, 2018 and 2017

Results of Operation (amounts in billion pesos)

Accounts	12 / 31 / 2018	12 / 31 / 2017	% Change
Revenue	P 449.8	P 397.9	13.0%
Cost and Expenses	363.2	322.1	12.8%
Income from Operations	86.6	75.8	14.2%
Other Charges	12.4	10.5	18.2%
Provision for Income Tax	15.6	13.8	13.1%
Net Income After Tax	58.6	51.5	13.7%
Non-controlling Interests	21.5	18.6	15.5%
Net Income Attributable to Owners of the Parent	P 37.1	P 32.9	12.6%

SM Investments Corporation and Subsidiaries (the Group) reported P37.1 billion *Net Income Attributable to Owners of the Parent*, 12.6% higher than 2017, and P449.8 billion *Revenue*, 13.0% higher than 2017.

Income from Operations increased by 14.2% to P86.6 billion from P75.8 billion in 2017. *Operating Margin* and *Net Margin* is at 19.3% and 13.0%, respectively.

Merchandise Sales, which grew by 12.2% to P323.7 billion from P288.5 billion in 2017, accounts for 72.0% of total revenues in 2018. The increase is attributable to the opening of 4 *SM Stores*, 4 *SM Supermarkets*, 15 *Savemore* stores, 6 *SM Hypermarkets*, 7 *WalterMart* stores, 178 *Alfamart* stores, and 121 *Specialty* stores.

The sales contribution of Non-food and Food group is 48:52 in 2018 and 49:51 in 2017.

As of December 31, 2018, *SM Retail* had 2,328 stores nationwide, namely: 63 *SM Stores*, 56 *SM Supermarkets*, 195 *Savemore* stores, 53 *SM Hypermarkets*, 52 *WalterMart* stores, 526 *Alfamart* stores, and 1,383 *Specialty* stores.

Real Estate Sales increased by 21.6% to P36.0 billion from P29.6 billion in 2017 due primarily to higher construction accomplishments of projects launched from 2015 to 2017 namely, *Shore 2*, *Shore 3*, *Coast*, and *S Residences* in Pasay, *Fame Residences* in Mandaluyong, and *Spring Residences* in Parañaque and continued increase in sales take-up of various projects due to strong demand fueled by international buyers, Overseas Filipino Workers' remittances, and

rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 13.0% to P47.6 billion from P42.1 billion in 2017. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2017 and 2018, namely, *SM CDO Downtown Premier*, *SM City Puerto Princesa*, *SM Center Tuguegarao Downtown*, *SM City Urdaneta Central*, *SM City Telabastagan*, *SM City Legazpi*, *SM Center Ormoc*, and *S Maison* at the Conrad Manila. Excluding the new malls and expansions, same-store rental growth is at 8%. Rentals from commercial operations also increased due to the opening of ThreeE-Com Center and SM Southmall South Tower in 2018.

As of December 31, 2018, *SM Prime* has 72 malls in the Philippines with total GFA of 8.3 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 15.2% to P19.2 billion from P16.6 billion in 2017 due mainly to the increase in net income of bank, retail, and property associates.

Management and Service Fees, which is computed based on percentage of sales, increased by 9.6% to P6.4 billion from P5.8 billion in 2017.

Gain on Sale of Financial Assets - net decreased by 98.8% to P1.3 million from P110.2 million in 2017 resulting primarily from the disposal of certain investments in 2017.

Dividend Income decreased by 14.9% to P421.9 million from P495.6 in 2017 million due to lower dividends received from investees in 2018.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 14.0% to P9.3 billion from P8.1 billion in 2017.

Operating Expenses increased by 15.2% to P106.4 billion from P92.3 billion in 2017 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 18.2% to P12.4 billion from P10.5 billion in 2017. *Interest Expense* increased by 6.4% to P16.6 billion from P15.6 billion in 2017 due mainly to new debt availments for working capital and capital expenditure requirements. *Interest Income* decreased by 6.2% to P3.8 billion from P4.0 billion in 2017 due mainly to lower balance of time deposits in 2018. *Gain on Fair Value Changes on Derivatives - net* increased by 53.5% to P454.9 million from P296.3 million in 2017 resulting mainly from the mark-to-market valuation of outstanding forward swap transactions in 2018. *Foreign Exchange Gain (Loss) - net* decreased by 126.1% to a loss of P182.5 million from a gain of P698.7 million in 2017. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP49.93 : USD1.00 in 2017 to PHP52.58 : USD1.00 in 2018.

Provision for Income Tax increased by 13.1% to P15.6 billion from P13.8 billion in 2017 due mainly to increase in taxable income. The effective income tax rate is 21.0% in 2018 and 21.1% in 2017.

Non-controlling interests increased by 15.5% to P21.5 billion from P18.6 billion in 2017 due to the increase in net income of partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2018	12 / 31 / 2017	% Change
Current Assets	P 241.7	P 212.5	13.7%
Noncurrent Assets	818.9	747.6	9.5%
Total Assets	P 1,060.6	P 960.1	10.5%
Current Liabilities	P 212.7	P 175.9	20.9%
Noncurrent Liabilities	355.6	330.4	7.6%
Total Liabilities	568.3	506.3	12.3%
Total Equity	492.3	453.8	8.5%
Total Liabilities and Equity	P 1,060.6	P 960.1	10.5%

Total Assets increased by 10.5% to P1,060.6 billion from P960.1 billion in 2017. Likewise, total *Liabilities* increased by 12.3% to P568.3 billion from P506.3 billion in 2017.

Current Assets

Current Assets increased by 13.7% to P241.7 billion from P212.5 billion in 2017.

Cash and Cash Equivalents increased by 6.7% to P79.3 billion from P74.3 billion in 2017 due mainly to net proceeds from loans partially offset by investments and capital expenditures.

Financial Assets decreased by 52.6% to P0.6 billion from P1.3 billion in 2017 due mainly to maturity of certain investments in bonds in 2018.

Merchandise Inventories increased by 14.6% to P31.8 billion from P27.8 billion in 2017. Bulk of the increase came from the Specialty group.

Other Current Assets increased by 10.8% to P70.3 billion from P63.5 billion in 2017 due mainly to the increase in current portion of Land and development arising from development costs on ongoing projects and higher prepaid taxes and other prepayments and receivable from banks.

Noncurrent Assets

Noncurrent Assets increased by 9.5% to P818.9 billion from P747.6 billion in 2017.

Investments in Associate Companies and Joint Ventures increased by 7.3% to P259.8 billion from P242.1 billion in 2017. The increase mainly represents equity in net earnings of associates in 2018 and investments in new associates, partly offset by dividends received in 2018.

Time Deposits decreased by 91.0% to P2.4 billion from P26.7 billion in 2017 due mainly to reclassification of maturing time deposits to current. On the other hand, the current portion of *Time Deposits* increased by 95.2% to P25.8 billion from P13.2 billion in 2017 due mainly to reclassification from non-current and new investments in time deposits coming from proceeds from matured investments in bonds, partly offset by matured time deposits that were used to pay off loans.

Property and Equipment increased by 8.7% to P23.2 billion from P21.3 billion due mainly to new stores in 2018.

Investment Properties increased by 7.0% to P309.3 billion from P289.0 billion in 2017 due mainly to ongoing new mall projects, ongoing commercial building construction, including the FourE-Com Center and the ongoing redevelopment of *SM Mall of Asia* and other existing malls. The increase is also attributable to landbanking and construction costs incurred for ongoing projects.

Land and Development increased by 34.2% to P53.9 billion from P40.2 billion in 2017 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets increased by 54.8% to P115.4 billion from P74.6 billion in 2017. The increase mainly represents higher receivable from real estate buyers and bonds and deposits.

Current Liabilities

Current Liabilities increased by 20.9% to P212.7 billion from P175.9 billion in 2017.

Bank Loans decreased by 21.9% to P18.9 billion from P24.2 billion in 2017 due to net payments during the period, partly offset by new loan availments.

Accounts Payable and Other Current Liabilities increased by 17.1% to P124.8 billion from P106.6 billion in 2017 mainly from higher business volume.

Income Tax Payable increased by 93.3% to P3.6 billion from P1.9 billion in 2017 due mainly to higher income tax due.

Current Portion of Long-term Debt increased by 52.6% to P61.5 billion from P40.3 billion in 2017 due mainly to reclassification of maturing loans.

Dividends Payable increased by 32.9% to P3.9 billion from P2.9 billion in 2017. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities increased by 7.6% to P355.6 billion from P330.4 billion in 2017.

Long-term Debt - Net of Current Portion increased by 4.4% to P305.6 billion from P292.6 billion in 2017 due mainly to new debt availments, partly offset by payments.

Tenants' Deposits and Others increased by 38.4% to P41.3 billion from P29.8 billion in 2017 due mainly to new malls and office buildings and increase in customers' deposits from residential buyers.

Equity

Total *Equity* increased by 8.5 % to P492.3 billion from P453.8 billion in 2017.

Equity Attributable to Owners of the Parent increased by 7.7% to P353.4 billion from P328.1 billion in 2017. This increase resulted mainly from the (a) P30.1 billion net increase in Retained Earnings due to the P37.1 billion *Net Income Attributable to Owners of the Parent*, P2.9 billion effect from the adoption of PFRS 9 - *Financial Instruments*, less P9.9 dividend declaration during the year. (b) *Cumulative Translation Adjustment (CTA)* which increased by 48.1% to P2.1 billion from P1.4 billion in 2017. This is related mainly to the translation of the

financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso and includes the group's share in the CTA of associates. These were partially offset by (a) *Net Unrealized Gain on Financial Assets at Fair Value* which decreased by 23.3% to P11.7 billion from P15.3 billion in 2017 due mainly to the depreciation in market value of certain investments of the Group. (b) *Re-measurement loss on defined benefit asset/obligation* which increased by 194.2% to P2.1 billion from P0.7 billion as a result of the valuation of the Group's retirement plan.

Non-controlling Interests increased by 10.5% to P138.9 billion from P125.7 billion in 2017 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

The Company has no known direct or contingent financial obligation that is material to the Company operations, including any default or acceleration of an obligation. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year and as of the balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the company's continuing operations.

Key Performance Indicators

The key financial ratios of the Group follow:

Accounts	12 / 31/ 2018	12 / 31/ 2017
Current Ratio	1.1	1.2
Asset to Equity	2.2	2.1
Debt - equity Ratios:		
On Gross Basis	52 : 48	52 : 48
On Net Basis	44 : 56	43 : 57
Revenue Growth	13.0%	9.0%
Net Margin	13.0%	12.9%
Net Income Growth	12.6%	5.5%
Return on Equity	10.9%	10.4%
EBITDA (<i>In Billions of Pesos</i>)	101.8B	89.9B
Interest Cover	6.1x	5.8x

Current Ratio decreased to 1.1 from 1.2 in 2017 due mainly to the higher increase in *Current Liabilities* of 20.9% compared to only 13.7% of *Current Assets*.

Asset to equity ratio increased to 2.2 from 2.1 in 2017 due mainly to the higher increase in *Total Assets* of 10.5% compared to only 8.5% of *Total Equity*.

Gross debt-equity ratio remained at 52:48 in 2018 and 2017 but Net debt-equity ratio slid to 44:56 from 43:57 in 2017 due to mainly to higher increase in net debt of 14.9% from P243.7 billion to P280.1 billion in 2018.

Revenue growth increased to 13.0% from 9.0% in 2017 and Net income growth increased to 12.6% from 5.5% in 2017 due mainly to higher growth in *Sales* and of *Equity in Net Earnings of Associate Companies and Joint Ventures*.

Return on equity increased to 10.9% from 10.4% in 2017 due mainly to the higher net income growth in 2018.

EBITDA increased by 13.2% to P101.8 billion from P89.9 billion in 2017 due mainly to the 14.2% increase in income from operations.

Interest Cover increased to 6.1x from 5.8x in 2017 due to the 13.2% increase in EBITDA with only 6.4% increase in *Interest Expense*.

The manner by which the Company calculates the foregoing indicators is as follows:

1. Current Ratio $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
2. Asset to Equity Ratio $\frac{\text{Total Assets}}{\text{Total Equity}}$
3. Debt – Equity Ratio
 - a. Gross Basis $\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity Attributable to Owners of the Parent} + \text{Total Interest Bearing Debt}}$
 - b. Net Basis $\frac{\text{Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investment in bonds}}{\text{Total Equity Attributable to Owners of the Parent} + \text{Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds}}$
4. Revenue Growth $\frac{\text{Total Revenues (Current Period)} - 1}{\text{Total Revenues (Prior Period)}}$
5. Net Margin $\frac{\text{Net Income After Tax}}{\text{Total Revenues}}$
6. Net Income Growth $\frac{\text{Net Income Attributable to Owners of the Parent (Current Period)} - 1}{\text{Net Income Attributable to Owners of the Parent (Prior Period)}}$
7. Return on Equity $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$
8. EBITDA $\text{Income from Operations} + \text{Depreciation \& Amortization}$
9. Interest Cover $\frac{\text{EBITDA}}{\text{Interest Expense}}$

Expansion Plans / Prospects for the Future

Property Group

In 2019, SM Prime is slated to open four new malls in the Philippines. By the end of 2019, there will be 83 malls, 76 in the Philippines and 7 in China with an estimated combined gross floor area of almost 10.0 million square meters.

In the residential segment, 15,000 to 18,000 residential condominium units that include high-rise, mid-rise and single-detached housing and lot projects will be launched. These new projects will be located in Metro Manila and other key cities in the provinces.

In the commercial segment, SM Prime is set to launch the campus-office building named NU Tower and the FourE-Com Center which are both located in the Mall of Asia Complex in Pasay City in 2019 and 2020, respectively.

In the hotels and convention centers segment, Park Inn by Radisson – Iloilo and Park Inn by Radisson – North Edsa will be launched in 2019.

SM Prime's land banking initiatives will continue in 2019.

Retail Group

In 2019, the Retail Group plans to open 4 *SM Stores*, 3 *SM Supermarkets*, 14 *Savemore* stores, 1 *SM Hypermarkets* and 98 Specialty stores.

The above expenditures will be funded through internally generated sources and other capital raising initiatives such as bond issuances and loan availments.

Calendar Years Ended December 31, 2017 and 2016

Results of Operation (amounts in billion pesos)

Accounts	12 / 31 / 2017	12 / 31 / 2016	% Change
Revenue	P 396.1	P 363.4	9.0%
Cost and Expenses	320.9	296.2	8.3%
Income from Operations	75.2	67.2	12.0%
Other Charges	9.9	7.8	26.2%
Provision for Income Tax	13.8	11.6	19.2%
Net Income After Tax	51.5	47.8	7.9%
Non-controlling Interests	18.6	16.6	12.3%
Net Income Attributable to Owners of the Parent	P 32.9	P 31.2	5.5%

SM Investments Corporation and Subsidiaries (the Group) reported P32.9 billion *Net Income Attributable to Owners of the Parent*, 5.5% higher than 2016, and P396.1 billion *Revenues*, 9.0% higher than 2016.

Income from Operations increased by 12.0% to P75.2 billion from P67.2 billion in 2016. *Operating Margin* and *Net Margin* is at 19.0% and 13.0%, respectively.

Merchandise Sales, which grew by 7.2% to P288.5 billion from P269.3 billion in 2016, accounts for 72.8% of total revenues in 2017. The increase is attributable to the opening of 2 *SM Stores*, 4 *SM Supermarkets*, 28 *Savemore* stores, 3 *SM Hypermarkets*, 7 *WalterMart* stores, and 159 Specialty stores.

The *Non-Food* and *Food Group* comprised 49% and 51%, respectively, of merchandise sales in 2017 and 2016, respectively.

As of December 31, 2017, *SM Retail* had 1,684 stores nationwide, namely: 59 *SM Stores*, 52 *SM Supermarkets*, 181 *Savemore* stores, 47 *SM Hypermarkets*, 46 *WalterMart* stores and 1,299 Specialty stores.

Real Estate Sales increased by 17.6% to P29.6 billion from P25.1 billion in 2016 due primarily to higher construction accomplishments of projects launched from 2013 to 2016 namely, *Shore, Shore 2 and S Residences* in Pasay City, *Air Residences* in Makati, *Fame Residences* in Mandaluyong and *Silk Residences* in China and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects due to strong demand fueled by OFW remittances, sustained growth of the BPO sector, government spending and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 12.9% to P42.4 billion from P37.5 billion in 2016. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2016 and 2017, namely, *SM City San Jose Del Monte*, *SM City Trece Martires*, *SM City East Ortigas*, *SM CDO Downtown Premier*, *SM City Puerto Princesa*, *SM Center Tuguegarao Downtown* and *S Maison* at the Conrad Manila as well as the expansion of shopping spaces in *SM City San Pablo*, *SM City Sucat* and *SM Center Molino*. Excluding the new malls and expansions, same-store rental growth is at 7%. Rentals from hotels and convention centers also contributed to the increase due to the opening of Conrad Manila in June 2016 and the improvement in average room and occupancy rates of the hotels and convention centers.

As of December 31, 2017, *SM Prime* has 67 malls in the Philippines with total GFA of 8.0 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 11.1% to P16.6 billion from P15.0 billion in 2016 due mainly to the increase in net income of bank and property associates.

Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading (HFT) - net increased by 1591.5% to a gain of P110.2 million from P6.5 million in 2016 resulting primarily from the disposal of a portion of AFS investments in 2017.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 17.7% to P7.9 billion in 2017 from P6.8 billion in 2016.

Operating Expenses increased by 13.2% to P92.9 billion from P82.1 billion in 2016 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 26.2% to P9.9 billion from P7.8 billion in 2016. *Interest Expense* increased by 24.6 % to P15.0 billion from P12.0 billion in 2016 due mainly to new debt availments for working capital and capital expenditure requirements net of capitalized interest. *Interest Income* increased by 7.5% to P4.0 billion from P3.7 billion in 2016 due to higher average daily balance of temporary investments in 2017. *Gain on Disposal of Investments and Properties - net* decreased by 95.9% to P22.7 million from P559.0 million in 2016 due mainly to the sale of a certain investment property in 2016. *Gain (Loss) on Fair Value Changes on Derivatives - net* increased by 1845.5% to a gain of P296.3 million from P15.2 million in 2016 due mainly to certain non-deliverable forward transactions in 2017. *Foreign Exchange Gain (Loss) - net* increased by 510.7% to a gain of P698.7 million from a loss of P170.1 million in 2016. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP49.72 : USD1.00 in 2016 to PHP49.93 : USD1.00 in 2017.

Provision for Income Tax increased by 19.2% to P13.8 billion from P11.6 billion in 2016 due mainly to increase in taxable income. The effective income tax rate is 21.1% in 2017 and 19.5% in 2016.

Non-controlling interests increased by 12.3% to P18.6 billion from P16.6 billion in 2016 due to the increase in net income of certain partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2017	12 / 31 / 2016	% Change
Current Assets	P 212.5	P 219.1	-3.0%
Noncurrent Assets	747.6	642.4	16.4%
Total Assets	P 960.1	P 861.5	11.4%
Current Liabilities	P 175.9	P 134.8	30.4%
Noncurrent Liabilities	330.4	311.9	5.9%
Total Liabilities	506.3	446.7	13.3%
Total Equity	453.8	414.8	9.4%
Total Liabilities and Equity	P 960.1	P 861.5	11.4%

Total Assets increased by 11.4% to P960.1 billion from P861.5 billion in 2016. Likewise, total Liabilities increased by 13.3% to P506.3 billion from P446.7 billion in 2016.

Current Assets

Current Assets decreased by 3.0% to P212.5 billion from P219.1 billion in 2016.

Cash and Cash Equivalents decreased by 0.8% to P74.3 billion from P74.9 billion in 2016 due mainly to new investments in associate companies partly offset by remaining proceeds from debt drawn by SM Prime in 2017.

Investments Held for Trading and Sale decreased by 61.0% to P1.3 billion from P3.5 billion in 2016 due mainly to maturity of investments held for trading.

Merchandise Inventories increased by 7.6% to P27.8 billion from P25.8 billion in 2016. Bulk of the increase came from the Non Food Group.

Other Current Assets increased by 7.5% to P63.5 billion from P59.0 billion in 2016 due mainly to the increase in current portion of Land and development arising from land acquisitions and development costs, higher prepaid taxes and other prepayments, and current derivative assets in 2017.

Noncurrent Assets

Noncurrent Assets increased by 16.4% to P747.6 billion from P642.4 billion in 2016.

AFS Investments increased by 37.0% to P25.6 billion from P18.7 billion in 2016 due mainly to new investments and increase in the market value of certain AFS investments.

Investments in Associate Companies and Joint Ventures increased by 33.6% to P242.1 billion from P181.2 billion in 2016. The increase mainly represents equity in net earnings of associates in 2017, investments in new associates, additional investments in bank associates partly offset by dividends received from associate companies.

Time Deposits decreased by 36.5% to P26.7 billion from P42.0 billion in 2016 due mainly to reclassification and maturing time deposits. On the other hand, the current portion of Time Deposits decreased by 45.9% to P13.2 billion from P24.5 billion in 2016 due mainly to settlement of certain long-term debts and new investments in associate companies.

Investment Properties increased by 7.0% to P289.0 billion from P270.1 billion in 2016 due mainly to ongoing new mall projects located in Pangasinan, Pampanga, Zambales and Albay in the Philippines; expansions and renovations of *SM Mall of Asia*; costs incurred for landbanking; and ongoing projects of the commercial group namely *Three E-Com Center* and *Four E-Com Center*.

Land and Development increased by 68.6% to P40.2 billion from P23.8 billion in 2016 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets increased by 30.2% to P74.6 billion from P57.3 billion in 2016. The increase mainly represents higher receivable from real estate buyers and deposits and advance rentals.

Current Liabilities

Current Liabilities increased by 30.4% to P175.9 billion from P134.8 billion in 2016.

Bank Loans increased by 72.8% to P24.2 billion from P14.0 billion in 2016 resulting from new loan availments, net of payments during the period.

Current Portion of Long-term Debt increased by 57.4% to P40.3 billion from P25.6 billion in 2016 due mainly to reclassification of maturing loans.

Accounts Payable and Other Current Liabilities increased by 19.4% to P106.6 billion from P89.3 billion in 2016 mainly from higher business volume.

Dividends Payable decreased by 11.0% to P2.9 billion from P3.3 billion in 2016. This represents dividends due to minority stockholders of certain subsidiaries.

Income Tax Payable decreased by 29.8% to P1.9 billion in 2017 from P2.7 billion in 2016 due mainly to net tax payments.

Noncurrent Liabilities

Noncurrent Liabilities increased by 5.9% to P330.4 billion from P311.9 billion in 2016.

Long-term Debt - Net of Current Portion increased by 4.4% to P292.6 billion from P280.3 billion in 2016 due mainly to new debt availments.

Tenants' Deposits and Others increased by 25.7% to P29.8 billion from P23.7 billion in 2016 due mainly to new malls and expansions.

Equity

Total *Equity* increased by 9.4% to P453.8 billion from P414.8 billion in 2016.

Equity Attributable to Owners of the Parent increased by 9.2% to P328.1 billion from P300.5 billion in 2016. This increase resulted mainly from (a) *Cumulative Translation Adjustment* which increased by 15.3% to P1.4 billion from P1.2 billion in 2016. This is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso. (b) *Net Unrealized Gain on AFS Investments* which increased by 42.1% to P15.3 billion from P10.8 billion in 2016 due mainly to the appreciation in market value of certain AFS investments of the Group. These were partially offset by (c) *Re-measurement gain on defined benefit asset/obligation* which decreased by P0.8 billion as a result of the valuation of the Group's retirement plan.

Non-controlling Interests increased by 10.0% to P125.7 billion from P114.3 billion in 2016 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

The Company has no known direct or contingent financial obligation that is material to the Company operations, including any default or acceleration of an obligation. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year and as of the balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the company's continuing operations.

Key Performance Indicators

The following are the key financial ratios of the Group for the years ended December 31, 2017 and 2016:

Accounts	12 / 31/ 2017	12 / 31/ 2016
Current Ratio	1.2	1.6
Asset to Equity	2.1	2.1
Debt - equity Ratios:		
On Gross Basis	52 : 48	52 : 48
On Net Basis	43 : 57	37 : 63
Revenue Growth	9.0%	8.9%
Net Margin	13.0%	13.1%
Net Income Growth	5.5%	8.1%
Return on Equity	10.4%	10.7%
EBITDA (<i>In Billions of Pesos</i>)	89.3B	80.1B
Interest Cover	6.0x	6.7x

Current Ratio decreased to 1.2 from 1.6 in 2016 due mainly to the 3.0% decrease in *Current Assets* coupled with a 30.4% increase in *Current Liabilities*.

Asset to equity ratio remained at 2.1 in both periods.

Gross debt-equity ratio remained at 52:48 in 2017 and 2016 but Net debt-equity ratio slid to 43:57 from 37:63 in 2016 due to mainly to higher increase in net debt of 39.4% from P174.8 billion to P243.7 billion in 2017.

Revenue growth slightly increased to 9.0% from 8.9% in 2016 but Net income growth decreased to 5.5% from 8.1% in 2016 due mainly to higher growth of Interest Expense in 2017 compared to 2016.

Return on equity decreased to 10.4% from 10.7% in 2016 due mainly to the higher increase of average equity of 8.1%.

EBITDA increased by 11.5% to P89.3 billion from P80.1 billion in 2016 due mainly to the 12.0% increase in income from operations.

Interest Cover slightly decreased to 6.0x from 6.7x in 2016 due to the 24.6% increase in interest expense.

The manner by which the Company calculates the foregoing indicators is as follows:

1. Current Ratio $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
2. Asset to Equity Ratio $\frac{\text{Total Assets}}{\text{Total Equity}}$
3. Debt – Equity Ratio
 - a. Gross Basis $\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity Attributable to Owners of the Parent} + \text{Total Interest Bearing Debt}}$
 - b. Net Basis $\frac{\text{Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investment in bonds held for trading and available for sale}}{\text{Total Equity Attributable to Owners of the Parent} + \text{Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available for sale}}$
4. Revenue Growth $\frac{\text{Total Revenues (Current Period)} - 1}{\text{Total Revenues (Prior Period)}}$
5. Net Margin $\frac{\text{Net Income After Tax}}{\text{Total Revenues}}$
6. Net Income Growth $\frac{\text{Net Income Attributable to Owners of the Parent (Current Period)} - 1}{\text{Net Income Attributable to Owners of the Parent (Prior Period)}}$
7. Return on Equity $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$
8. EBITDA $\text{Income from Operations} + \text{Depreciation \& Amortization}$
9. Interest Cover $\frac{\text{EBITDA}}{\text{Interest Expense}}$

Expansion Plans / Prospects for the Future

Property Group

In 2018, SM Prime will be opening 6 new malls in the Philippines. By the end of 2018, there will be 80 malls, 73 in the Philippines and 7 in China with an estimated combined gross floor area of 9.7 million square meters.

In the residential segment, 12,000 to 15,000 residential condominium units that include high-rise, mid-rise and single-detached housing will be launched. These new units will be located in Metro Manila and other key cities in the provinces.

In the commercial segment, the construction of Three E-Com Center and Four E-Com Center in the Mall of Asia Complex will continue with completion scheduled in 2018 and 2020, respectively.

SM Prime's land banking initiatives will continue in 2018.

Retail Group

In 2018, the Retail Group plans to open 4 *SM Stores*, 4 *SM Supermarkets*, 18 *Savemore* stores, 2 *SM Hypermarkets* and 76 specialty stores.

The above expenditures will be funded through internally generated sources and other capital raising initiatives such as bond issuances and loan availments.

Calendar Years Ended December 31, 2016 and 2015

Results of Operation

(amounts in billion pesos)

Accounts	12 / 31 / 2016	12 / 31 / 2015	% Change
Revenue	P 363.4	P 333.6	8.9%
Cost and Expenses	296.2	272.0	8.9%
Income from Operations	67.2	61.6	9.2%
Other Charges	7.8	7.2	10.1%
Provision for Income Tax	11.6	10.7	7.9%
Net Income After Tax	47.8	43.7	9.4%
Non-controlling Interests	16.6	14.8	11.9%
Net Income Attributable to Owners of the Parent	P 31.2	P 28.9	8.1%

SM Investments Corporation and Subsidiaries (the Group) reported P31.2 billion *Net Income Attributable to Owners of the Parent*, 8.1% higher than 2015, and P363.4 billion *Revenues*, 8.9% higher than 2015.

Income from Operations increased by 9.2% to P67.2 billion from P61.6 billion in 2015. *Operating Margin* and *Net Margin* is at 18.5% and 13.1%, respectively.

Merchandise Sales, which grew by 8.5% to P269.3 billion from P248.1 billion in 2015, accounts for 74.1% of total revenues in 2016. The increase is attributable to the opening of 4 *SM Stores*, 3 *SM Supermarkets*, 1 *SM Hypermarket*, 22 *Savemore* stores, and 153 *Specialty* stores in 2016.

The *Non-Food* and *Food Group* comprised 49% and 51%, respectively, of merchandise sales in 2016 and 2015.

As of December 31, 2016, *SM Retail* had 1,900 stores nationwide, namely: 57 *SM Stores*, 48 *SM Supermarkets*, 156 *Savemore* stores, 44 *SM Hypermarkets*, 39 *WalterMart* stores and 1,556 *Specialty* stores.

Real Estate Sales increased by 11.5% to P25.1 billion from P22.5 billion in 2015 due primarily to higher construction accomplishments of projects launched from 2013 to 2015 namely, *Shore 2 Residences* in Pasay City, *Grass Residences* in Quezon City, *Air Residences* in Makati and *South Residences* in Las Piñas and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects namely *Princeton Residences*, *M Place Residences* and *Mezza II Residences* in Quezon City and *Jazz Residences* in Makati City due to sales promotions. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Real Estate Gross Margin improved to 47.5% from 45.7% in 2015. This is attributable to efficient management and tighter monitoring and control of construction costs.

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 12.2% to P37.5 billion from P33.5 billion in 2015. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2015 and 2016, namely, *SM Seaside City Cebu*, *SM City Cabanatuan*, *SM City San Mateo*, *SM San Jose Del Monte*, *SM Trece Martires* and *S Maison* in SM Mall of Asia as well as the expansion of shopping spaces in *SM Center Sangandaan*, *SM City Iloilo* and *SM Center Molino*. In addition, retail podiums of *Light, Shine, Shell and Green Residences* opened in 2015 and 2016. Excluding the new malls and expansions, same-store rental growth is at 7%. Rentals from commercial operations also increased due to the opening of *Five E-com Center* as well as the expansion of *SM Clark* office tower in 2015. Rentals from hotels and convention centers also contributed to the increase due to improvement in average room and occupancy rates and the opening of *Park Inn Clark* in December 2015 and *Conrad Manila* in June 2016.

As of December 31, 2016, *SM Prime* had 60 malls in the Philippines with total GFA of 7.7 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Cinema Ticket Sales, Amusement and Others increased by 1.6% to P6.5 billion from P6.4 billion in 2015.

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 4.7% to P15.0 billion from P14.3 billion in 2015.

Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading (HFT)-net increased by 220.3% to gain of P6.5 million in 2016 from loss of P5.4 million in 2015 due primarily to the gain on sale of AFS investments and favorable changes in the fair value of HFT investments in 2016.

Dividend Income decreased by 38.9% to P0.2 billion in 2016 from P0.3 billion in 2015.

Other Revenues, which comprise mainly of income for promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income

and sponsorship revenues, food and beverage income of the Hotel Group increased by 22.5% to P6.8 billion in 2016 from P5.5 billion in 2015.

Operating Expenses increased by 10.4% to P82.1 billion from P74.4 billion in 2015 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 10.1% to P7.8 billion from P7.2 billion in 2015. *Interest Expense* increased by 14.8% to P12.0 billion from P10.5 billion in 2015 due mainly to new availments for working capital and capital expenditure requirements net of capitalized interest. *Interest Income* increased by 15.9% to P3.7 billion from P3.2 billion in 2015 due to higher average balance of temporary investments. *Gain (Loss) on Disposal of Investments and Properties - net* increased to a gain of P0.6 billion from a loss of P0.1 billion in 2015. *Gain (Loss) on Fair Value Changes on Derivatives - net* increased by 114.6% to a gain of P15.2 million from a loss of P104.0 million in 2015 which pertains to the US\$250.0 million convertible bonds of SMIC that was settled in April 2015. *Foreign Exchange Gain - net* decreased by 170.7% to a loss of P170.1 million from a gain of P240.8 million in 2015. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP47.06 : USD1.00 in 2015 to PHP49.72 : USD1.00 in 2016.

Provision for Income Tax increased by 7.9% to P11.6 billion from P10.7 billion in 2015 due mainly to increase in taxable income. The effective income tax rate is 19.5% in 2016 and 19.7% in 2015.

Non-controlling interests increased by 11.9% to P16.6 billion in 2016 from P14.8 billion in 2015 due to the increase in net income of certain partly-owned subsidiaries.

Financial Position (amounts in billion pesos)

Accounts	12 / 31 / 2016	12 / 31 / 2015	% Change
Current Assets	P 219.1	P 174.2	25.8%
Noncurrent Assets	642.4	611.3	5.1%
Total Assets	P 861.5	P 785.5	9.7%
Current Liabilities	P 134.8	P 126.8	6.3%
Noncurrent Liabilities	311.9	274.7	13.5%
Total Liabilities	446.7	401.5	11.3%
Total Equity	414.8	384.0	8.0%
Total Liabilities and Equity	P 861.5	P 785.5	9.7%

Total Assets increased by 9.7% to P861.5 billion from P785.5 billion in 2015. Likewise, total Liabilities increased by 11.3% to P446.7 billion from P401.5 billion in 2015.

Current Assets

Current Assets increased by 25.8% to P219.1 billion from P174.2 billion in 2015.

Cash and Cash Equivalents increased by 28.6% to P74.9 billion from P58.3 billion in 2015 due mainly to proceeds from issuance of retail bonds by SM Prime and SMIC.

Time Deposits increased by 154.6% to P24.5 billion from P9.6 billion in 2015 due mainly to reclassification of maturing deposits from noncurrent to current.

Investments Held for Trading and Sale increased by 214.0% to P3.5 billion from P1.1 billion in 2015 due mainly to reclassification of maturing available-for-sale (AFS) investments from noncurrent to current, partially offset by maturity of certain investment in bonds.

Merchandise Inventories increased by 19.6% to P25.8 billion from P21.6 billion in 2015. Bulk of the increase came from the Food Group.

Other Current Assets increased by 13.5% to P59.0 billion from P52.0 billion in 2015 due mainly to the increase in current portion of Land and development arising from land acquisitions and development costs partially offset by cost of real estate sold.

Noncurrent Assets

Noncurrent Assets increased by 5.1% to P642.4 billion from P611.3 billion in 2015.

AFS Investments decreased by 11.8% to P18.7 billion from P21.2 billion in 2015 due mainly to the reclassification of maturing bonds to current and the decrease in the market value of certain AFS investments.

Investments in Associate Companies and Joint Ventures increased by 6.2% to P181.2 billion from P170.6 billion in 2015. The increase mainly represents equity in net earnings of associates in 2016 partially offset by dividends received from these associate companies.

Time Deposits decreased by 20.9% to P42.0 billion from P53.1 billion in 2015 due mainly to the reclassification of maturing time deposits to current.

Investment Properties increased by 8.2% to P270.1 billion from P249.6 billion in 2015 due mainly to ongoing new mall projects located in Cagayan de Oro, Puerto Princesa, Olongapo and Tuguegarao in the Philippines; expansions and renovations of *SM Mall of Asia*, *SM City Sucat* and *SM Xiamen*; and ongoing projects of the commercial and hotel groups namely *Three E-Com Center*, *Four E-Com Center* and *Conrad Manila*.

Land and Development decreased by 13.0% to P23.8 billion from P27.4 billion in 2015 due mainly to reclassification of launched projects to current.

Intangibles decreased by 0.5% to P25.7 billion from P25.8 billion in 2015 resulting from the amortization of Trademarks acquired in 2015.

Other Noncurrent Assets increased by 41.9% to P57.3 billion from P40.4 billion in 2015. The increase mainly represents additional loans to an associate company, new derivative assets to hedge the Group's foreign exchange and interest rate risk, additional bonds and deposits for real estate acquisitions, and construction accomplishments of sold units as well as new sales for the period.

Current Liabilities

Current Liabilities increased by 6.3% to P134.8 billion from P126.8 billion in 2015.

Bank Loans increased by 33.3% to P14.0 billion from P10.5 billion in 2015 resulting from new availments net of payments during the period.

Current Portion of Long-term Debt decreased by 1.5% to P25.6 billion from P26.0 billion in 2015 due mainly to payments of maturing loans.

Accounts Payable and Other Current Liabilities increased by 4.7% to P89.3 billion from P85.3 billion in 2015 mainly from higher business volume.

Dividends Payable increased by 28.4% to P3.3 billion from P2.6 billion in 2015. This represents dividends due to minority stockholders of certain subsidiaries.

Income Tax Payable increased by 8.9% to P2.7 billion in 2016 from P2.5 billion in 2015 due mainly to higher taxable income in 2016.

Noncurrent Liabilities

Noncurrent Liabilities increased by 13.5% to P311.9 billion from P274.7 billion in 2015.

Long-term Debt - Net of Current Portion increased by 14.3% to P280.3 billion from P245.2 billion in 2015 due mainly to new availments.

Tenants' Deposits and Others increased by 13.1% to P23.7 billion from P21.0 billion in 2015. The increase is attributable to new malls and expansions as well as increase in customers' deposits from residential buyers.

Deferred Tax Liabilities, which arose mainly from appraisal increment on investment property, trademarks and brand names, capitalized interest and unrealized gross profit on sale of real estate, decreased by 7.8% to P7.9 billion from P8.6 billion in 2015.

Equity

Total *Equity* increased by 8.0% to P414.8 billion from P384.0 billion in 2015.

Equity Attributable to Owners of the Parent increased by 7.3% to P300.5 billion from P280.0 billion in 2015. This increase resulted mainly from (a) *Capital Stock* which increased by 50% to P12.0 billion from P8.0 billion as a result of the declaration of 50% stock dividends in 2016, (b) *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso which increased by 15.0% to P1.2 billion from P1.1 billion in 2015. These were partially offset by (c) *Net Unrealized Gain on AFS Investments* which decreased by 15.3% to P10.8 billion from P12.7 billion in 2015 due mainly to the depreciation in market value of AFS investments of subsidiaries and associates, (d) *Equity adjustment from common control transactions* which increased by 1.6% to P5.4 billion from P5.3 billion in relation to the Retail merger, and (e) *Re-measurement gain on defined benefit asset/obligation* which decreased by P0.2 billion as a result of valuation of the Group's retirement plan.

Non-controlling Interests increased by 9.9% to P114.3 billion from P104.0 billion in 2015 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

The Company has no known direct or contingent financial obligation that is material to the Company operations, including any default or acceleration of an obligation. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year and as of the balance sheet date.

There are no known trends, events, material changes, seasonal aspects or uncertainties that are expected to affect the company's continuing operations.

Key Performance Indicators

The following are the key financial ratios of the Group for the years ended December 31, 2016 and 2015:

Accounts	12 / 31/ 2016	12 / 31/ 2015
Current Ratio	1.6	1.4
Asset to Equity	2.1	2.0
Debt-equity Ratios:		
On Gross Basis	52 : 48	50 : 50
On Net Basis	37 : 63	36 : 64
Revenue Growth	8.9%	7.4%
Net Margin	13.1%	13.1%
Net Income Growth	8.1%	1.7%
Return on Equity	10.7%	10.8%
EBITDA (<i>In Billions of Pesos</i>)	80.1B	P73.4B
Interest Cover	6.7x	7.0x

Current Ratio increased to 1.6 from 1.4 in 2015 due mainly to 25.8% increase in *Current Assets* with only 6.3% increase in *Current Liabilities*.

Asset to equity ratio slightly increased to 2.1 from 2.0 in 2015.

Gross debt-equity ratio slid to 52:48 in 2016 from 50:50 in 2015 due to higher increase in gross debts of 13.6% compared to increase in *Equity Attributable to Owners of the Parent* of only 7.3%.

Net debt-equity ratio slid to 37:63 from 36:64 in 2015 due to higher increase in net debts of 11.5% from P156.7 billion to P174.8 billion in 2016.

Revenue growth increased to 8.9% from 7.4% in 2015 due mainly to higher growth of *Merchandise* and *Real Estate Sales* and *Rent Income*.

Net income growth increased to 8.1% from 1.7% in 2015 due mainly to the one-time gain on sale of investment in 2014.

Return on equity slightly decreased to 10.7% from 10.8% in 2015.

EBITDA increased by 9.2% to P80.1 billion from P73.4 billion in 2015 due mainly to the 9.2% increase in income from operations.

Interest Cover slightly decreased to 6.7x from 7.0x in 2015 due to 14.8% increase in interest expense.

The manner by which the Company calculates the foregoing indicators is as follows:

1. Current Ratio $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
2. Asset to Equity Ratio $\frac{\text{Total Assets}}{\text{Total Equity}}$
3. Debt – Equity Ratio
 - a. Gross Basis $\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity Attributable to Owners of the Parent} + \text{Total Interest Bearing Debt}}$
 - b. Net Basis $\frac{\text{Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investment in bonds held for trading and available for sale}}{\text{Total Equity Attributable to Owners of the Parent} + \text{Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available for sale}}$
4. Revenue Growth $\frac{\text{Total Revenues (Current Period)} - 1}{\text{Total Revenues (Prior Period)}}$
5. Net Margin $\frac{\text{Net Income After Tax}}{\text{Total Revenues}}$
6. Net Income Growth $\frac{\text{Net Income Attributable to Owners of the Parent (Current Period)} - 1}{\text{Net Income Attributable to Owners of the Parent (Prior Period)}}$
7. Return on Equity $\frac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$
8. EBITDA $\text{Income from Operations} + \text{Depreciation \& Amortization}$
9. Interest Cover $\frac{\text{EBITDA}}{\text{Interest Expense}}$

Expansion Plans / Prospects for the Future

Malls

In 2017, SM Prime will be opening at least 4 new malls in the Philippines. By yearend, SM Prime will have a total of 71 malls, 64 in the Philippines and 7 in China with an estimated combined gross floor area of 9.3 million square meters.

Residential

In 2017, SM Prime plans to launch about 15,000 to 18,000 residential condominium units in the cities of Parañaque, Makati, Pasay, Quezon City in Metro Manila and in the provinces of Cainta, Cavite, Pampanga, Bacolod, Iloilo, Davao, Laguna, Bulacan and Tagaytay. These are a combination of new projects and expansion of existing projects.

Commercial

SM Prime is currently constructing Three E-Com Center and Four E-Com Center in the Mall of Asia Complex. These are scheduled for completion in 2018 and 2020, respectively.

Hotels and Convention Centers

SM Prime currently has a portfolio of six hotels with 1,510 saleable rooms, including Conrad Manila in the Mall of Asia Complex in Pasay City which opened in June 2016, four convention centers and three trade halls with 37,481 square meters of leasable space.

The Property Group's land banking initiatives will continue in 2017.

The Retail Group will be opening 2 *SM Stores*, 2 *SM Supermarkets*, 3 *SM Hypermarkets*, 15 *Savemore* stores, and 109 specialty stores.

The above expenditures will be funded through internally generated sources and other capital raising initiatives such as bond issuances and loan availments.

A.iv Brief Description of the General Nature and Scope of the Company's Business, Its Subsidiaries and Associates

Business Development

SM Investments Corporation ("SMIC") is the holding company of the SM Group with interests in Retail, Property and Banking. Its Retail arm, SM Retail Inc., operates department stores under the SM Store brand, and several food retail formats including Supermarkets, Hypermarkets and Savemore Stores. It also operates specialty stores focused on DIY, furniture, appliances and toys among others. Its Property arm, SM Prime Holdings Inc., is engaged in building and operating shopping malls both in the Philippines and China. It is also engaged in Residential property development under its SM Development Corporation subsidiary, commercial property development, as well as various hotels and convention centers. The Banking Group is comprised of BDO Unibank, Inc., the country's largest bank by resources, and China Banking Corporation. SMIC also has Equity Investments in other sectors such as premium commercial buildings, leisure, logistics and mining.

The Group places a high degree of importance on its adherence to global Environmental, Social and Governance (ESG) standards, as detailed in its annual ESG report. The SM Group seeks alignment of its sustainability programs to the 17 United Nations Sustainable Development Goals, embraces the UN Global Compact's 10 Principles and publishes its reports in accordance to GRI Standards.

Business of Issuer

SM Retail, Inc. ("SM Retail") is the holding company of the Group's retail and merchandising operations where SMIC has a 77% effective stake. SM Retail organizes its operations into three categories: Non-Food, Food and Specialty.

Non-Food Retail

"The SM Store", in operation since 1958, is SM Retail's department store format, a leading player in the Philippines and an anchor tenant in SM malls nationwide. The SM Store serves a wide customer base and is committed to providing an extensive range of up to date fashion.

SM Retail currently has 63 department stores located in Mero Manila and key provincial cities. Of these, 58 stores are based inside SM malls and five stores in Makati, Cubao, Quiapo, Harrison and Delgado are stand-alone stores.

In 2018, four new stores were opened in Urdaneta, Telabastagan, Legazpi and Valenzuela. These new stores contributed an additional 32,184 sqm, bringing the gross selling area (GSA) of The SM Store to 797,740 sqm.

Specialty Stores

In July 2016, several leading specialty retail stores were merged with SM Retail. These include ACE Hardware, SM Appliances, Homeworld, Our Home, Toy Kingdom, Watsons, Kultura, Baby Company, Miniso, Sports Central, Pet Express and others.

Specialty stores provide SM Retail with a range of leading brands in various fast growing categories of discretionary spending. All formats operate as tenants in SM malls with several, such as ACE Hardware and Watsons, also growing outside malls.

As of December 31, 2018, there are 1,383 specialty stores in operation.

Food Retail

SM Retail has five Food retail formats varying by size, namely SM Supermarket, SM Hypermarket, Savemore, Waltermart and Alfamart. These formats enable SM Retail to serve many different local markets nationwide.

SM Supermarket is a large format anchor tenant in SM malls. It has been in operation since 1985. There are currently 56 stores nationwide totaling to 357,079 sqm of GSA with each store carrying 30,000 to 35,000 SKUs. In 2018, it opened four stores in Imus, Urdaneta, Telebastagan and Legazpi.

SM Hypermarket is a large format food retailer store with both stand-alone and in-mall locations. It has been in operation since 2001 and provides a shopping experience that combines the features of a supermarket with those of a department store. There are currently 53 stores in operation totaling 353,675 sqm of GSA with each store carrying over 35,000 SKUs. In 2018, SM Hypermarket opened six stores in Las Pinas, Albay, Tagaytay NAIC, Ormoc and Dagupan.

Savemore is a mid-sized format introduced in 1998. It is located in community malls or as a stand-alone store. Savemore is a neighborhood format, providing food and grocery items in residential locations with extended opening hours. Among SM Retail's Food formats, Savemore has the largest footprint with 531,255 sqm of GSA across 195 stores as of end-2018. These stores carry 20,000 to 25,000 SKUs. In 2018, they opened 15 stores nationwide.

Waltermart is a mid-sized format that provides food and non-food shopping as an anchor tenant in Waltermart community malls, located primarily in Luzon. SM Retail acquired a controlling stake in Waltermart in 2013. It has 52 Department Stores and Supermarkets as at end-2018, with an aggregate GSA of 144,767 sqm. In 2018, they opened 4 department stores and 3 supermarkets in Pasay, Paniqui, San Jose and Sta. Maria.

Alfamart is a small format minimart grocery store situated primarily in residential neighborhoods and offering a range of essential groceries with supermarket pricing. It is a joint venture with Indonesia-based minimart operator, PT Sumber Alfaria Trijaya Tbk, which started operations in the Philippines in 2014. Alfamart Philippines has a network of 526 stores as of end-2018, mostly located outside Metro Manila, each carrying 2,500 to 3,000 SKUs. In 2017, they opened 178 new stores within Metro Manila, Cavite, Batangas, Rizal, Bulacan, Pampanga, Nueva Ecija and Laguna.

Property

SM Prime Holdings, Inc. ("SM Prime") is one of the largest integrated property developers in Southeast Asia that develops innovative and sustainable lifestyle cities, comprising malls, residences, offices, hotels and convention centers. It was incorporated in the Philippines in 1994 and SMIC has a 50% effective ownership in the company.

Malls

SM Prime's mall business unit operates and maintains modern commercial shopping malls. Its main sources of revenue include rental income from leased shopping spaces, cinema tickets sales and other amusement income. SM Prime has 72 malls in the Philippines with a total gross floor area (GFA) of 8.3 million sqm and seven shopping malls in China with a total GFA of 1.3 million sqm.

In 2018, SM Prime's mall business unit opened 5 new malls in the Philippines namely, SM Center Imus, SM City Urdaneta, SM City Telabastagan, SM City Legazpi and SM Center Ormoc. These new malls added 0.2 million sqm of GFA.

Residential

SM Prime's residential development arm, **SM Development Corporation** ("SMDC"), derives development revenues largely from the sales of condominium units. As of December 31, 2018, the primary residential business unit had 57 residential projects in the market worth PHP371 billion.

SMDC's primary residential business unit typically launches 15,000 to 18,000 units annually, including high-rise, mid-rise and single detached housing. Projects are located in Metro Manila and key provincial cities.

In secondary residential business, SM Prime also owns leisure and resort developments including properties in the vicinity of Tagaytay Highlands and Tagaytay Midlands golf clubs in Laguna, Tagaytay City and Batangas. It is also the developer of Pico de Loro Cove residential community within Hamilo Coast.

Commercial

SM Prime's commercial properties business unit is engaged in the development and leasing of office buildings in prime locations in Metro Manila. As of December 31, 2018, the Company has seven office buildings with a total GFA of more than 622,000 sqm. These are located in the cities of Quezon, Pasay, Makati, Taguig and Las Pinas. Their assets outside Metro Manila are located in Clark in Pampanga, Taytay in Rizal, and Sta. Rosa in Laguna. SM Prime is constructing two more office buildings namely the NU Tower and the FourE-com Center in Mall of Asia Complex, Pasay City. These are scheduled to open in 2019 and 2020, respectively.

Hotels and Convention Centers

SM Prime's hotel and convention centers business unit manages six hotels located in Tagaytay City, Batangas, Pampanga, Cebu City, Davao City and Pasay City with a total of 1,522 rooms. It also operates four convention centers located in the Mall of Asia Complex in Pasay City, SM Lanang Premier in Davao City, SM Aura in Taguig City and SM City Bacolod in Bacolod City, and three trade halls located in SM Megamall, SM City Cebu and SM Seaside City Cebu. The Company is scheduled to launch two new hotels this 2019 namely Park Inn by Radisson in Iloilo and Park Inn by Radisson in North EDSA.

Financial Services

BDO Unibank, Inc. ("BDO") is a full-service universal bank in the Philippines. It provides a complete array of industry-leading products and services including lending, deposit-taking, foreign exchange, brokering, trust and investments, credit cards, corporate cash management and remittances. Through its local subsidiaries, it offers leasing and financing, investment banking, private banking, rural banking, life insurance, insurance brokerage and stock brokerage services. BDO has one of the largest distribution networks of over 1,300 operating branches and more than 4,000 ATMs nationwide.

BDO is the country's largest bank in terms of consolidated resources, customer loans, deposits, assets under management and capital, as well as branch and ATM network.

As at end-2018, BDO had a strong balance sheet with total resources of PHP3.02 trillion.

SMIC has an effective ownership of 45% in BDO.

The China Banking Corporation ("China Bank") was incorporated in 1920 as among the first privately owned banks in the Philippines. It has historical strength in catering to the Chinese-Filipino commercial sector, as well as local corporate and retail banking segments. China Bank offers a complete range of deposit, lending, international and investment products. Through its

local subsidiaries, it offers investment banking, securities broking, insurance broking, and thrift bank services. China Bank services its customers through its 620 bank branches with 966 ATMs nationwide.

The Bank boasts a strong balance sheet, with total resources at PHP866 billion as at end-2018.

SMIC has an effective stake of 20% in China Bank.

Equity Investments

SMIC invests in ventures that capture high growth opportunities in the emerging Philippine economy, looking for market leaders that offer synergies, attractive returns and cash flows.

Belle Corporation (“Belle”) is a developer of tourism and leisure destinations in the Philippines.

Its principal asset is the City of Dreams Manila in PAGCOR Entertainment City by Manila Bay, which is leased on a long-term basis to Melco Resorts and Entertainment (Philippines) Corporation (“Melco”). In addition to lease income, Belle is accorded a share in revenues or earnings from City of Dreams Manila’s gaming operations through the operating agreement between its 78.7%-owned subsidiary, Premium Leisure Corporation (“PLC”), and Melco.

South of Metro Manila, Belle owns significant real estate assets and develops premium residential resort projects around Tagaytay City. Among its exclusive destinations are the club and golf facilities and residential communities of Tagaytay Highlands and Tagaytay Midlands, as well as a further 800 hectares intended for future development.

SMIC’s effective ownership in Belle is 26%.

Atlas Consolidated Mining & Development Corporation (“Atlas Mining”) is primarily engaged in metallic mineral exploration and mining.

It operates the Toledo copper mine in the province of Cebu through its wholly-owned subsidiary Carmen Copper Corporation (“Carmen Copper”). The Toledo copper mine is one of the Philippines’ largest exporters of copper concentrate and also markets by-products from copper concentrate processing such as magnetite and pyrite.

Atlas Mining also has a stake in the nickel laterite mining project of Berong Nickel Corporation (“Berong Nickel”) in Palawan. Berong Nickel has been engaged in the direct shipping of nickel laterite ore since 2007.

SMIC effectively owns 34% of Atlas Mining.

The Net Buildings consist of seven commercial buildings located within the largest and only PEZA certified IT park in Bonifacio Global City, Metro Manila. Its tenant base includes top tier local and multinational companies. Its gross lot areas is 23,300 sqm and gross leasable area is 268,000 sqm. The occupancy rate as of December 31, 2018 was 99.76%.

SMIC effectively owns 95% of the first 5 buildings and 34% of the latest 2 buildings in the portfolio.

2GO Group, Inc. (“2GO”) is the country’s largest integrated supply chain operator whose businesses include shipping, freight forwarding, warehousing and express delivery services.

As of 2018, SMIC holds 30% effective ownership of 2GO.

Philippine Urban Living Solutions (“PULS”) is a dormitory developer and operator specializing in the development of rental housing communities under the MyTown brand. It provides affordable living spaces to young urban professionals within walking distance of the central business districts of Metro Manila. It currently has 10 buildings in operation with 7 more buildings under development.

SMIC effectively owns 61% in PULS.

CityMall Commercial Centers Inc. (“CityMalls”) is a mall developer and operator that specializes in developing community malls in second and third cities across the Philippines. SMIC acquired a 34% stake in CityMalls in 2014 with the balance owned by Double Dragon Properties Corporation.

Goldilocks is the largest bakeshop chain in the Philippines with over 700 stores and selected operations overseas. Now on its 52nd year, Goldilocks continues to provide its customers with a wide array of baked goods and home cooked food.

In 2018, SM acquired 34% of Goldilocks.

A.v Company’s Directors and Executive Officers

Please refer to Item 5 of the Information Statement for the discussion on the identity of each of the Company’s directors and executive officers including their principal occupation or employment, name and principal business of any organization by which such persons are employed.

A.vi Market Price, Stockholder and Dividend Information

Market Information

The Company’s shares of stock are traded in the Philippine Stock Exchange.

	<u>2018</u>				<u>2017</u>			
Stock Prices		<u>High</u>		<u>Low</u>		<u>High</u>		<u>Low</u>
1 st Quarter	P	1,140.0	P	912.5	P	710.5	P	599.0
2 nd Quarter		988.0		837.0		809.5		698.5
3rd Quarter		990.0		862.0		883.0		788.0
4 th Quarter		980.0		850.0		998.0		897.0

As of February 27, 2019, the closing price of the Company’s shares of stock is P966.00/share

Stockholder and Dividend Information

The number of stockholders of record as of January 31, 2019 was 1,253. As of December 31, 2018, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to P202.7 billion, representing accumulated equity in net earnings of subsidiaries. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

The policy of the Company is to provide a sustainable dividend stream to its shareholders. The Board determines the dividend payout taking into consideration the Company’s operating results, cash flows, capital investment needs and debt servicing requirements. Since its listing in 2005 the Company has been able to declare annual cash dividends equivalent to 30% of prior year earnings and will endeavor to continue doing so

while ensuring financial flexibility. Dividends shall be paid within 30 days from the date of declaration.

The cash dividends pertaining to the 2018 earnings will be discussed and determined at the next Board Meeting on April 24, 2019.

On April 25, 2018, the BOD approved the declaration of cash dividends of 82.0% of the par value or P8.20 per share for a total amount of P9,877.6 million in favor of stockholders on record as at May 10, 2018. This was paid on May 24, 2018.

On April 26, 2017, the BOD approved the declaration of cash dividends of 77.7% of the par value or P7.77 per share for a total amount of P9,359.6 million in favor of stockholders on record as at May 11, 2017. This was paid on May 25, 2017.

On April 27, 2016, the BOD approved the declaration of cash dividends of 106.3% of the par value or P10.63 per share for a total amount of P8,536.5 million in favor of stockholders on record as at May 12, 2016. This was paid on May 26, 2016.

On the same date, the stockholders, which represent at least two-thirds of the outstanding capital stock of the Parent Company, approved the amendment of its articles of incorporation for the increase in its authorized capital stock as well as the declaration of 50% stock dividends.

On July 20, 2016, the SEC approved the issuance of 401,527,462 shares as stock dividends to stockholders on record as at August 3, 2016. The stock dividends were issued on August 18, 2016.

The top 20 stockholders as of January 31, 2019 are as follows:

Name	<u>No. of Shares Held</u>	<u>% to Total</u>
1 PCD Nominee Corp (Non-Filipino)	385,598,488	32.01%
2 PCD Nominee (Filipino)	155,793,588	12.93%
3 Hans T. Sy	98,769,136	8.20%
4 Herbert T. Sy	98,753,008	8.20%
5 Harley Sy	87,604,771	7.27%
6 Henry T. Sy, Jr.	87,503,008	7.26%
7 Teresita T. Sy	85,440,508	7.09%
8 Elizabeth T. Sy	71,022,817	5.90%
9 Syntrix Holdings, Inc.	46,875,000	3.89%
10 Sysmart Corporation	28,966,752	2.40%
11 Henry Sy Foundation, Inc.	22,500,000	1.87%
12 Tansmart Holdings, Inc.	22,500,000	1.87%
13 Felicidad T. Sy Foundation, Inc.	11,250,000	0.93%
14 Susana Fong	452,998	0.04%
15 Value Plus, Inc	152,119	0.01%
16 SM Prime Holdings, Inc.	146,104	0.01%
17 Belle Corporation	48,877	0.00%
18 Bernadette S. Go	39,402	0.00%
19 Hector Yap Dimacali	39,102	0.00%
20 Hans Sy Fao Wonderfoods Corp.	39,102	0.00%

The following securities were issued as exempt from the registration requirements of the Securities Regulation Code (SRC) and therefore have not been registered with the Securities and Exchange Commission:

- (1) On June 10, 2014, SMIC issued US\$350 million senior bonds which bear a fixed interest rate of 4.875% per annum, payable semi-annually in arrears. The bonds will mature on June 10, 2024. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to 10.1 (l) of RA No. 8799. The underwriter is Citigroup Global Markets Limited and Standard Chartered Bank and the total underwriting fees and expenses amounted to US\$1.749 million.
- (2) On October 17, 2012, SMIC issued US\$500 million senior bonds which bear a fixed interest rate of 4.250% per annum, payable semi-annually in arrears. The bonds will mature on October 17, 2019. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to Section 10.1 (k) and 10.1 (l) of RA No. 8799. The underwriter is Citibank N.A. London and the total underwriting fees and expenses amounted to US\$2.5 million. SMIC retired/cancelled US\$3.6 million in 2018. The outstanding balance of the bonds amounted to US\$496.4 million.

A.vii Corporate Governance

Corporate Governance

SM Investments Corporation (**SMIC**) recognizes the essential role that good governance plays in managing a world class organization. The Company is committed to driving best practice corporate governance throughout its businesses and to ensuring a culture of appropriate engagement with all its stakeholders.

SMIC's Board of Directors (the "**Board**") is fully committed to the principles of corporate governance and to ensuring that the long term financial success of the business is built on fairness, accountability and transparency. The Board is responsible for setting the high standard of integrity expected throughout the organization.

SMIC's Board is composed of eight directors, three of whom are non-executive independent directors. As required by the Company's Manual on Corporate Governance (the "**Manual**"), independent directors are independent of Management and do not have substantial shareholdings or material relations that could potentially impede the performance of their independent judgment.

To ensure optimum Board performance, the Company conducts annual performance evaluations of the Board of Directors, its individual members and Board Committees. Through the evaluation process, directors identify areas for improvement, such as the quality and timeliness of information provided to them; the frequency and conduct of regular, special or committee meetings; directors' access to management, the Corporate Secretary and Board Advisors; as well as other forms of assistance that they may need in the performance of their duties. The Board reviews the results of these evaluations and agrees on clear action plans to address any issues raised. In addition the Board is asked to identify areas of continuing education on corporate governance topics they require.

The Company ensures that the Board and key officers are kept abreast of governance related developments through regular education programs. SMIC also facilitates annual training programs for the directors and officers of its subsidiaries and affiliates within the SM Group of Companies. These Group-wide training programs are conducted by providers accredited by the Securities and Exchange Commission.

SMIC's Board Committees (namely the Audit Committee, Corporate Governance Committee, Compensation Committee, Risk Management Committee and Related Party Transactions

Committee) are each guided by their respective Board Committee Charters which outline their purpose, composition, duties and responsibilities. All Board Committees' Charters are reviewed annually.

SMIC maintains a Manual and Code of Ethics (the “**Code**”), which outlines the principles of good corporate governance expected throughout the organization. SMIC ensures that its directors, officers and employees are familiar with and adhere to this Code. The Code defines SMIC's compliance system and identifies the roles and responsibilities of the Board and Management in relation to corporate governance. It contains the Company's policies on disclosures and transparency, the communication and training programs related to corporate governance and the rights and protection of stakeholders.

There have been no deviations from the Manual since it was adopted. SMIC certifies that the Company, its directors, officers and employees have adopted and fully complied with all leading practices and principles of good corporate governance as provided by the Manual.

The Code highlights the importance of integrity in the Company's dealings with its investors, creditors, customers, contractors, suppliers, regulators, employees and other relevant groups. It also outlines the Company's duties with regard to its employees, shareholders and the communities it operates in. The Manual is reviewed regularly and may be accessed via the Company's website.

In accordance with the Code, SMIC has established various governance-related policies, including the Conflict of Interest Policy, which requires SMIC personnel to disclose any actual or potential conflict of interest to the Company, and the Insider Trading Policy which prohibits directors, officers and employees from trading the Company's shares five days before and two trading days after the disclosure of any material stock price-sensitive information. Other existing governance related policies include the Guidelines on Acceptance of Gifts, Guidelines on Placement of Advertisements and the Policy on Accountability, Integrity and Vigilance which is SMIC's whistleblowing policy. SMIC's corporate governance-related policies and programs are regularly disseminated throughout the organization and are made public via the Company's website.

SMIC ensures that its stakeholders receive timely and accurate information on all facets of its business through its website and other disclosures. SMIC's website has a separate corporate governance section that features subsections on its policies, programs and other relevant developments. SMIC also ensures that its shareholders are provided with periodic reports, including relevant information on its directors and officers and their shareholdings and dealings with the Company.

Going forward, SMIC will continue to support the initiatives of regulators and advocacy groups to enhance and promote corporate governance standards, while also further strengthening its own corporate governance culture.

A.viii Undertaking to provide without charge a copy of the Company's Annual Report

The Company will provide without charge a copy of the Company's Annual Report on SEC Form 17-A to its stockholders upon receipt of a written request addressed to the Investor Relations Department at 10th Floor, OneE-com Center, Harbor Drive, Mall of Asia Complex, Pasay City 1300.

Schedule “A”

SM INVESTMENTS CORPORATION

**2019 ANNUAL STOCKHOLDERS’ MEETING
ELECTRONIC VOTING PROCEDURE**

1. Stockholders of SM INVESTMENTS CORPORATION (**SM INVESTMENTS** or the **Company**) as of March 25, 2019 (**Record Date**) holding certificated shares, if not personally attending the Annual Stockholders’ Meeting (**ASM**) on April 24, 2019 but wanting to vote in a specific manner on matters to be taken up, can participate by appointing the Chairman of the Meeting or another individual as his proxy for the ASM and pre-cast his votes using the Company’s secure online voting portal at eVote.sminvestments.com.
2. The log-in instructions to the online voting portal will be sent to certificated stockholders of the Company as of Record Date along with the Notice of Meeting.
3. Upon accessing the portal, the stockholder can vote on each agenda item. A brief description of each item for stockholders’ approval are appended to the Notice of Meeting.
 - 3.1. A stockholder has the option to vote “Yes”, “No”, or “Abstain” on each agenda item for approval.
 - 3.2. For the election of directors, the stockholder has the option to vote for all nominees, not vote for any of the nominees, or vote for specified nominees only.
4. Once the stockholder has finalized his vote, he can proceed to submit his vote by clicking the “Submit” button. No change in votes are allowed upon submission of votes.
5. The stockholder will then be directed to the page containing the proxy form, as follows:

PROXY FORM

Thank you for voting! Your votes have been stored in our system and will be counted subject to validation. Kindly fill out all entries and print two (2) copies of this proxy form.

Your proxy, unless the Chairman of the Meeting, should present this form during registration on the day of the ASM.

PRINTED NAME OF STOCKHOLDER

SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

DATE



Print Proxy Form

6. The stockholder will click the “Print Proxy Form” button and print two (2) copies of the proxy form and must fill out all entries.
7. The stockholder should submit one (1) duplicate original of the accomplished proxy form with the office of the Corporate Secretary at the 33rd Floor, The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City at least seventy-two (72) hours before the ASM, in accordance with the By-laws of the Company.
8. The named proxy must present the duplicate original of the accomplished proxy form to representatives of the Company/stock transfer agent during registration on the day of the ASM to confirm his attendance on behalf of the stockholder. Representatives of the Company/stock transfer agent will then scan the QR code in the proxy form and the system will automatically count the votes casted by the stockholder.
9. If the stockholder names the Chairman of the Meeting as his proxy, there will be no need to submit the signed copy during the ASM. The pre-casted votes will be automatically counted as verified by the Corporate Secretary.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018

Consolidated Financial Statements

A. Statement of Management's Responsibility for Financial Statements	Attached
B. Certificate on the Compilation Services for the Preparation of the Financial Statements and Notes to Financial Statements	Attached
C. Independent Auditor's Report	Attached
D. Consolidated Balance Sheets as at December 31, 2018 and 2017	Attached
E. Consolidated Statements of Income For the years ended December 31, 2018, 2017 and 2016	Attached
F. Consolidated Statements of Comprehensive Income For the years ended December 31, 2018, 2017 and 2016	Attached
G. Consolidated Statements of Changes in Equity For the years ended December 31, 2018, 2017 and 2016	Attached
H. Consolidated Statements of Cash Flows For the years ended December 31, 2018, 2017 and 2016	Attached
I. Notes to Consolidated Financial Statements	Attached

Supplementary Schedules

Independent Auditor's Report on Supplementary Schedules	Attached
SRC Annex 68-E Schedules	
A. Financial Assets	Attached
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)	*
C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements	Attached
D. Intangible Assets - Other Assets	Attached
E. Long-term Debt	*
F. Indebtedness to Related Parties	*
G. Guarantees of Securities of Other Issuers	*
H. Capital Stock	Attached

Additional Components

Computation of Public Ownership	Attached
Financial Ratios - Key Performance Indicators	Attached
Reconciliation of Retained Earnings Available for Dividend Declaration	Attached
Conglomerate Map	Attached
Tabular Schedule of Effective Standards and Interpretations under the PFRS	Attached

**These schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in the Group's consolidated financial statements or the notes to consolidated financial statements.*

**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, 2018 and 2017, in accordance with Philippine Financial Reporting Standards and for such internal controls 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 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.

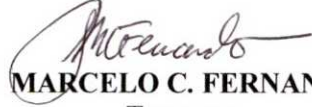
SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon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



JOSE T. SIO
Chairman of the Board



FREDERIC C. DYBUNCIO
President



MARCELO C. FERNANDO, JR.
Treasurer

Signed this 28th day of February 2019

REPUBLIC OF THE PHILIPPINES)

MAKATI CITY)

SUBSCRIBED AND SWORN to before this FEB 28 2019 at MAKATI CITY, affiants
exhibiting to me their Taxpayer Identification Number ID, as follows:

NAMES

TIN

JOSE T. SIO

103-433-285

FREDERIC C. DYBUNCIO

103-192-854

MARCELO C. FERNANDO, JR.

106-904-419

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PAGE No. 100
BOOK No. XX
SERIES of W17

ATTY. ARTHUR A. SY
NOTARY PUBLIC
UNTIL DECEMBER 31, 2019
PTR NO. 7347749 / 01.11.19 / MAKATI CITY
IBP NO. 548832 / 01.07.02 / PPLM
TIN 174-674-196 ROLL NO. 40024
MCLE NO. V 0011465 / 11.02.15

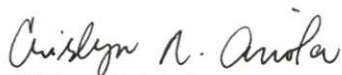
**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE
FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of SM Investments Corporation and Subsidiaries (the Group) as at December 31, 2018 and 2017, in accordance with Philippine Financial Reporting Standards, as required by accounting and auditing standards.

In discharging this responsibility, I hereby declare that I am the Accounting Manager of the Group.

Furthermore, in my compilation services for preparation of the Consolidated Financial Statements and notes to the Consolidated Financial Statements, I was not assisted by or did not avail of the services of Sycip Gorres Velayo & Co., which is the external auditor who rendered the audit opinion for the said Consolidated Financial Statements and notes to the Consolidated Financial Statements.

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.



Crislyn N. Ariola

Accounting Manager

CPA Certificate No. 0124217

valid until October 03, 2021

BOA Accreditation No. 0238

valid until October 03, 2019

February 28, 2019

SUBSCRIBED AND SWORN to before this FEB 28 2019 MAKATI CITY affiants exhibiting to me her
Taxpayer Identification Number 262-083-679.

Doc No. 496
Page No. 100
Book No. XX
Series of 2019


ATTY. ARTHUR A. SY
NOTARY PUBLIC
UNTIL DECEMBER 31, 2019
PTR NO. 7347749 / 01.11.19 / MAKATI CITY
IBP NO. 548832 / 01.07.02 / PPLM
TIN 174-674-196 ROLL NO. 40024
MCLE NO. V 0011489 / 11.02.19

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

S	M		I	N	V	E	S	T	M	E	N	T	S		C	O	R	P	O	R	A	T	I	O	N		A	N	D
		S	U	B	S	I	D	I	A	R	I	E	S																

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

1	0	t	h		F	l	o	o	r	,		O	n	e		E	-	C	o	m		C	e	n	t	e	r	,	
H	a	r	b	o	r		D	r	i	v	e	,		M	a	l	l		o	f		A	s	i	a		C	o	m
p	l	e	x	,		C	B	P	-	1	A	,		P	a	s	a	y		C	i	t	y		1	3	0	0	

Form Type

A	A	C	F	S
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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's Email Address

—

Company's Telephone Number

857-0100

Mobile Number

—

No. of Stockholders

1,255

Annual Meeting (Month / Day)

04/25

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATIONThe designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Mr. Franklin C. Gomez

Email Address

—

Telephone Number/s

857-0100

Mobile Number

—

CONTACT PERSON'S ADDRESS**10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300**

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
SM Investments Corporation
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-1A, Pasay City 1300

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, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (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, 2018, the Group reported ₱17,306.9 million goodwill attributable to SM Prime Holdings, Inc., Supervalu, Inc., Super Shopping Market, Inc., Net Subsidiaries, Waltermart Supermarket, Inc. and others. The Group performed an annual testing per cash generating unit (CGU) to assess whether goodwill might be impaired. 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 reviewed 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. We reviewed the key assumptions used by comparing the PFI to historical operating results. We also involved our internal specialist in recalculating the discount rates used for each CGU. Recalculations involve comparison to publicly available market information, cost of debt and equity and other relevant risk factors. 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, 2018, the Group's investments in associate companies amounted to ₱251,856.1 million, representing 30.8% and 23.7% 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, 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 12 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 Group's own assumptions. We also involved our internal specialist in assessing the Group's methodology and assumptions used in calculating the associate companies' recoverable amount. We reviewed the key inputs 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 rates, we have assessed the reasonableness by comparing it with the long-term average growth rate for the products, industries, or country where the entity operates. We have assessed the PFI for the CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used. We reviewed the key assumptions used by comparing the PFI with the industry practice. We also involved our internal specialist in recalculating the discount rate used that involves comparison to publicly available market information, cost of debt and equity and other relevant risk factors. 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, audit strategy and reporting requirements. We discussed with the other auditor their key audit areas, including areas of significant judgments and estimates, and their audit findings. We focused on the other auditor's procedures on the review of the classification and measurement, expected credit loss and hedge accounting related to the adoption of PFRS 9, *Financial Instruments*, and revenue recognition related to the adoption of PFRS 15, *Revenue from Contracts with Customers*.

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under modified retrospective approach. The adoption of PFRS 15 resulted in significant changes in the Group's revenue processes, policies and procedures and revenue recognition accounting policy. The following matters are significant to our audit because these involve application of significant judgment and estimation: (1) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (2) assessment of the probability that the entity will collect the consideration from the buyer; (3) determination of the transaction price; (4) application of the output method as the measure of progress in determining revenue from real estate sale; (5) determination of the actual costs incurred as cost of real estate sold; and (6) recognition of costs to obtain a contract.

The Group identifies the contract that meets all the criteria required under PFRS 15 for a valid revenue contract. In the absence of a signed contract to sell, the Group identifies alternative documentation that are enforceable and that contain each party's rights regarding the real estate property to be transferred, the payment terms and the contract's commercial substance.

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 if it would still support its current threshold of buyers' equity before commencing revenue recognition.



In determining the transaction price, the Group considers the selling price of the real estate property and other fees collected from the buyers that are not held on behalf of other parties.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on physical proportion of work done 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.

The Group identifies sales commissions after contract inception as costs of obtaining a contract. For contracts which qualified for revenue recognition, the Group capitalizes the total sales commissions due to sales agent as costs 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 Company's revenue recognition policy.

The disclosures related to the adoption of PFRS 15 are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's revenue recognition processes and tested relevant controls. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis.

For the identification of the alternative documentation for sale of real estate property (in the absence of a signed contract to sell) that would meet the requirements of PFRS 15, our audit procedures include, among others, involvement of our internal specialist in reviewing the Group's legal basis regarding the enforceability of the alternative documentation against previous court decisions, buyers' behavior and industry practices.

For the buyers' equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold.

For the determination of the transaction price, we obtained an understanding of the nature of other fees charged to the buyers. For selected contracts, we agreed the amounts excluded from the transaction price against the expected amounts required to be remitted to the government based on existing tax rules and regulations (e.g., documentary stamp taxes, transfer taxes and real property taxes).

For the application of the output method, in determining revenue from sale of real estate, we obtained an understanding of the Company's processes for determining the POC, 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 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, among others.

For the recognition of cost to obtain a contract, we obtained an understanding of the sales commission process. For selected contracts, we agreed the basis for calculating the sales commission 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.

We test computed the transition adjustments and evaluated the disclosures made in the consolidated financial statements on the adoption of PFRS 15.

Existence and Completeness of Merchandise Inventories

As at December 31, 2018, the merchandise inventories of certain subsidiaries of the Group amounted to ₱31,836.3 million, representing 13.2% and 3.0% of the Group's total current assets and total assets, respectively. 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 22 to the consolidated financial statements.

Audit Response

We obtained an understanding of the subsidiaries' 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 subsidiaries' inventory compilation reports to determine if the compilation reports reflect the results of the inventory count. We reviewed the reconciliations performed by management and tested the reconciling items. We performed testing, on a sampling basis, of the subsidiaries' rollforward or rollback procedures on inventory quantities from the date of physical inventory count to the financial reporting date.

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



Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 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.

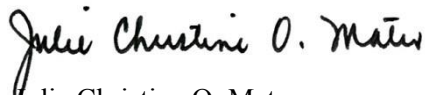
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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

Partner

CPA Certificate No. 93542

SEC Accreditation No. 0780-AR-3 (Group A),

August 16, 2018, valid until August 15, 2021

Tax Identification No. 198-819-116

BIR Accreditation No. 08-001998-68-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 7332594, January 3, 2019, Makati City

February 28, 2019



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 28)	₱79,313,215	₱74,318,190
Time deposits (Notes 8 and 28)	25,842,829	13,237,886
Financial assets (Notes 9 and 28)	639,316	1,347,926
Receivables and contract assets (Notes 10, 28 and 29)	33,755,192	32,352,574
Merchandise inventories - at cost (Note 22)	31,836,333	27,778,741
Other current assets (Notes 11 and 28)	70,338,577	63,478,186
Total Current Assets	241,725,462	212,513,503
Noncurrent Assets		
Financial assets (Notes 9 and 28)	26,702,764	25,590,162
Investments in associate companies and joint ventures (Note 12)	259,795,077	242,114,427
Time deposits (Notes 8, 28 and 29)	2,392,622	26,688,721
Property and equipment (Note 13)	23,201,667	21,339,407
Investment properties (Note 14)	309,264,274	289,018,265
Land and development (Note 15)	53,928,447	40,180,145
Intangibles (Note 16)	25,470,696	25,591,232
Deferred tax assets (Note 26)	2,726,155	2,489,814
Other noncurrent assets (Notes 16 and 28)	115,435,107	74,555,033
Total Noncurrent Assets	818,916,809	747,567,206
	₱1,060,642,271	₱960,080,709

LIABILITIES AND EQUITY

Current Liabilities		
Bank loans (Notes 17, 21 and 28)	₱18,885,465	₱24,172,965
Accounts payable and other current liabilities (Notes 18 and 28)	124,777,719	106,561,455
Income tax payable	3,641,379	1,883,871
Current portion of long-term debt (Notes 19, 21, 28 and 29)	61,480,887	40,297,133
Dividends payable (Note 28)	3,906,476	2,939,590
Total Current Liabilities	212,691,926	175,855,014
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28 and 29)	305,555,356	292,555,868
Deferred tax liabilities (Note 26)	8,810,862	8,029,579
Tenants' deposits and others (Notes 25, 27, 28 and 29)	41,294,115	29,828,024
Total Noncurrent Liabilities	355,660,333	330,413,471
Total Liabilities	568,352,259	506,268,485

(Forward)



	December 31	
	2018	2017
Equity Attributable to Owners of the Parent		
Capital stock (Note 20)	₱12,045,829	₱12,045,829
Additional paid-in capital	75,815,520	76,439,288
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	2,077,017	1,402,623
Net unrealized gain on financial assets (Notes 9 and 12)	11,748,980	15,324,123
Re-measurement loss on defined benefit asset/obligation (Note 25)	(2,063,358)	(701,255)
Retained earnings (Note 20):		
Appropriated	37,000,000	37,000,000
Unappropriated	222,213,054	192,071,968
Total Equity Attributable to Owners of the Parent	353,387,201	328,132,735
Non-controlling Interests	138,902,811	125,679,489
Total Equity	492,290,012	453,812,224
	₱1,060,642,271	₱960,080,709

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		
	2018	2017	2016
REVENUE			
Sales:			
Merchandise	₱323,740,170	₱288,532,163	₱269,272,716
Real estate	35,967,663	29,567,021	25,131,499
Rent (Notes 14, 21 and 27)	47,555,061	42,067,892	37,196,104
Equity in net earnings of associate companies and joint ventures (Note 12)	19,164,345	16,640,597	14,979,645
Cinema ticket sales, amusement and others	7,286,654	6,578,362	6,528,516
Management and service fees (Note 21)	6,379,831	5,820,571	5,051,305
Dividend income (Note 21)	421,914	495,582	167,884
Gain on sale of financial assets - net (Note 9)	1,337	110,234	6,517
Others	9,271,192	8,135,798	6,920,537
	449,788,167	397,948,220	365,254,723
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 22)	238,902,107	214,494,703	202,479,890
Real estate (Note 15)	17,852,270	15,260,313	13,196,518
Selling, general and administrative expenses (Note 23)	106,419,078	92,342,430	82,362,504
	363,173,455	322,097,446	298,038,912
OTHER INCOME (CHARGES)			
Interest expense (Notes 21 and 24)	(16,575,009)	(15,580,819)	(12,028,879)
Interest income (Notes 21 and 24)	3,754,141	4,003,501	3,725,517
Gain on disposal of investment and properties - net	64,034	22,702	559,041
Gain on fair value changes on derivatives - net (Note 29)	454,941	296,334	15,232
Foreign exchange gain (loss) - net (Note 28)	(182,483)	698,742	(170,130)
	(12,484,376)	(10,559,540)	(7,899,219)
INCOME BEFORE INCOME TAX	74,130,336	65,291,234	59,316,592
PROVISION FOR (BENEFIT FROM)			
INCOME TAX (Note 26)			
Current	15,115,326	13,616,519	11,636,884
Deferred	460,442	156,198	(78,620)
	15,575,768	13,772,717	11,558,264
NET INCOME	₱58,554,568	₱51,518,517	₱47,758,328
Attributable to			
Owners of the Parent (Note 30)	₱37,078,325	₱32,923,455	₱31,204,304
Non-controlling interests	21,476,243	18,595,062	16,554,024
	₱58,554,568	₱51,518,517	₱47,758,328
Basic/Diluted Earnings Per Common Share			
Attributable to Owners of the Parent (Note 30)	₱30.78	₱27.33	₱25.90

See accompanying Notes to Consolidated Financial Statements.



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
NET INCOME	₱58,554,568	₱51,518,517	₱47,758,328
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Net unrealized gain (loss) on financial assets	(520,230)	4,973,426	(1,021,689)
Share in unrealized gain (loss) on financial assets of associates (Note 12)	(3,502,992)	354,028	(1,396,835)
Cumulative translation adjustment	329,125	(22,405)	549,896
Income tax relating to items to be reclassified to profit or loss in subsequent periods	(708,741)	(147,803)	373,597
	(4,402,838)	5,157,246	(1,495,031)
Items not to be reclassified to profit or loss in subsequent periods			
Re-measurement loss on defined benefit obligation (Note 25)	(2,080,805)	(416,283)	(417,238)
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	624,242	124,884	125,171
	(1,456,563)	(291,399)	(292,067)
TOTAL COMPREHENSIVE INCOME	₱52,695,167	₱56,384,364	₱45,971,230
Attributable to			
Owners of the Parent	₱31,112,015	₱36,916,903	₱29,205,704
Non-controlling interests	21,583,152	19,467,461	16,765,526
	₱52,695,167	₱56,384,364	₱45,971,230

See accompanying Notes to Consolidated Financial Statements.



SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 and 2016

(Amounts in Thousands Except Per Share Data)

	Equity Attributable to Owners of the Parent										Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Financial Assets	Re-measurement Gain (Loss) on Defined Benefit Asset/Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total		
As at January 1, 2018, as previously reported	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,402,623	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224
Effect of adoption of new accounting standards (Note 3)	—	—	—	—	—	1,703,458	—	—	2,940,327	4,643,785	—	4,643,785
As adjusted	12,045,829	76,439,288	(5,424,455)	(25,386)	1,402,623	17,027,581	(701,255)	37,000,000	195,012,295	332,776,520	125,679,489	458,456,009
Net income	—	—	—	—	—	—	—	—	37,078,325	37,078,325	21,476,243	58,554,568
Other comprehensive income	—	—	—	—	674,394	(5,278,601)	(1,362,103)	—	—	(5,966,310)	106,909	(5,859,401)
Total comprehensive income	—	—	—	—	674,394	(5,278,601)	(1,362,103)	—	37,078,325	31,112,015	21,583,152	52,695,167
Sale of treasury shares held by subsidiary	—	291,088	—	—	—	—	—	—	—	291,088	294,120	585,208
Acquisition of non-controlling interests	—	(914,856)	—	—	—	—	—	—	—	(914,856)	(857,160)	(1,772,016)
Cash dividends - ₱8.20 per share (Note 20)	—	—	—	—	—	—	—	—	(9,877,566)	(9,877,566)	—	(9,877,566)
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	(7,844,484)	(7,844,484)
Increase in previous year's non-controlling interests	—	—	—	—	—	—	—	—	—	—	47,694	47,694
As at December 31, 2018	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,077,017	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012
As at January 1, 2017	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)	₱1,216,718	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262
Net income	—	—	—	—	—	—	—	—	32,923,455	32,923,455	18,595,062	51,518,517
Other comprehensive income	—	—	—	—	185,905	4,543,693	(736,150)	—	—	3,993,448	872,399	4,865,847
Total comprehensive income	—	—	—	—	185,905	4,543,693	(736,150)	—	32,923,455	36,916,903	19,467,461	56,384,364
Reversal of appropriation (Note 20)	—	—	—	—	—	—	—	(27,800,000)	27,800,000	—	—	—
Appropriation (Note 20)	—	—	—	—	—	—	—	28,800,000	(28,800,000)	—	—	—
Sale of treasury shares held by subsidiary	—	78,810	—	—	—	—	—	—	—	78,810	79,506	158,316
Acquisition of non-controlling interests	—	13,249	—	—	—	—	—	—	—	13,249	(247,159)	(233,910)
Cash dividends - ₱7.77 per share (Note 20)	—	—	—	—	—	—	—	—	(9,359,609)	(9,359,609)	—	(9,359,609)
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	(6,709,448)	(6,709,448)
Decrease in previous year's non-controlling interests	—	—	—	—	—	—	—	—	—	—	(1,174,751)	(1,174,751)
As at December 31, 2017	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,402,623	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224



	Equity Attributable to Owners of the Parent											
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Financial Assets at Fair Value	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2016	₱8,030,554	₱76,399,625	(₱5,338,948)	(₱25,386)	₱1,057,751	₱12,724,360	₱242,740	₱36,000,000	₱150,940,847	₱280,031,543	₱103,956,317	₱383,987,860
Effect of common control business combination (Note 5)	—	—	120,078	—	—	—	5,792	—	(85,287)	40,583	79,451	120,034
As adjusted	8,030,554	76,399,625	(5,218,870)	(25,386)	1,057,751	12,724,360	248,532	36,000,000	150,855,560	280,072,126	104,035,768	384,107,894
Net income	—	—	—	—	—	—	—	—	31,204,304	31,204,304	16,554,024	47,758,328
Other comprehensive income	—	—	—	—	158,967	(1,943,930)	(213,637)	—	—	(1,998,600)	211,502	(1,787,098)
Total comprehensive income	—	—	—	—	158,967	(1,943,930)	(213,637)	—	31,204,304	29,205,704	16,765,526	45,971,230
Common control transactions	—	—	(205,585)	—	—	—	—	—	—	(205,585)	—	(205,585)
Stock dividends - 50% (Note 20)	4,015,275	(52,396)	—	—	—	—	—	—	(4,015,275)	(52,396)	—	(52,396)
Cash dividends - ₱10.63 per share (Note 20)	—	—	—	—	—	—	—	—	(8,536,467)	(8,536,467)	—	(8,536,467)
Cash dividends received by non-controlling interests	—	—	—	—	—	—	—	—	—	—	(6,358,868)	(6,358,868)
Decrease in previous year's non-controlling interests	—	—	—	—	—	—	—	—	—	—	(178,546)	(178,546)
As at December 31, 2016	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)	₱1,216,718	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262

See accompanying Notes to Consolidated Financial Statements.



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱74,130,336	₱65,291,234	₱59,316,592
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 12)	(19,164,345)	(16,640,597)	(14,979,645)
Interest expense (Note 24)	16,575,009	15,580,819	12,028,879
Depreciation and amortization (Notes 13, 14, 16 and 23)	15,161,207	14,020,884	12,861,154
Interest income (Note 24)	(3,754,141)	(4,003,501)	(3,725,517)
Provisions - net (Notes 10, 14 and 23)	2,207,458	1,488,855	1,335,461
Dividend income (Note 21)	(421,914)	(495,582)	(167,884)
Gain on fair value changes on derivatives - net (Note 29)	(454,941)	(296,334)	(15,232)
Unrealized foreign exchange loss - net	1,002,006	275,731	586,360
Gain on sale of financial assets - net (Note 9)	(1,337)	(110,234)	(6,517)
Gain on disposal of investments and properties - net (Notes 13 and 14)	(64,034)	(22,702)	(559,041)
Income before working capital changes	85,215,304	75,088,573	66,674,610
Decrease (increase) in:			
Receivables and contract assets	(1,437,678)	(616,938)	445,821
Merchandise inventories	(4,057,592)	(1,953,451)	(4,235,589)
Other current assets	5,535,204	1,996,544	3,955,218
Land and development	(37,802,279)	(29,891,127)	(13,946,006)
Increase in:			
Accounts payable and other current liabilities	15,834,514	18,509,650	1,901,637
Tenants' deposits and others	10,571,079	4,354,177	2,704,729
Net cash generated from operations	73,858,552	67,487,428	57,500,420
Income tax paid	(13,356,939)	(14,425,107)	(11,415,920)
Net cash provided by operating activities	60,501,613	53,062,321	46,084,500
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Financial assets	771,361	1,983,045	1,875,091
Property and equipment	203,564	182,366	310,534
Investment properties	105,524	70,301	243,644
Additions to:			
Investment properties (Note 14)	(27,554,245)	(25,806,496)	(26,769,270)
Property and equipment (Note 13)	(6,452,489)	(5,067,991)	(5,249,198)
Financial assets	(2,463,985)	(3,272,984)	(2,159,111)
Investments in associate companies and joint ventures (Note 12)	(3,849,756)	(47,832,363)	(468,050)
Decrease (increase) in:			
Time deposits	12,913,443	26,473,746	(480,639)
Other noncurrent assets	(28,224,945)	(11,201,733)	(8,285,737)
Dividends received	4,945,350	4,175,190	3,973,577
Interest received	3,827,116	4,182,186	3,660,063
Net cash used in investing activities	(45,779,062)	(56,114,733)	(33,349,096)

(Forward)



	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt (Note 31)	₱70,787,135	₱55,866,308	₱62,564,105
Bank loans (Note 31)	32,199,317	59,419,602	20,841,800
Payments of:			
Bank loans (Note 31)	(37,256,817)	(49,234,402)	(17,385,450)
Long-term debt (Note 31)	(40,292,241)	(31,640,120)	(34,560,516)
Dividends (Note 31)	(17,674,115)	(16,432,295)	(14,417,931)
Interest (Note 31)	(18,043,821)	(16,510,177)	(13,561,377)
Reissuance by a subsidiary of treasury shares	585,207	158,316	—
Net cash provided by (used in) financing activities	(9,695,335)	1,627,232	3,480,631
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,027,216	(1,425,180)	16,216,035
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(32,191)	795,639	448,965
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	74,318,190	74,947,731	58,282,731
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱79,313,215	₱74,318,190	₱74,947,731

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 June 3, 2009, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's articles of incorporation for the extension of its corporate life for another 50 years from January 15, 2010. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

The Parent Company and its subsidiaries (collectively referred to as the Group), and its associates and joint ventures are involved primarily in the property, retail and financial services.

The Parent Company's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

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, 2019.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements of the Group are prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities which have been 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 (PFRS). All values are rounded to the nearest thousand Peso except when otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with PFRSs, which include the availment of the relief granted by the SEC under Memorandum Circular (MC) Nos. 14-2018 and 3-2019, as discussed in Note 3 to the consolidated financial statements.

Basis of Consolidation

The Group is considered to have control over an investee if 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 re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of 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 control 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 non-controlling 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:

Company	Principal Activities	Percentage of Ownership			
		2018		2017	
		Direct	Indirect	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	50	–	50	–
SM Development Corporation and Subsidiaries (SMDC)	Real estate development	–	100	–	100
Highlands Prime, Inc. (HPI)	Real estate development	–	100	–	100
Costa del Hamilo, Inc. (Costa) 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	40	60	40	60
Tagaytay Resort Development Corp	Real estate development	–	100	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	–	100	–	100
MOA Esplanade Port, Inc.	Port terminal operations	–	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.	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
Affluent Capital Enterprises Limited and Subsidiaries (Affluent) *[British Virgin Islands (BVI)]	Real estate development	–	100	–	100

(Forward)



Company	Principal Activities	Percentage of Ownership			
		2018		2017	
		Direct	Indirect	Direct	Indirect
Mega Make Enterprises Limited and Subsidiaries					
*[BVI]	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 *	Real estate development				
[Hong Kong]		—	100	—	100
Rushmore Holdings, Inc.	Real estate development	—	100	—	100
Prime Commercial Property Management Corp and Subsidiaries (PCPMC)	Real estate development	—	100	—	100
Mindpro, Incorporated (Mindpro)	Real estate development	—	70	—	70
A. Canicosa Holdings, Inc. (ACHI)	Real estate development	—	100	—	100
AD Canicosa Properties, Inc. (ADCPI)	Real estate development	—	100	—	100
Cherry Realty Development Corporation	Real estate development	—	91	—	65
Mountain Bliss Resort & Development Corp and Subsidiary	Real estate development	100	—	100	—
Intercontinental Development Corporation (ICDC)	Real estate development	97	3	97	3
Prime Central Limited and Subsidiaries *[BVI]	Investment	100	—	100	—
Bellevue Properties, Inc.	Real estate development	62	—	62	—
Net Subsidiaries ^(a)	Real estate development	95	—	90	—
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	100	—	100	—
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	77	—	77	—
Others					
Primebridge Holdings, Inc.	Investment	100	—	80	20
Asia-Pacific Computer Technology Center, Inc.	Education	52	—	52	—
Multi-Realty Development Corporation (MRDC)	Investment	91	—	91	—
Henfels Investments Corporation	Investment	99	—	99	—
Belleshares Holdings, Inc. and Subsidiaries	Investment	59	40	59	40
Sto. Roberto Marketing Corp.	Investment	100	—	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) Net Subsidiaries consists of 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, 2018 and 2017.

The summarized financial information of SM Prime follows:

Financial Position

	December 31	
	2018	2017
	(In Thousands)	
Current assets	₱127,790,263	₱125,576,040
Noncurrent assets	476,344,055	412,841,558
Total assets	604,134,318	538,417,598
Current liabilities	88,279,852	78,207,732
Noncurrent liabilities	236,776,504	197,335,952
Total liabilities	325,056,356	275,543,684
Total equity	₱279,077,962	₱262,873,914



	December 31	
	2018	2017
	<i>(In Thousands)</i>	
Attributable to:		
Owners of the Parent	₱275,302,994	₱258,957,221
Non-controlling interests	3,774,968	3,916,693
	₱279,077,962	₱262,873,914

Statements of Income

	Years Ended December 31		
	2018	2017	2016
	<i>(In Thousands)</i>		
Revenue	₱104,080,565	₱90,921,850	₱79,816,231
Cost and expenses	55,753,334	50,293,058	44,551,175
Other charges	6,361,056	4,680,931	4,276,379
Income before income tax	41,966,175	35,947,861	30,988,677
Provision for income tax	9,055,046	7,823,398	6,621,053
Net income	32,911,129	28,124,463	24,367,624
Other comprehensive income (loss)	(6,125,029)	7,330,510	1,740,286
Total comprehensive income	₱26,786,100	₱35,454,973	₱26,107,910
Attributable to:			
Owners of the Parent	₱32,172,886	₱27,573,866	₱23,805,713
Non-controlling interests	738,243	550,597	561,911
Net income	₱32,911,129	₱28,124,463	₱24,367,624
Attributable to:			
Owners of the Parent	₱26,050,908	₱34,906,622	₱25,542,289
Non-controlling interests	735,192	548,351	565,621
Total comprehensive income	₱26,786,100	₱35,454,973	₱26,107,910
Dividends paid to non-controlling interests	(₱576,200)	(₱580,791)	(₱505,291)

Cash Flows

	Years Ended December 31		
	2018	2017	2016
	<i>(In Thousands)</i>		
Net cash provided by operating activities	₱45,964,414	₱45,777,407	₱31,490,924
Net cash used in investing activities	(64,078,056)	(41,011,985)	(27,079,908)
Net cash provided by (used in) financing activities	12,633,352	14,175,986	(5,603,997)
Effect of exchange rate changes on cash and cash equivalents	(124,777)	229,144	524,055
Net increase (decrease) in cash and cash equivalents	(₱5,605,067)	₱19,170,552	(₱668,926)



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 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 Group determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Group determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and its level in the fair value hierarchy.

Assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized 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.

The Group re-assesses categorization as at the date of the event or change in circumstances that caused the transfers and/or at the end of each reporting period.



Financial Instruments (effective January 1, 2018)

Financial Assets

Initial Recognition and Measurement

At initial recognition, financial assets are classified as, and measured at amortized cost, fair value through OCI (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 gives 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. Re-assessment 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 gives rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

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, 2018, the Group does not have debt instruments 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" 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.

Impairment

The Group recognizes an allowance for expected credit losses (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.

The Group uses a provision matrix for rent and other receivables and unbilled revenue from sale of real estate, vintage approach for receivables from sale of real estate and simplified approach (low credit risk simplification) for treasury assets to calculate ECLs.

ECLs are recognized in two stages. For credit exposures with no significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-month period (a 12-month ECL). For those credit exposures with significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).



For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. The Group does not track changes in credit risk, instead, recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default generally when contractual payments are 120 days past due or when sales are cancelled supported by a notarized cancellation letter executed by the Group and unit buyer. 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

Initial Recognition and Measurement

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 and tenants' deposits and others.

Subsequent Measurement

Loans and Borrowings

Interest-bearing loans and borrowings 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.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount 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 re-measured 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.

Financial Instruments (effective before January 1, 2018)

Date of Recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets, recognition and derecognition, as applicable, that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date. Derivatives are recognized on the trade date.

Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value, the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those classified as FVPL, includes the transaction cost.



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

- Financial assets and financial liabilities at FVPL
- Loans and receivables
- Held-to-maturity (HTM) investments
- AFS investments
- Other financial liabilities

The classification depends on the purpose for which the instruments are acquired and whether these are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

“Day 1” Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset 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 “Day 1” difference amount.

Financial Assets and Liabilities at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and financial assets and liabilities designated upon initial recognition as FVPL.

Financial assets and liabilities are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of income under “Gain (loss) on sale of financial assets - net” account. Interest income earned on investments held for trading are recognized in “Interest income” account in the consolidated statement of income.

Financial assets and liabilities may be designated by management at initial recognition as FVPL when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on a different basis; or,
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or,
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Group’s investments held for trading and derivative assets are classified as financial assets at FVPL, while the Group’s derivative liabilities arising from issuance of convertible bonds and derivative financial instruments with negative fair values are classified as financial liabilities at FVPL.



Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable collectible amounts that are not quoted in an active market. These are not intended for immediate or short-term resale and thus, not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized and impaired, as well as through the amortization process. Loans and receivables are included under current assets if realizability or collectibility is within twelve months after the reporting period.

The Group's 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), long-term notes (included under "Other noncurrent assets" account) are classified in this category.

AFS Investments

AFS investments are non-derivative financial assets that are not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statement of comprehensive income under "Net unrealized gain (loss) on financial assets" account until the investment is derecognized or the investment is determined to be impaired. In case of derecognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of income. Interest earned on holding AFS investments is recognized in the consolidated statement of income using the effective interest method. Assets under this category are classified as current if expected to be disposed of within 12 months after the reporting period.

The Group's investments in shares of stock, bonds and corporate notes and club shares are classified in this category. These investments are included under "Financial assets" account in the consolidated balance sheet.

Other Financial Liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon inception of the liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

The Group's bank loans, accounts payable and other current liabilities, dividends payable, long-term debt and tenants' deposits and others are classified in this category.



Classification of Financial Instruments between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or,
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or,
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument, as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issue Cost

Debt issue cost is presented as a reduction in long-term debt and amortized over the term of the related borrowings using the effective interest method.

Derivative Financial Instruments

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, including bifurcated embedded derivatives, are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Cash Flow Hedges

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statement of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized under “Cumulative translation adjustment” account in the consolidated statement of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statement of income under “Gain (loss) on fair value changes on derivatives - net” account.

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized. However, if an entity expects that all or a portion of a loss recognized in OCI will not be recovered in one or more future periods, it shall reclassify from equity to profit or loss as a reclassification adjustment the amount that is not expected to be recovered.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been reported as “Cumulative translation adjustment” is retained in the OCI until the hedged transaction impacts the consolidated statement of income. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously reported in the consolidated statement of comprehensive income is recognized immediately in the consolidated statement of income.



Other Derivative Instruments Not Accounted for as Hedges

Certain freestanding derivative instruments that provide economic hedges under the Group's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized under "Gain (loss) on fair value changes on derivatives - net" account in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivative

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary, in a way similar to a stand-alone derivative. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Subsequent re-assessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case, a re-assessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both, have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Derecognition of Financial Assets and Liabilities

Financial Assets

A financial asset is derecognized when:

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities

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



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 modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses at each reporting period whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective impairment assessment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the impaired asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. If a write off is later recovered, the recovery is recognized in the consolidated statement of income to the extent of the carrying amount that would have been determined had no impairment loss been recognized.

Financial Assets Carried at Cost

If there is objective evidence that there is impairment of an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.



AFS Investments

The Group assesses at each reporting period whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS investments, an objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Significant decline in fair value is evaluated against the original cost of the investment, while prolonged decline is assessed against the periods in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount of the asset and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" account in the consolidated statement of income. If in subsequent years, the fair value of a debt instrument should increase and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

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

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. Current portion of land and development and condominium and residential units for sale include 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,
- Costs of borrowing, 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 recoverable amount of the associate companies and joint ventures and its carrying value, then, recognizes the 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	5–10 years
Leasehold improvements	5–10 years or term of the lease, whichever is shorter
Transportation equipment	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 credited or 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	3–5 years
Buildings and improvements	10–40 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 the 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 had 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 re-measured 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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* either in profit or loss or as a charge to OCI. If the contingent consideration is classified as equity, it should not be re-measured and subsequent settlement is accounted for within equity.

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.

Intangible Assets

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. 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.

Land Use Rights

Land use rights which is included under "Other noncurrent assets" is amortized over its useful life of 40–60 years.

Impairment of Nonfinancial Assets

The carrying value of nonfinancial assets (property and equipment, investment properties and investments in associate companies and joint ventures, 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.

Capital Stock and Additional Paid-in Capital

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 are 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, other than those disclosed in Note 2 to the consolidated financial statements, shall be met before revenue is recognized:

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 Available-for-Sale Investments. 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.



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.

Effective beginning January 1, 2018

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 are 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 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/ time elapsed. This is based on the monthly project accomplishment report prepared by the 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 the contract liabilities (or referred also in the consolidated financial statements as "Unearned revenue from sale of real estate").

Information about the Groups' 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 commences upon signing of the contract to sell and the consideration is payable in cash or under a financing scheme entered with the customer. The financing scheme would include payment of certain percentage of the contract price spread over a certain period (e.g. one to three years) at a fixed monthly payment with the remaining balance payable in full at the end of the period either through cash or external financing. The amount due for collection under the amortization schedule for each of the customer 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. Cost includes the cost of land, land development, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. The aggregate cost is allocated to the saleable area, with the portion allocable to the sold area recognized as costs of real estate sold while the portion allocable to the unsold area recognized as part of real estate inventories (condominium and residential units for sale and current portion of land and development). In addition, the Group recognizes as an asset those 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 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, judgement is required in ascertaining the future economic benefits from these contracts as sufficient to recover the relevant assets.

Effective before January 1, 2018

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group acts as principal in the majority of its revenue arrangements.

Sale of Merchandise Inventories. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, normally upon delivery. Sales are net of returns and discounts.

Sale of Real Estate. Revenue is recognized when it is deemed probable that economic benefits will flow to the Group in the form of collections. Collectibility of the sales amount is evidenced by the buyer's initial and continuous investments in accordance to the sales agreement, as well as good credit standing.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the POC method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the "Tenants' deposits and others" account in the consolidated balance sheet. If any of the criteria under the full accrual or POC method is not met, the deposit method is applied until all the conditions for recording a sale are met.



Pending recognition of sale, cash received from buyers is presented under the “Tenants’ deposits and others” account in the consolidated balance sheet.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of condominium and residential units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development cost, which includes estimated costs for future development works.

The cost of inventory recognized in the consolidated statement of income upon sale is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the POC used for revenue recognition purposes.

Expected losses on contracts are recognized immediately when it is probable that the total contract cost will exceed total contract revenue. Changes in the estimated cost to complete the condominium project which affect cost of real estate sold and gross profit are recognized in the year in which changes are determined.

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,
- Re-measurements of net defined benefit liability or asset.

Service cost which includes current service costs, past service costs and gains or losses on non-routine 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.

Re-measurements 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. Re-measurements 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 Lessee. Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of income.

Capitalized lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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 in which it is earned.



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.

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 amount are those that are enacted or substantively enacted as at the end of the reporting period.

Deferred Income Tax. 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, 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). Revenue, expenses and assets are recognized net of the amount of VAT, except:

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

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

Basic/Diluted Earnings Per Common Share (EPS)

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

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

Contingencies

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.

Events after the Reporting Period

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following amendments to standards and improvements, starting January 1, 2018. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*



- Amendments to PFRS 4, Applying PFRS 9 *Financial Instruments*, with PFRS 4, *Insurance Contracts*
- PFRS 9, *Financial Instruments*

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* for annual period beginning on or after January 1, 2018, covering all three aspects of accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

The Group applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The Group did not restate the comparative information which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 are recognized directly in retained earnings and other components of equity as at January 1, 2018.

(a) Classification and measurement

The classification and measurement requirements of PFRS 9 did not have a significant impact on the consolidated financial statements. The Group continued to measure at fair value all financial assets previously held at fair value under PAS 39. Following are the changes in the classification of financial assets:

- Loans and receivables measured at amortized cost under PAS 39 which 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), escrow fund, bonds and deposits (included under “other noncurrent assets” account), long-term notes (included under “Other noncurrent assets” account), amounting to ₱201,314.6 million as at December 31, 2017 are classified and measured as financial assets at amortized cost (debt instruments) beginning January 1, 2018 (see Notes 7, 8, 9, 10, 16).
- Equity instruments amounting to ₱23,694.8 million as at December 31, 2017, previously classified as AFS investments under PAS 39, are classified and measured as financial assets designated at FVOCI (equity instruments) beginning January 1, 2018. Impairment losses amounting to ₱122.8 million previously recognized for these investments were reversed as at January 1, 2018 (see Note 11). Fair value adjustments on unquoted equity investments amounted to ₱2,023.4 million as at January 1, 2018.
- Debt instruments amounting to ₱3,243.3 million as at December 31, 2017, previously classified as AFS investments, are classified and measured as financial assets at FVOCI and financial assets at FVPL beginning January 1, 2018. There were no impairment losses recognized in profit or loss for these investments as at January 1, 2018 (see Note 11).

There are no changes in the classification and measurement of the financial liabilities.

(b) Impairment

The adoption of PFRS 9 has fundamentally changed the Groups’s accounting for impairment losses for financial assets by replacing PAS 39’s incurred loss approach with a forward-looking ECL approach.

The adoption of ECL approach has no significant impact on the allowance for impairment losses recognized in the consolidated financial statements.



(c) Hedge accounting

At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of PFRS 9, the Group designated the change in fair value of the entire cross currency swaps, interest rate swaps and principal only swaps contracts as cash flow hedges. Changes in the fair value of the cross currency swaps, interest rate swaps and principal only swaps contracts are recognized in OCI and accumulated as a separate component of equity.

▪ PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations. It applies to all revenue arising from contracts with its customers, with limited exceptions. PFRS 15 establishes a five-step model that will apply to revenues arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

PFRS 15 is applicable to all entities within the Group and will supersede all current revenue recognition requirements under PFRSs.

PFRS 15 requires the exercise of judgement when applying each step of the model to contracts with customers, taking into consideration all of the relevant facts and circumstances. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard requires extensive disclosures.

With the effectivity of PFRS 15 effective January 1, 2018, the Financial Reporting Standards Council (FRSC), Philippine Interpretations Committee (PIC) issued the following guidance and interpretations to assist real estate companies in the adoption of PFRS 15:

- PIC Q&A 2018-12, Implementation Issues Affecting the Real Estate Industry, and,
- PIC Q&A 2018-14, Accounting for Cancellation of Real Estate Sales

In response to concerns raised by real estate associations on the implementation and adoption of the PIC Q&As, the SEC issued MC No. 14-2018 in October 2018 and MC No. 3-2019 in February 2019, deferring the application of the following provisions of the above-mentioned PIC Q&As for a period of 3 years:

- Accounting for significant financing component,
- Exclusion of uninstalled materials and land cost in POC determination,
- Common usage service area (CUSA) charges, and,
- Accounting for cancellation of real estate sales.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Group availed of the deferral of adoption of the above specific provisions, except for land exclusion in the determination of POC. Had these provisions been adopted, it would have affected retained earnings as at January 1, 2018 and revenue from real estate sales, cost of real estate sold, other income and real estate inventories for 2018.



With the deferral of the implementation of certain provisions of PIC Q&A 2018-12 and PIC Q&A 2018-14, the adoption of PFRS 15 did not have any significant impact to the consolidated financial statements.

- PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*, clarifies the correct classification of purchased raw land by real estate developers to inventory and investment property, and current and noncurrent assets. The adoption of this PIC Q&A resulted to the reclassification of land and development from real estate inventories to investment property (see Note 15).

PIC Q&A 2018-15, *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current*, aims to classify the prepayment based on the actual realization of such advances determined with reference to usage/realization of the asset to which it is intended for (e.g. inventory, investment property, property plant and equipment). The Group's policy on the classification of prepayments is consistent with the interpretation, hence adoption of the PIC Q&A did not have any significant impact to the consolidated financial statements.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*

Future Changes in Accounting Policies

The following are the new standards, amendments and improvements to PFRS that were issued but are not yet effective as at December 31, 2018. Unless otherwise indicated, the Group does not expect the future adoption of the said new standards, amendments and improvements to have a significant impact on the consolidated financial statements. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

The Group is assessing the impact of adopting the amendments to PFRS 9.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two



recognition exemptions for lessees – leases of ‘low-value’ assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today’s accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.

The Group is assessing the impact of adopting PFRS 16.

▪ Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the:

- Current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to re-measure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and,
- Net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to re-measure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

The Group is assessing the impact of adopting the amendments to PAS 19.



▪ Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the ECL model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

The Group is assessing the impact of adopting the amendments to PAS 28.

▪ Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is assessing the impact of adopting this interpretation.

▪ Annual *Improvements to PFRSs 2015-2017 Cycle*

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re-measuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer re-measures its entire previously held interest in the joint operation.



A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not re-measured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

The Group is assessing the impact of adopting these amendments.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

The Group is assessing the impact of adopting these amendments.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

The Group is assessing the impact of adopting these amendments.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.



These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. These are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The amendments are not applicable to the Group since it is not engaged in providing insurance nor issuing insurance contracts.

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, *Business Combinations*. 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 International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



The Group is assessing the impact of adopting the amendments to PFRS 10 and PAS 28.

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 upon management's evaluation of relevant facts and circumstances as at reporting date.

Judgments

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

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.

Part of the Group's assessment process for revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the significance of the customer's initial payments in relation to the total contract price is given consideration.

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.

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, sales 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.

Operating Lease Commitments - Group as Lessee. Management has determined that all the significant risks and benefits of ownership of these properties remain with the lessor and thus, accounts for these leases as operating leases.

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.

Impairment of AFS Investments - Significant or Prolonged Decline in Fair Value. Management determines that a decline in fair value of greater than 20% of cost is considered to be a significant decline and a decline for a period of longer than 12 months is considered to be a prolonged decline. The determination of what is significant or prolonged decline requires judgment and includes an evaluation of price volatility. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance. This is applicable to the Group as at December 31, 2017.

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 12).

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 12).

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 POC method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Revenue is recognized when the equitable interest is transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation works are finished), and the costs incurred or to be incurred can be measured reliably.



Provision for Expected Credit Losses (ECL) of Receivables and Contract Assets (referred also in the consolidated financial statements as “Unbilled revenue from sale 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 unbilled revenue from sale of real estate, and vintage approach for receivable from sale of real estate 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.

Impairment of AFS Investments - Calculation of Impairment Losses. The assessment for impairment of AFS debt instruments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. In the case of AFS equity instruments, the Group considers changes in the investee’s industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Group’s investments. This is applicable to the Group as at December 31, 2017. Effective January 1, 2018, the Group applies the low credit risk simplification in assessing the impairment of debt instruments at FVOCI.

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 Notes 15 and 22 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 2018 and 2017, 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. 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 13 and 14 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 and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 12 for related balances.



Impairment of Goodwill and Trademarks and Brand Names 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 and investment properties 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. See Notes 13 and 14 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. See Note 16 for related balances.

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

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

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



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

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

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

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

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

SM Retail Merger

On February 29, 2016, the BOD and stockholders of the Parent Company approved the merger of its subsidiary SM Retail with certain related entities namely, Forsyth Equity Holdings, Inc., HFS Corporation, Morrison Corporation, San Mateo Bros., Inc. and Tangiers Resources Corporation (collectively referred to as Absorbed Companies), with SM Retail as the surviving entity. As consideration for the Absorbed Companies, SM Retail issued its shares of stock to the stockholders of the Absorbed Companies. The Absorbed Companies hold certain equity interests in the following retail businesses (collectively referred to as the Retail Affiliates, and together with the Absorbed Companies, the Acquired Entities):

- ACE Hardware Philippines, Inc.
- Homeworld Shopping Corporation
- International Toy World, Inc.
- Nursery Care Corporation
- Kultura Store, Inc.
- Star Appliance Center, Inc.
- CK Fashion Collection Corp.
- Signature Lines, Inc.
- Supplies Station, Inc.



- Sports Central (Manila), Inc.
- H & B, Inc.
- Fitness Health & Beauty Holdings, Corp.

On July 7, 2016, the SEC approved the plan of merger of SM Retail and the Absorbed Companies. Before the approval by the SEC of the plan of merger, SM Retail was 100% directly owned by the Parent Company. With the merger, the Parent Company's equity interest changed from 100% to 77% because of the issuance of SM Retail of its shares of stock to the stockholders of the Absorbed Companies.

The Parent Company, SM Retail and the Acquired Entities are under the common control of the Sy Family before and after the merger. Thus, the merger was considered as a combination of businesses under common control for which pooling of interests method was applied in the preparation of the consolidated financial statements.

The assets, liabilities and equity of the acquired businesses are included in the consolidated financial statements at their carrying amounts. Financial information for periods prior to the date of business combination was restated.

Under the pooling of interests method:

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

SM Prime Common Control Business Acquisitions

In December 2016, SM Prime, through Prime_Commercial Property Management Corporation (PCPMC), acquired 90% of the outstanding common stock of Shopping Center Management Corporation (SCMC) and SM Lifestyle Entertainment Inc. (SMLEI).

In January 2017, SM Prime, through SMLEI, acquired 90% of the outstanding common stock of Family Entertainment Center, Inc.

In September 2017, SM Prime, through PCPMC, acquired the remaining 10% of the outstanding common stock of SCMC.

The companies involved are all under the common control of the Sy Family, thus the acquisitions were accounted for using the pooling of interests method. Assets, liabilities and equity of the acquired businesses were included in the consolidated financial statements at their carrying amounts. Prior period financial statements were not restated due to immateriality.



6. Segment Information

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

The property segment is involved in mall, residential and commercial development and hotels and convention centers 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. 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 financial services and others segment primarily includes the operations of the Parent Company which engages in asset management and capital investments as well as its associate companies which are involved in financial services.

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

2018					
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
<i>(In Thousands)</i>					
Revenue:					
External customers	₱97,284,609	₱334,958,024	₱17,545,534	₱-	₱449,788,167
Inter-segment	13,058,781	207,805	3,916,144	(17,182,730)	-
	₱110,343,390	₱335,165,829	₱21,461,678	(₱17,182,730)	₱449,788,167
Segment results:					
Income before income tax	₱44,118,004	₱18,948,538	₱11,074,351	(₱10,557)	₱74,130,336
Provision for income tax	(9,261,240)	(6,227,332)	(126,734)	39,538	(15,575,768)
Net income	₱34,856,764	₱12,721,206	₱10,947,617	₱28,981	₱58,554,568
Net income attributable to:					
Owners of the Parent	₱34,118,588	₱11,273,053	₱10,947,617	(₱19,260,933)	₱37,078,325
Non-controlling interests	738,176	1,448,153	-	19,289,914	21,476,243
2017					
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
<i>(In Thousands)</i>					
Revenue:					
External customers	₱83,956,933	₱298,797,817	₱15,193,470	₱-	₱397,948,220
Inter-segment	12,207,193	5,378	4,339,794	(16,552,365)	-
	₱96,164,126	₱298,803,195	₱19,533,264	(₱16,552,365)	₱397,948,220



2017					
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
<i>(In Thousands)</i>					
Segment results:					
Income before income tax	₱37,977,872	₱17,261,620	₱11,198,650	(₱1,146,908)	₱65,291,234
Provision for income tax	(8,056,781)	(5,623,633)	(130,927)	38,624	(13,772,717)
Net income	₱29,921,091	₱11,637,987	₱11,067,723	(₱1,108,284)	₱51,518,517
Net income attributable to:					
Owners of the Parent	₱29,370,537	₱10,431,256	₱11,067,723	(₱17,946,061)	₱32,923,455
Non-controlling interests	550,554	1,206,731	—	16,837,777	18,595,062
2016					
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
<i>(In Thousands)</i>					
Revenue:					
External customers	₱73,203,364	₱278,550,044	₱13,501,315	₱—	₱365,254,723
Inter-segment	11,253,256	3,123	5,520,056	(16,776,435)	—
	₱84,456,620	₱278,553,167	₱19,021,371	(₱16,776,435)	₱365,254,723
Segment results:					
Income before income tax	₱33,080,956	₱16,627,376	₱12,139,109	(₱2,530,849)	₱59,316,592
Provision for income tax	(6,777,132)	(4,906,396)	(88,242)	213,506	(11,558,264)
Net income	₱26,303,824	₱11,720,980	₱12,050,867	(₱2,317,343)	₱47,758,328
Net income attributable to:					
Owners of the Parent	₱25,742,249	₱10,615,139	₱12,050,867	(₱17,203,951)	₱31,204,304
Non-controlling interests	561,575	1,105,841	—	14,886,608	16,554,024

Disaggregated revenues is consistent with business segment revenues as presented above.

Total amount of revenue from contracts with customers amounted to ₱420,929.4 million in 2018.

7. Cash and Cash Equivalents

This account consists of:

	2018	2017
<i>(In Thousands)</i>		
Cash on hand and in banks (Note 21)	₱13,609,347	₱9,643,938
Temporary investments (Note 21)	65,703,868	64,674,252
	₱79,313,215	₱74,318,190

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 24).

Temporary investments amounting to ₱50.0 million as at December 31, 2018 and 2017 is used as collateral for certain loans (see Note 17).



8. Time Deposits

This account consists of time deposits as follows:

	2018	2017
	<i>(In Thousands)</i>	
Current	₱25,842,829	₱13,237,886
Noncurrent	2,392,622	26,688,721
	₱28,235,451	₱39,926,607

The time deposits bear interest ranging from 1.0% to 4.2% in 2018 and 0.5% to 4.9% in 2017.

Certain noncurrent time deposits amounting to ₱2,382.6 million and ₱3,800.8 million as at December 31, 2018 and 2017, respectively, are used as collateral for use of credit lines.

Interest earned from time deposits is disclosed in Note 24.

9. Financial Assets

This account consists of:

	2018	2017
	<i>(In Thousands)</i>	
Financial assets at FVOCI:		
Shares of stock		
Listed	₱23,382,060	₱—
Unlisted	2,613,690	—
Club shares	31,830	—
Financial assets at FVPL -		
Corporate notes	1,314,500	—
AFS investments:		
Shares of stock		
Listed	—	23,611,916
Unlisted	—	61,405
Bonds and corporate notes	—	3,243,297
Club shares	—	21,470
	27,342,080	26,938,088
Less current portion	639,316	1,347,926
Noncurrent portion	₱26,702,764	₱25,590,162

- 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.
- Financial assets at FVPL pertain to debt instruments where the contractual cash flows are not solely principal and interest.



- AFS investments pertain to shares of stock, bonds and corporate notes, and club shares. Unlisted shares of stock pertain to stocks of private corporations which are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is no market for these investments and the Group intends to hold these for the long-term.
- Investments in bonds and corporate notes bear fixed interest rates of 5.0% in 2018 and 5.0% to 7.5% in 2017. These investments will mature on various dates beginning April 2018 to March 2020. The fair value of these investments amounted to ₱1,314.5 million as at December 31, 2018 and US\$15.0 million (₱746.8 million) and ₱2,496.5 million as at December 31, 2017.

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 in 2018 follow:

	2018
	<i>(In Thousands)</i>
Balance at beginning of year	₱-
Transfer from net unrealized gain on AFS investments	15,324,123
Effect of adoption of new accounting standards	1,703,458
Share in net unrealized loss on financial assets at FVOCI of associates (Note 12)	(263,286)
Loss due to changes in fair value of financial assets at FVOCI	(5,013,979)
Transferred to profit or loss	(1,336)
Balance at end of year	₱11,748,980

The movements in net unrealized gain on AFS investments and share in unrealized loss on AFS investments of associates attributable to the owners of the Parent in 2017 follow:

	2017
	<i>(In Thousands)</i>
Balance at beginning of year	₱10,780,430
Share in net unrealized gain on AFS investments of associates (Note 12)	371,647
Gain due to changes in fair value of AFS investments	4,285,398
Transferred to profit or loss	(113,352)
Balance at end of year	₱15,324,123

Gain on disposal of financial assets at FVOCI amounted to ₱1.3 million in 2018 and gain on disposal of AFS investments amounted to ₱118.0 million and ₱3.3 million in 2017 and 2016, respectively.

Interest earned from financial assets is disclosed in Note 24.



10. Receivables and Contract Assets

This account consists of:

	2018	2017
	<i>(In Thousands)</i>	
Trade:		
Real estate buyers*	₱50,878,438	₱40,400,047
Third-party tenants	7,252,071	6,804,584
Related-party tenants (Note 21)	383,424	619,948
Others	124,530	136,580
Due from related parties (Note 21)	953,010	655,580
Management and service fees (Note 21)	1,244,159	373,619
Dividends (Note 21)	185,767	270,784
Total	61,021,399	49,261,142
Less allowance for impairment loss	1,034,040	1,054,498
	59,987,359	48,206,644
Less noncurrent portion of receivables from real estate buyers (Note 16)	26,232,167	15,854,070
Current portion	₱33,755,192	₱32,352,574

* Includes unbilled revenue from sale of real estate amounting to ₱46,501.0 million as at December 31, 2018.

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 and are noninterest-bearing. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱1,664.0 million and ₱4,924.0 million as at December 31, 2018 and 2017, respectively, and, on with recourse basis, nil and ₱515.0 million as at December 31, 2018 and 2017, respectively (see Note 21). The corresponding liability from assignment of receivables on with recourse basis bears interest ranging from 4.5% to 6.5% in 2018 and 3.3% to 4.4% in 2017. The fair value of these assigned receivables and liability approximates cost.

The transaction price allocated to the remaining performance obligations amounting to ₱12,929.0 million as at December 31, 2018 is expected to be recognized over the construction period ranging from one to five years.

- Trade receivables from tenants and 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.



The movements in allowance for impairment loss follow:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	₱1,054,498	₱967,343
Provisions (Note 23)	46,606	93,080
Reversal and write off	(67,064)	(5,925)
Balance at end of year	₱1,034,040	₱1,054,498

The aging analyses of receivables follow:

	2018	2017
	<i>(In Thousands)</i>	
Neither past due nor impaired	₱58,110,539	₱44,969,317
Past due but not impaired:		
31-90 days	551,833	903,808
91-120 days	306,219	418,379
Over 120 days	1,018,768	1,915,140
Impaired	1,034,040	1,054,498
	₱61,021,399	₱49,261,142

Receivables other than those identified as impaired, are assessed by the Group's management as good and collectible.

11. Other Current Assets

This account consists of:

	2018	2017
	<i>(In Thousands)</i>	
Land and development (Note 15)	₱29,486,964	₱22,518,139
Prepaid taxes and other prepayments	11,730,967	9,658,898
Condominium and residential units for sale (Note 15)	8,110,504	8,829,343
Bonds and deposits	6,601,305	7,231,756
Receivable from banks	4,158,765	3,314,087
Non-trade receivables	4,605,743	4,230,014
Input tax	2,439,164	2,743,731
Accrued interest receivable (Note 21)	359,714	432,690
Escrow fund (Notes 16 and 21)	157,719	50,881
Derivative assets (Notes 28 and 29)	—	1,794,745
Others	2,687,732	2,673,902
	₱70,338,577	₱63,478,186

- 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 period.



- Bonds and deposits pertain to down payments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of project accomplishment.
- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 24).
- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- 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 (see Note 24).

12. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

	2018	2017
	<i>(In Thousands)</i>	
Cost:		
Balance at beginning of year	₱161,012,896	₱113,180,533
Additions	3,849,756	47,832,363
Balance at end of year	164,862,652	161,012,896
Accumulated equity in net earnings:		
Balance at beginning of year	84,014,473	71,236,994
Effect of adoption of new standards	2,817,523	—
Equity in net earnings	19,164,345	16,640,597
Dividends received and others	(4,423,746)	(3,863,118)
Balance at end of year	101,572,595	84,014,473
Share in other comprehensive income of associate companies	(6,697,742)	(2,978,434)
Translation adjustment	57,572	65,492
	₱259,795,077	₱242,114,427

There is no impairment loss for any of these investments in 2018 and 2017.

The carrying amount of investments in associate companies amounted to ₱251,856.1 million and ₱235,028.2 million as at December 31, 2018 and 2017, respectively.



The associate companies and joint ventures of the Group follow:

Company	Percentage of Ownership				Principal Activities
	2018		2017		
	Gross	Effective	Gross	Effective	
Associates					
BDO Unibank, Inc. (BDO)	46	45	46	45	Financial services
China Banking Corporation (China Bank)	23	20	23	20	Financial services
Belle Corporation (Belle)	27	26	32	28	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation	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
CityMall Commercial Centers, Inc.	34	34	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	5	5	5	5	Gaming
OCLP Holdings, Incorporated (OHL)	40	20	40	20	Real estate development
Feihua Real Estate (Chongqing) Company Ltd (FHREC)	50	25	50	25	Real estate development
Fitness Health & Beauty Holdings Corp.	40	31	40	31	Retail
Philippines Urban Living Solutions Inc. (PULSI)	61	61	61	61	Real estate development
Negros Navigation Co., Inc. (NENACO)	34	34	34	34	Integrated supply chain
Net Associates ^(a)	34	34	34	34	Real estate development
Goldilocks Bakeshop, Inc. (GBI)	34	34	–	–	Bakery products and other food
Joint Ventures					
Walmart 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

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

(a) Net Associates consists of N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc. and N-Park BGC Land, Inc.

(b) Walmart Mall consists of Winsome Development Corporation, Willin Sales, Inc., Williamson, Inc., Walmart Ventures, Inc. and WM Development Inc.

BDO

In January 2017, BDO completed its stock rights offering and issued ₱60.0 billion new common shares. Consequently, the common shares held by the Group increased by 349.9 million shares.

China Bank

In May 2017, China Bank completed its stock rights offering and issued ₱15.0 billion new common shares. Consequently, the common shares held by the Group increased by 109.2 million shares. The shares were issued on May 4, 2017.

In October 2017, China Bank declared stock dividends equivalent to 8% of its outstanding capital stock. Consequently, the common shares held by the Group increased by 44.9 million shares. The shares were issued on November 3, 2017.

Belle

In August 2018, Belle repurchased 735.6 million of its shares from the market, thus reducing the Group's effective ownership to 26.4%.

Atlas

In November 2017, the Group subscribed to additional 598.0 million shares, increasing its equity interest by 5.0%.

PLC

At various dates in 2017, the Group acquired additional 269.8 million shares equivalent to 0.85% equity interest.

PULSI

In April 2017, the Group acquired 674.9 million shares equivalent to 61.2% equity interest in PULSI, the developer and operator of MyTown dormitories.



NENACO

In March 2017, the Group acquired a minority stake in 2GO Group, Inc. (“2GO”) through a 34.5% equity interest in its parent company, NENACO. 2GO is the largest integrated supply chain operator in the Philippines, offering shipping, freight forwarding, warehousing, and express delivery services.

Net Associates

Between September to October 2017, the Group acquired 34.0% equity interest each in N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc., and N-Park BGC Land, Inc.

GBI

In June 2018, the Group acquired 34.1% equity interest in Goldilocks Bakeshop, Inc.

BDO

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

	2018	2017
	<i>(In Millions)</i>	
Total assets	₱3,022,247	₱2,668,104
Total liabilities	2,694,098	2,369,764
Total equity	328,149	298,340
Proportion of the Group’s ownership	46%	46%
	150,949	137,813
Goodwill and others	14,554	20,475
Carrying amount of the Group’s investment	₱165,503	₱158,288

	2018	2017	2016
	<i>(In Millions)</i>		
Interest income	₱129,040	₱99,795	₱82,037
Interest expense	(30,748)	(18,042)	(16,413)
Other expenses - net	(65,653)	(53,648)	(39,378)
Net income	32,639	28,105	26,246
Other comprehensive loss	(4,727)	(1,868)	(4,171)
Total comprehensive income	₱27,912	₱26,237	₱22,075
Group’s share in net income	₱15,101	₱12,968	₱11,945
Group’s share in total comprehensive income	₱10,754	₱12,845	₱10,394

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

	2018	2017	2016
	<i>(In Millions)</i>		
Share in net income	₱4,063	₱3,673	₱3,034
Share in other comprehensive income	315	315	154
Share in total comprehensive income	₱4,378	₱3,988	₱3,188



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

	2018	2017
	<i>(In Thousands)</i>	
BDO	₱280,162,825	₱350,960,765
China Bank	16,414,423	20,169,752
Belle	6,016,951	12,960,341
Atlas	3,103,238	6,061,012
PLC	21,168,058	35,721,098

The fair value of these investments are categorized as Level 1 in the fair value hierarchy.



13. Property and Equipment

The movements in this account follow:

	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
<i>(In Thousands)</i>									
Cost									
As at December 31, 2016	₱11,977,397	₱3,045,780	₱6,309,182	₱8,363,062	₱6,942,380	₱15,534,101	₱1,095,571	₱1,208,798	₱54,476,271
Additions	437,660	193,512	532,493	681,080	691,625	1,583,663	25,411	922,547	5,067,991
Reclassifications	84,503	233,269	197,498	260,202	156,851	171,663	(286,072)	(778,239)	39,675
Disposals/retirements	(63,674)	(222,267)	(33,716)	(54,523)	(15,221)	(190,290)	(7,672)	(126,260)	(713,623)
As at December 31, 2017	12,435,886	3,250,294	7,005,457	9,249,821	7,775,635	17,099,137	827,238	1,226,846	58,870,314
Additions	495,484	137,221	650,192	984,300	1,087,083	1,089,021	399,380	1,609,808	6,452,489
Reclassifications	731,140	318,803	215,101	(640,623)	595,411	943,314	14,273	(1,311,435)	865,984
Disposals/retirements	(7,238)	(43,712)	(33,983)	(29,836)	(35,489)	(319,355)	(276,580)	(10,715)	(756,908)
As at December 31, 2018	₱13,655,272	₱3,662,606	₱7,836,767	₱9,563,662	₱9,422,640	₱18,812,117	₱964,311	₱1,514,504	₱65,431,879
Accumulated Depreciation and Amortization									
As at December 31, 2016	₱4,259,241	₱2,043,696	₱4,946,410	₱5,311,825	₱4,617,524	₱11,656,144	₱691,214	₱—	₱33,526,054
Depreciation and amortization (Note 23)	850,733	359,189	598,657	867,742	724,850	1,245,592	58,162	—	4,704,925
Reclassifications	(6,370)	10,391	35,354	(15,741)	6,573	(90,344)	(105,408)	—	(165,545)
Disposals/retirements	(58,366)	(208,111)	(27,888)	(45,984)	(13,283)	(173,223)	(7,672)	—	(534,527)
As at December 31, 2017	5,045,238	2,205,165	5,552,533	6,117,842	5,335,664	12,638,169	636,296	—	37,530,907
Depreciation and amortization (Note 23)	819,177	357,057	648,782	955,861	862,892	1,373,922	74,722	—	5,092,413
Reclassifications	14,631	42,348	30,070	(92,395)	52,707	165,661	3,137	—	216,159
Disposals/retirements	(5,766)	(41,873)	(32,274)	(25,906)	(32,862)	(310,433)	(160,153)	—	(609,267)
As at December 31, 2018	₱5,873,280	₱2,562,697	₱6,199,111	₱6,955,402	₱6,218,401	₱13,867,319	₱554,002	₱—	₱42,230,212
Net Book Value									
As at December 31, 2018	₱7,781,992	₱1,099,909	₱1,637,656	₱2,608,260	₱3,204,239	₱ 4,944,798	₱410,309	₱1,514,504	₱23,201,667
As at December 31, 2017	7,390,648	1,045,129	1,452,924	3,131,979	2,439,971	4,460,968	190,942	1,226,846	21,339,407



14. Investment Properties

The movements in this account follow:

	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
<i>(In Thousands)</i>					
Cost					
As at December 31, 2016	₱69,401,322	₱204,132,187	₱33,075,502	₱24,461,049	₱331,070,060
Effect of common control business combination (Note 5)	—	1,047	929	—	1,976
Additions	3,766,662	4,279,223	1,776,554	15,984,057	25,806,496
Reclassifications	(4,912,312)	11,291,893	1,166,605	(7,702,271)	(156,085)
Translation adjustment	75,699	2,459,685	193,841	215,945	2,945,170
Disposals	(11,538)	(162,144)	(46,326)	—	(220,008)
As at December 31, 2017	68,319,833	222,001,891	36,167,105	32,958,780	359,447,609
Additions	4,331,055	8,484,409	3,024,922	11,713,859	27,554,245
Reclassifications	(1,450,188)	9,065,328	1,112,146	(5,889,917)	2,837,369
Translation adjustment	(5,531)	(166,451)	(12,678)	(4,949)	(189,609)
Disposals	(65,250)	(63,044)	(413,313)	(24,124)	(565,731)
As at December 31, 2018	₱71,129,919	₱239,322,133	₱39,878,182	₱38,753,649	₱389,083,883
Accumulated Depreciation, Amortization and Impairment Loss					
As at December 31, 2016	₱1,754,581	₱40,096,356	₱19,072,615	₱—	₱60,923,552
Effect of common control business combination (Note 5)	—	527	769	—	1,296
Depreciation and amortization (Note 23)	207,478	6,320,224	2,667,722	—	9,195,424
Reclassifications	—	1,697	—	—	1,697
Translation adjustment	37,530	325,992	95,175	—	458,697
Disposals	(11,538)	(94,504)	(45,280)	—	(151,322)
As at December 31, 2017	1,988,051	46,650,292	21,791,001	—	70,429,344
Depreciation and amortization (Note 23)	226,776	6,654,052	3,067,430	—	9,948,258
Reclassifications	(26,656)	174,997	(153,171)	—	(4,830)
Translation adjustment	(9,243)	(68,853)	(14,860)	—	(92,956)
Disposals	(25,807)	(61,055)	(373,345)	—	(460,207)
As at December 31, 2018	₱2,153,121	₱53,349,433	₱24,317,055	₱—	₱79,819,609
Net Book Value					
As at December 31, 2018	₱68,976,798	₱185,972,700	₱15,561,127	₱38,753,649	₱309,264,274
As at December 31, 2017	66,331,782	175,351,599	14,376,104	32,958,780	289,018,265

As at December 31, 2018 and 2017, the allowance for impairment loss on land and improvements, and construction in progress amounted to ₱600.0 million. Portions of investment properties located in China with carrying value of ₱1,886.0 million and ₱1,898.0 million as at December 31, 2018 and 2017, respectively, were mortgaged as collateral to secure certain domestic borrowings in China (see Note 19).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱46,222.4 million, ₱40,957.3 million and ₱36,161.7 million in 2018, 2017 and 2016, respectively. The corresponding direct operating expenses amounted to ₱32,701.3 million, ₱30,486.4 million and ₱27,166.5 million in 2018, 2017 and 2016, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱38,740.0 million and ₱33,183.0 million as at December 31, 2018 and 2017, respectively.



Construction contracts related to the construction of the above-mentioned projects amounted to ₱47,100.0 million and ₱40,511.0 million as at December 31, 2018 and 2017, 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 ₱15,738.0 million and ₱14,571.0 million as at December 31, 2018 and 2017, respectively.

Interest capitalized to investment properties amounted to ₱2,681.0 million and ₱2,299.0 million as at December 31, 2018 and 2017, respectively. Capitalization rates used range from 2.4% to 5.0% in 2018 and 2.4% to 4.8% in 2017.

The fair value of substantially all investment properties amounting to ₱846,612.1 million 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. While fair value of the investment properties was not determined as at December 31, 2018 and 2017, the Group believes that there were no conditions present in 2018 and 2017 that would significantly reduce the fair value of investment properties from that determined in the most recent valuation.

The significant assumptions used in the valuations follow:

Discount rate	8.0%–11.0%
Capitalization rate	5.8%–8.5%
Average growth rate	2.3%–12.1%

In conducting the appraisal, the independent appraisers mainly used the 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 fair value of investment properties is categorized as Level 3 since valuation is based on unobservable inputs.

15. Land and Development and Condominium and Residential Units for Sale

Land and Development

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

The movements in “Land and development” accounted as real estate inventories follow:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	₱62,698,284	₱51,054,084
Reclassification to land and development - noncurrent, accounted as investment property	(36,484,925)	(27,052,003)
Development cost incurred	20,358,758	16,762,985
Borrowing cost capitalized	4,047	38,240
Cost of real estate sold	(15,390,471)	(10,444,511)
Transfer to condominium and residential units for sale	(1,733,711)	(5,690,563)
Reclassification and others	34,982	(2,150,093)
Balance at end of year	₱29,486,964	₱22,518,139



Included in land and development accounted as real estate inventories are contract fulfillment assets amounting to ₱1,232.0 million as at December 31, 2018, representing the unamortized portion of land cost.

The movements in land and development - noncurrent accounted as investment property follow:

	2018	2017
	<i>(In Thousands)</i>	
Reclassification from land development - noncurrent, accounted for as real estate inventories	₱36,484,925	₱27,052,003
Land acquisitions	17,443,522	13,128,142
	₱53,928,447	₱40,180,145

The average rates used to determine the amount of borrowing cost eligible for capitalization range from 4.6% to 5.1% in 2018 and 3.5% to 4.6% in 2017.

Not included in land and development cost - current and noncurrent is ₱51,097 million and ₱53,324 million as at December 31, 2018 and 2017, respectively, representing the estimated cost to complete the projects.

Land and development is stated at cost. There is no allowance for inventory write-down as at December 31, 2018 and 2017.

Condominium and Residential Units for Sale

The movements in this account follow:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	₱8,829,343	₱7,823,383
Transfer from land and development	1,733,711	5,690,563
Development cost incurred	1,644	38,478
Cost of real estate sold	(2,461,799)	(4,815,802)
Repossessioned inventories	7,605	92,721
Balance at end of year (Note 11)	₱8,110,504	₱8,829,343

The condominium and residential units for sale are stated at cost as at December 31, 2018 and 2017.



16. Intangibles and Other Noncurrent Assets

Intangible Assets

This account consists of:

	2018	2017
	<i>(In Thousands)</i>	
Goodwill	₱17,398,491	₱17,398,491
Less accumulated impairment loss	91,620	91,620
Net book value	17,306,871	17,306,871
Trademarks and brand names	8,163,825	8,284,361
	₱25,470,696	₱25,591,232

Goodwill is attributable mainly to SM Prime, Supervalu, Inc., Super Shopping Market, Inc., Net Subsidiaries and Waltermart Supermarket, Inc.

Trademarks and brand names include the following:

- 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.
- 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 20 years.

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:

Revenue. Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.

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 14.8% to 16.7% and 13.4% to 14.4% as at December 31, 2018 and 2017, respectively.

Fair value less cost of disposal. The fair values of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments.

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 2018 and 2017 to materially exceed its recoverable amount.



Other Noncurrent Assets

This account consists of:

	2018	2017
	<i>(In Thousands)</i>	
Bonds and deposits	₱65,893,795	₱33,522,994
Receivables from real estate buyers* (Note 10)	26,232,167	15,854,070
Land use rights	10,403,350	10,630,926
Long-term notes (Notes 21 and 29)	6,739,026	6,399,410
Derivative assets (Notes 21 and 29)	1,566,788	3,546,694
Deferred input VAT	1,689,045	1,798,706
Defined benefit asset (Note 25)	73,469	376,448
Escrow fund (Note 21)	132,460	132,460
Others	2,705,007	2,293,325
	₱115,435,107	₱74,555,033

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

- Bonds and deposits include other assets used to secure certain obligations of the Group as well as deposits for parcels of land where some of its malls are located. These are not re-measured at amortized cost.
- Long-term notes pertain to a 7-year loan amounting to US\$150.7 million that was extended to Carmen Copper Corporation, a wholly owned subsidiary of Atlas, in March 2017. The loan bears fixed interest that starts at 5.0% and escalates annually up to 10.0%, payable quarterly.
- 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. Portions of land use rights with carrying amount of ₱319.0 million and ₱327.7 million as at December 31, 2018 and 2017, respectively, are used as collateral to secure certain domestic borrowings in China (see Note 19).
- 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:

	2018	2017
	<i>(In Thousands)</i>	
Peso-denominated:		
Parent Company	₱4,850,000	₱10,200,000
Subsidiaries (Note 7)	14,035,465	13,972,965
	₱18,885,465	₱24,172,965



These loans bear interest ranging from 2.9% to 6.0% in 2018 and 2.5% to 3.5% in 2017.

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

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2018	2017
	<i>(In Thousands)</i>	
Trade	₱70,934,888	₱60,399,742
Accrued expenses	11,697,441	11,060,797
Nontrade	6,230,139	7,183,147
Tenants and customers' deposits*	12,699,887	10,208,533
Payable arising from acquisition of land	7,974,792	4,252,991
Payable to government agencies	4,618,623	4,438,597
Accrued interest (Note 21)	3,058,294	2,422,265
Subscription payable	2,021,790	2,396,790
Due to related parties (Note 21)	1,362,505	828,679
Gift checks redeemable and others	4,179,360	3,369,914
	₱124,777,719	₱106,561,455

* Includes unearned revenue from sale of real estate amounting to ₱4,195.3 million as at December 31, 2018.

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 accrual for selling, general and administrative expenses which are normally settled within the next financial year.
- Nontrade payables, accrued interest, subscription payable and others are expected to be settled within the next financial year.
- Tenants and customers' deposits pertain to the excess of collections from real estate buyers over the related revenue recognized based on the percentage of completion method, as well as non-refundable reservation fees.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payable to government agencies mainly consists of output tax which is normally settled within the next financial year.
- The terms and conditions relating to Due to related parties is 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	2018	2017
					<i>(In Thousands)</i>	
Parent Company						
U.S. dollar-denominated	October 17, 2012 - July 26, 2018	May 15, 2018 - June 10, 2024	Fixed 4.3%-4.9%; Floating six-month and three-month LIBOR + margin; semi-annual and quarterly	Unsecured	₱65,097,129	₱66,531,725
Peso-denominated	July 16, 2012 - December 27, 2018	January 14, 2019 - August 8, 2025	Fixed 4.4%-6.9%; PDST-R2 + margin; semi-annual and quarterly	Unsecured	78,864,170	73,171,870
Subsidiaries						
U.S. dollar-denominated	February 14, 2013 - July 30, 2018	January 29, 2018 - June 14, 2023	LIBOR + spread; semi-annual	Unsecured	41,975,402	54,387,944
China Yuan Renminbi-denominated	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10.0%; quarterly	Secured	3,118,514	3,445,302
Peso-denominated	January 12, 2012 - September 21, 2018	August 28, 2018 - July 26, 2026	Fixed 3.8%-7.6%; PDST-R2 + margin	Unsecured	179,751,217	136,974,407
					368,806,432	334,511,248
Less debt issue cost					1,770,189	1,658,247
					367,036,243	332,853,001
Less current portion					61,480,887	40,297,133
					₱305,555,356	₱292,555,868

LIBOR – London Interbank Offered Rate

PDST-R2 – Philippine Dealing System Treasury Reference Rate – PM

CBC – Central Bank of China

Debt Issue Cost

The movements in unamortized debt issue cost follow:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	₱1,658,247	₱1,817,683
Amortization	(580,114)	(627,940)
Additions	692,056	468,504
Balance at end of year	₱1,770,189	₱1,658,247

Repayment Schedule

The repayment schedule of long-term debt as at December 31, 2018 follows:

	Gross Loan	Debt Issue Cost	Net
	<i>(In Thousands)</i>		
Within 1 year	₱61,556,496	₱75,609	₱61,480,887
More than 1 year to 5 years	224,222,915	1,445,238	222,777,677
More than 5 years	83,027,021	249,342	82,777,679
	₱368,806,432	₱1,770,189	₱367,036,243



Covenants

The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at December 31, 2018 and 2017, the Group is in compliance with the terms of its debt covenants.

20. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2018	2017
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, 2018 and 2017, 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 Parent Company is 1,255 and 1,252 as at December 31, 2018 and 2017, respectively.

b. Redeemable preferred shares

	Number of Shares	
	2018	2017
Authorized - ₱10 par value per share	10,000,000	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2018 and 2017.

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 (see Note 5).
- SM Prime common control business acquisitions in 2016 and 2017 (see Note 5).

These acquisitions were considered as a combination of businesses under common control for which 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
		<i>(In Thousands)</i>
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

Retained earnings appropriated as at December 31, 2018 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		<i>(In Thousands)</i>
Debt service	2019 - 2023	₱27,000,000
Investments	2019 - 2021	10,000,000
		₱37,000,000



- Unappropriated

The Parent Company's cash dividend declarations in 2018 and 2017 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
<i>(In Thousands)</i>				
April 25, 2018	May 10, 2018	May 24, 2018	₱8.20	₱9,877,566
April 26, 2017	May 11, 2017	May 25, 2017	7.77	9,359,609

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱202,669.4 million and ₱176,587.5 million as at December 31, 2018 and 2017, 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 ₱17,196.9 million and ₱15,934.9 million as at December 31, 2018 and 2017, 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 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).

- 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.

- 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 28).



■ 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		Terms	Conditions
	2018	2017	2016	2018	2017		
	(In Thousands)						
Banking Group							
Cash placement and investment in marketable securities				₱89,890,525	₱98,656,653	Interest-bearing 1.0% to 4.2%	Unsecured; no impairment
Interest receivable				227,606	329,829	—	—
Interest income	₱2,253,257	₱2,587,312	₱2,401,642			—	—
Interest-bearing debt				31,446,016	24,493,678	Interest-bearing 1.8% to 6.6%	Unsecured
Interest payable				65,477	59,429	—	—
Interest expense	1,441,884	984,569	535,828			—	—
Rent receivable				126,809	112,099	Noninterest-bearing	Unsecured; no impairment
Rent income	943,474	856,149	769,720			—	—
Receivable financed	1,663,822	4,923,847	3,297,217			Without recourse	Unsecured
Dividends receivable				2,587	—	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits				18,403,000	17,475,500	Interest-bearing 4.3% to 4.5%	Unsecured; no impairment
Management and service fee receivable				14,469	23,933	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	4,205	7,892	4,368			—	—
Escrow fund				284,160	183,341	Interest-bearing 1.6% to 7.3%	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				256,615	507,849	Noninterest-bearing	Unsecured; no impairment
Rent income	1,926,478	1,746,184	1,516,273			—	—
Management and service fee receivable				937,255	275,148	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	1,233,740	489,437	393,564			—	—
Dividends receivable				—	99,180	Noninterest-bearing	Unsecured; no impairment
Due from related parties				953,010	655,580	Noninterest-bearing	Unsecured; no impairment
Due to related parties				1,362,505	828,679	Noninterest-bearing	Unsecured
Interest receivable				9,360	8,888	—	—
Interest income	345,700	366,183	316,633			—	—
Notes receivable				6,739,026	6,399,410	Interest-bearing 5.0% to 10.0%	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties

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 2018, 2017 and 2016 consist of short-term employee benefits amounting to ₱2,544.5 million, ₱2,043.7 million and ₱1,740.2 million, respectively, and post-employment benefits amounting to ₱338.2 million, ₱279.9 million and ₱196.7 million, respectively.

22. Cost of Merchandise Sales

This account consists of:

	2018	2017	2016
		<i>(In Thousands)</i>	
Merchandise inventories at beginning of year	₱27,778,741	₱25,825,290	₱21,589,701
Purchases	242,959,699	216,448,154	206,715,479
Total goods available for sale	270,738,440	242,273,444	228,305,180
Less merchandise inventories at end of year	31,836,333	27,778,741	25,825,290
	₱238,902,107	₱214,494,703	₱202,479,890

23. Selling, General and Administrative Expenses

This account consists of:

	2018	2017	2016
		<i>(In Thousands)</i>	
Personnel cost (Note 21)	₱23,948,881	₱19,725,683	₱18,293,812
Utilities	18,048,050	15,691,055	13,730,330
Depreciation and amortization (Notes 13, 14 and 16)	15,161,207	14,020,884	12,861,154
Taxes and licenses	9,783,204	8,816,366	6,942,846
Outside services	8,339,162	8,157,459	6,220,300
Rent (Note 27)	7,668,449	6,723,855	6,233,281
Marketing and selling	5,847,641	5,166,973	4,473,268
Repairs and maintenance	2,977,334	2,791,300	2,358,071
Supplies	2,584,725	2,363,417	2,097,055
Provisions - net (Note 10)	2,207,458	1,488,855	1,335,461
Transportation and travel	1,152,212	1,034,751	912,614
Pension (Note 25)	962,405	667,572	543,924
Insurance	807,540	734,322	753,134
Data processing	664,778	614,141	414,238
Professional fees	579,945	444,687	353,108
Entertainment, representation and amusement	519,664	373,296	380,675
Communications	353,108	333,149	266,414
Donations	348,486	252,540	648,669
Management fees (Note 21)	183,884	207,180	130,203
Others	4,280,945	2,734,945	3,413,947
	₱106,419,078	₱92,342,430	₱82,362,504



24. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2018	2017	2016
	<i>(In Thousands)</i>		
Interest income on:			
Time deposits and other noncurrent assets (Notes 8 and 16)	₱1,551,959	₱1,967,629	₱2,063,883
Cash in banks and temporary investments (Note 7)	1,706,201	1,137,524	958,162
Financial assets (Note 9)	65,095	340,984	348,982
Others (Note 11)	430,886	557,364	354,490
	₱3,754,141	₱4,003,501	₱3,725,517
Interest expense on:			
Long-term debt (Note 19)	₱14,857,203	₱13,217,491	₱10,907,650
Bank loans (Note 17)	1,399,546	819,017	425,526
Others	318,260	1,544,311	695,703
	₱16,575,009	₱15,580,819	₱12,028,879

25. 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")

	2018	2017	2016
	<i>(In Thousands)</i>		
Net benefit expense:			
Current service cost	₱959,134	₱728,182	₱577,642
Net interest cost (income)	2,681	(12,097)	(33,718)
Past service cost - curtailment	590	(48,513)	—
	₱962,405	₱667,572	₱543,924

Changes in the net defined benefit liability and asset

▪ 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)
	<i>(In Thousands)</i>			
As at December 31, 2016	₱3,264,621	₱2,670,218	₱—	₱594,403
Net benefit expense (Note 23):				
Current service cost	338,845	—	—	338,845
Net interest cost	212,424	186,646	34	25,812
	551,269	186,646	34	364,657

(Forward)



	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
<i>(In Thousands)</i>				
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	P—	(P51,791)	P—	P51,791
Actuarial changes arising from:				
Changes in financial assumptions	28,914	—	—	28,914
Changes in demographic assumptions	(15,578)	—	—	(15,578)
Experience adjustment	81,964	—	—	81,964
Others	4,078	—	(3,878)	200
	99,378	(51,791)	(3,878)	147,291
Reclassifications from defined benefit assets	330,208	384,068	—	(53,860)
Actual contributions	—	437,767	—	(437,767)
Benefits paid	(106,635)	(104,634)	—	(2,001)
Transfer to (from) related parties	15,737	15,815	—	(78)
Other adjustments	—	—	3,844	3,844
As at December 31, 2017	4,154,578	3,538,089	—	616,489
Net benefit expense (Note 23):				
Current service cost	796,527	—	—	796,527
Net interest cost	406,544	395,213	193	11,524
	1,203,071	395,213	193	808,051
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	(713,607)	—	713,607
Actuarial changes arising from:				
Changes in financial assumptions	(1,810,481)	—	—	(1,810,481)
Changes in demographic assumptions	266,954	—	—	266,954
Experience adjustment	2,055,346	—	—	2,055,346
Others	—	—	(1,644)	(1,644)
	511,819	(713,607)	(1,644)	1,223,782
Reclassifications from defined benefit assets	2,889,077	3,038,695	—	(149,618)
Actual contributions	—	981,148	—	(981,148)
Benefits paid	(393,096)	(393,096)	—	—
Transfer to related parties	6,670	6,670	—	—
Other adjustments	7,965	590	1,451	8,826
As at December 31, 2018	P8,380,084	P6,853,702	P—	P1,526,382

■ 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)
<i>(In Thousands)</i>				
As at December 31, 2016	P3,661,801	P4,380,101	P88,642	(P629,658)
Net benefit expense (Note 23):				
Current service cost	389,337	—	—	389,337
Net interest cost (income)	199,148	241,581	4,524	(37,909)
Past service cost - curtailment	(48,513)	—	—	(48,513)
	539,972	241,581	4,524	302,915
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	(50,936)	—	50,936
Actuarial changes arising from:				
Changes in financial assumptions	71,891	—	—	71,891
Changes in demographic assumptions	(22,600)	—	—	(22,600)
Experience adjustment	224,481	—	—	224,481
Others	—	—	(55,716)	(55,716)
	273,772	(50,936)	(55,716)	268,992

(Forward)



	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized Due to Asset Limit	Defined Benefit Liability (Asset)
<i>(In Thousands)</i>				
Reclassifications from defined benefit liabilities	(P331,118)	(P376,942)	P—	P45,824
Effect of common control business combination (Note 5)	23,496	16,604	—	6,892
Actual contributions	—	333,977	—	(333,977)
Benefits paid	(121,668)	(121,668)	—	—
Transfer from the plan	(43,376)	(43,376)	—	—
Amount not recognized due to asset limit	—	—	15	15
Other adjustments	—	—	(37,451)	(37,451)
As at December 31, 2017	4,002,879	4,379,341	14	(376,448)
Net benefit expense (Note 23):				
Current service cost	162,607	—	—	162,607
Net interest cost (income)	72,688	83,045	1,514	(8,843)
Past service cost - curtailment	590	—	—	590
	235,885	83,045	1,514	154,354
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	—	(162,462)	—	162,462
Actuarial changes arising from:				
Changes in financial assumptions	(293,471)	—	—	(293,471)
Changes in demographic assumptions	(1,827)	—	—	(1,827)
Experience adjustment	188,577	—	—	188,577
Others	—	—	33	33
	(106,721)	(162,462)	33	55,774
Reclassifications from defined benefit liabilities	(2,766,690)	(3,035,117)	—	268,427
Effect of common control business combination (Note 5)	23,496	16,604	—	6,892
Actual contributions	—	196,152	—	(196,152)
Benefits paid	(33,148)	(33,148)	—	—
Transfer from the plan	839	839	—	—
Amount not recognized due to asset limit	—	—	15,250	15,250
Other adjustments	—	—	(1,566)	(1,566)
As at December 31, 2018	P1,356,540	P1,445,254	P15,245	(P73,469)

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

	2018	2017
Discount rate	5.0%–8.0%	5.0%–6.0%
Future salary increases	2.0%–10.0%	4.0%–10.0%

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

	2018	2017
<i>(In Thousands)</i>		
Cash and cash equivalents	P816,168	P532,130
Investment in debt and other securities	2,214,942	2,025,911
Investment in common trust funds	2,720,038	2,867,023
Investment in equity securities	200,046	333,123
Investment in government securities	2,298,150	1,991,308
Others	49,612	167,935
	P8,298,956	P7,917,430



- 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 4.0% to 8.8% and 3.5% to 6.8% in 2018 and 2017, respectively. These have maturities from May 2019 to October 2025 and June 2018 to October 2025 in 2018 and 2017, respectively.
- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investments in government securities consists of retail treasury bonds. These bonds bear interest ranging from 2.1% to 8.8% in 2018 and 2017, respectively. These bonds have maturities ranging from February 2019 to May 2030 and March 2018 to May 2030 and January 2016 to December 2035 in 2018 and 2017, 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:

	2018	2017
	<i>(In Thousands)</i>	
Balances:		
Cash and cash equivalents	₱816,168	₱532,130
Investment in common trust funds	2,720,038	2,867,023
Transactions:		
Interest income from cash and cash equivalents	11,702	12,313
Gains (loss) from investment in common trust funds	(15,627)	459,883

The Group expects to contribute about ₱1,293.3 million to its Pension Plan in 2019.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2018, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		<i>(In Thousands)</i>
Discount rates	50 (50)	(₱331,311) 346,601
Future salary increases	100 (100)	972,807 (815,430)
No attrition rate	—	1,921,376

The average duration of the Group's defined benefit obligation is 4 to 28 years in 2018 and 3 to 29 years in 2017.



The maturity analysis of the undiscounted benefit payments follows:

	2018	2017
	<i>(In Thousands)</i>	
Year 1	₱717,315	₱869,893
Year 2	379,992	312,845
Year 3	466,365	408,137
Year 4	372,793	491,324
Year 5	421,637	481,444
Year 6 – 10	2,575,923	3,244,244

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

26. Income Tax

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

	2018	2017
	<i>(In Thousands)</i>	
Deferred tax assets:		
Excess of fair values over cost of investment properties	₱1,167,853	₱1,184,476
NOLCO	508,314	563,576
Accrued leases	651,103	643,530
Provision for doubtful accounts and others	807,565	584,524
Unamortized past service cost and defined benefit liability	220,270	139,653
MCIT	3,394	8,370
	3,358,499	3,124,129
Deferred tax liabilities:		
Appraisal increment on investment property	3,088,393	3,162,858
Trademarks and brand names	1,879,000	1,879,000
Capitalized interest	1,807,409	1,840,286
Unrealized gross profit on sale of real estate	2,011,975	1,356,190
Excess of fair values over cost of equity instruments	273,146	—
Unamortized past service cost and defined benefit asset	35,853	154,416
Accrued/deferred rent income	107,640	127,105
Others	239,790	144,039
	9,443,206	8,663,894
Net deferred tax liabilities	₱6,084,707	₱5,539,765



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

	2018	2017
	<i>(In Thousands)</i>	
Deferred tax assets	₱2,726,155	₱2,489,814
Deferred tax liabilities	8,810,862	8,029,579
	₱6,084,707	₱5,539,765

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱4,429.6 million and ₱3,821.6 million as at December 31, 2018 and 2017, respectively.

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

	2018	2017	2016
Statutory income tax rate	30%	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	(8)	(8)	(8)
Interest income subjected to final tax	(2)	(2)	(2)
Change in unrecognized deferred tax assets	—	1	(1)
Others	1	—	—
Effective income tax rates	21%	21%	19%

27. Lease Agreements

As Lessor. The Group's lease agreements with its tenants are generally granted for a term of one to twenty-five years. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is calculated by 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 as at December 31 follow:

	2018	2017
	<i>(In Millions)</i>	
Within one year	₱6,944	₱5,230
After one year but not more than five years	18,729	11,853
More than five years	6,517	7,077
	₱32,190	₱24,160

As Lessee. The Group leases certain parcels of land where some of its malls are situated. The terms of the lease are for periods ranging from fifteen 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.



The Group also has various non-cancellable operating lease commitments with lease periods ranging from two to thirty years, mostly containing renewal options. Some lease contracts provide for the payment of additional rental based on a certain percentage of sales of the sub-lessees.

The future minimum lease payables under the non-cancellable operating leases as at December 31 follow:

	2018	2017
	<i>(In Millions)</i>	
Within one year	₱2,470	₱2,047
After one year but not more than five years	4,283	5,755
More than five years	26,464	26,966
	₱33,217	₱34,768

Tenant's deposits amounted to ₱19,774.5 million and ₱17,355.2 million as at December 31, 2018 and 2017, respectively.

28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, consist of cash and cash equivalents, time deposits, investments held for trading, AFS investments, non-trade receivables, bonds and deposits, receivable from banks, accrued interest receivable, bank loans and long-term debt. 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, principally, cross-currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. 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 months 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 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 AFS investments 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 policies for managing each of these risks. The Group's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk

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

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting.

As at December 31, 2018 and 2017, after taking into account the effect of the swaps, approximately 81.1% and 83.0%, 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 <i>(In Millions)</i>
2018	100	(P236.3)
	50	(118.2)
	(100)	236.3
	(50)	118.2
2017	100	(P240.9)
	50	(120.4)
	(100)	240.9
	(50)	120.4

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, non-deliverable forwards and foreign currency range options.



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

	2018		2017	
	US\$	PhP	US\$	PhP
	<i>(In Thousands)</i>			
Current assets:				
Cash and cash equivalents	\$5,825	₱306,275	\$3,566	₱178,039
Time deposits	491,275	25,831,265	211,489	10,559,628
Receivables and contract assets	55,025	2,893,228	59,910	2,991,309
Financial assets	—	—	14,152	706,625
Noncurrent assets:				
Financial assets	—	—	805	40,172
Time deposits	21,713	1,141,652	458,400	22,887,912
Other noncurrent assets	514,749	27,065,524	495,167	24,723,693
Derivative assets	—	—	20,130	1,005,084
Total assets	1,088,587	57,237,944	1,263,619	63,092,462
Current liabilities:				
Current portion of long-term debt	495,680	26,062,856	119,693	5,976,254
Accounts payable and other current liabilities	5,607	294,821	5,969	298,024
Noncurrent liabilities:				
Long-term debt - net of current portion	528,424	27,784,556	1,325,944	66,204,403
Total liabilities	1,029,711	54,142,233	1,451,606	72,478,681
Net	\$58,876	₱3,095,711	(\$187,987)	(₱9,386,219)

As at December 31, 2018 and 2017, approximately 28.4% and 34.7%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign-currency.

The Group recognized net foreign exchange gain (loss) of ₱182.5 million loss, ₱698.7 million gain and ₱170.1 million loss in 2018, 2017 and 2016, respectively. This resulted from movements in the closing rate of U.S. dollar against the Philippine peso as shown below:

	U.S. Dollar to Peso
December 31, 2018	₱52.58
December 31, 2017	49.93
December 31, 2016	49.72

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 ₱	Effect on Income Before Tax
		<i>(In Millions)</i>
2018	1.50	₱683.8
	1.00	455.9
	(1.50)	(683.8)
	(1.00)	(455.9)
 2017	 1.50	 ₱1,024.7
	1.00	683.2
	(1.50)	(1,024.7)
	(1.00)	(683.2)



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 proceeds from sales 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:

	2018	2017
	<i>(In Thousands)</i>	
Cash and cash equivalents	₱79,313,215	₱74,318,190
Current portion of time deposits	25,842,829	13,237,886
Current portion of financial assets - Bonds and corporate notes	—	706,626

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

	2018			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	<i>(In Thousands)</i>			
Bank loans	₱18,885,465	₱—	₱—	₱18,885,465
Accounts payable and other current liabilities *	107,459,209	—	—	107,459,209
Long-term debt (including current portion) **	72,701,164	268,546,245	93,842,363	435,089,772
Derivative liabilities**	—	335,008	—	335,008
Dividends payable	3,906,476	—	—	3,906,476
Tenants' deposits **	299,939	21,688,833	62,911	22,051,683
Other noncurrent liabilities ***	148,772	14,251,063	—	14,399,835
	₱203,401,025	₱304,821,149	₱93,905,274	₱602,127,448

*Excluding payable to government agencies of ₱4,618.6 million, which are not considered as financial liabilities.

**Based on estimated future cash flows.

***Excluding nonfinancial liabilities amounting to ₱3,432.6 million.

	2017			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	<i>(In Thousands)</i>			
Bank loans	₱24,172,965	₱—	₱—	₱24,172,965
Accounts payable and other current liabilities *	91,914,325	—	—	91,914,325
Long-term debt (including current portion) **	48,938,571	229,489,427	116,465,601	394,893,599
Derivative liabilities**	—	777,408	—	777,408
Dividends payable	2,939,590	—	—	2,939,590
Tenants' deposits **	502,472	16,595,381	468,109	17,565,962
Other noncurrent liabilities ***	91,258	6,735,447	323,315	7,150,020
	₱168,559,181	₱253,597,663	₱117,257,025	₱539,413,869

*Excluding payable to government agencies of ₱4,438.6 million, which are not considered as financial liabilities.

**Based on estimated future cash flows.

***Excluding nonfinancial liabilities amounting to ₱1,015.0 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 base of customers, 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, investments held for trading, AFS investments 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, 2018 and 2017, the financial assets, except for certain receivables and AFS investments, 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.

	2018			2017		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
<i>(In Thousands)</i>						
Cash and cash equivalents (excluding cash on hand)	₱77,583,440	₱—	₱77,583,440	₱72,640,001	₱—	₱72,640,001
Time deposits including noncurrent portion	28,235,451		28,235,451	39,926,607	—	39,926,607
Financial assets	24,737,844	2,604,191	27,342,035	26,886,183	51,905	26,938,088
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	30,230,611	7,610,927	37,841,538	37,567,278	7,402,039	44,969,317
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)**	15,451,092	—	15,451,092	14,408,939	—	14,408,939
Escrow fund	290,179	—	290,179	183,341	—	183,341
Other noncurrent assets:						
Bonds and deposits	18,403,000	—	18,403,000	17,475,500	—	17,475,500
Long-term notes	6,739,026	—	6,739,026	6,399,410	—	6,399,410
Derivative assets (including noncurrent portion)	1,566,788	—	1,566,788	5,341,439	—	5,341,439
	₱203,237,431	₱10,215,118	₱213,452,549	₱220,828,698	₱7,453,944	₱228,282,642

*Excluding non-financial assets amounting to P20,269.0 million as at December 31, 2018.

**Excluding non-financial assets amounting to P274.4 million and P403.6 million as at December 31, 2018 and 2017, 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
		<i>(In Millions)</i>
2018	+1.78%	₱621.1
	-1.78%	(621.1)
2017	+2.94%	₱595.5
	-2.94%	(595.5)

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

	2018	2017
	<i>(In Thousands)</i>	
Bank loans	₱18,885,465	₱24,172,965
Long-term debt (current and noncurrent)	367,036,243	332,853,001
Less:		
Cash and cash equivalents (excluding cash on hand)	(77,583,440)	(72,640,001)
Time deposits (current and noncurrent)	(28,235,451)	(39,926,607)
Financial assets	-	(746,797)
Net interest-bearing debt (a)	280,102,817	243,712,561
Equity attributable to owners of the Parent	353,387,201	328,132,735
Net interest-bearing debt and equity attributable to owners of the Parent (b)	₱633,490,018	₱571,845,296
Gearing ratio - net (a/b)	44%	43%



Gross Gearing Ratio

	2018	2017
	(In Thousands)	
Bank loans	₱18,885,465	₱24,172,965
Long-term debt	367,036,243	332,853,001
Total interest-bearing debt (a)	385,921,708	357,025,966
Total equity attributable to owners of the Parent	353,387,201	328,132,735
Total interest-bearing debt and equity attributable to owners of the Parent (b)	₱739,308,909	₱685,158,701
Gearing ratio - gross (a/b)	52%	52%

29. Financial Instruments

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

	2018				
	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					
Derivative assets	₱1,566,788	₱1,566,788	₱-	₱1,566,788	₱-
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,392,622	2,339,327	-	-	2,339,327
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)	59,987,359	57,604,083	-	-	57,604,083
Other noncurrent assets:					
Bonds and deposits	18,403,000	19,800,272	-	-	19,800,272
Long-term notes	6,739,026	8,489,300	-	-	8,489,300
	87,522,007	88,232,982	-	-	88,232,982
	₱89,088,795	₱89,799,770	₱-	₱1,566,788	₱88,232,982
Liabilities Measured at Fair Value					
Derivative liabilities	₱335,008	₱335,008	₱-	₱335,008	₱-
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	305,555,356	288,274,800	-	-	288,274,800
Tenants' deposits and others*	36,000,150	32,026,177	-	-	32,026,177
	341,555,506	320,300,977	-	-	320,300,977
	₱341,890,514	₱320,635,985	₱-	₱335,008	₱320,300,977

*Excluding nonfinancial liabilities amounting to ₱3,432.6 million

	2017				
	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					
Derivative assets	₱5,341,439	₱5,341,439	₱-	₱5,341,439	₱-
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	26,688,721	27,069,511	-	-	27,069,511
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)	48,206,644	46,831,054	-	-	46,831,054
Other noncurrent assets:					
Bonds and deposits	17,475,500	19,323,721	-	-	19,323,721
Long-term notes	6,399,410	8,309,619	-	-	8,309,619
	98,770,275	101,533,905	-	-	101,533,905
	₱104,111,714	₱106,875,344	₱-	₱5,341,439	₱101,533,905



		2017			
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)					
Liabilities Measured at Fair Value					
Derivative liabilities	₱777,408	₱777,408	₱–	₱777,408	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	292,555,868	297,063,011	–	–	297,063,011
Tenants' deposits and others*	25,939,021	23,705,361	–	–	23,705,361
	318,494,889	320,768,372	–	–	320,768,372
	₱319,272,297	₱321,545,780	₱–	₱777,408	₱320,768,372

*Excluding nonfinancial liabilities amounting to P2,495.1 million.

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2018 and 2017.

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:

	2018	2017
Noncurrent portion of Time deposits	2.0% - 7.9%	2.0%-2.8%
Noncurrent portion of receivables from real estate buyers	7.0%	4.7%
Long-term notes included under "Other noncurrent assets" account	2.6% - 2.8%	1.8%-2.3%
Tenants' deposits	5.3% - 7.9%	1.9%-5.7%

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	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 2.6% to 8.5% and 1.7% to 6.9% as at December 31, 2018 and 2017, respectively.
Variable Rate Loans	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 7.0% to 9.0% and 3.4% to 6.4% as at December 31, 2018 and 2017, 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:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	₱4,564,032	₱6,757,361
Net changes in fair value during the year	(1,280,800)	(2,163,691)
Fair value on settled derivatives	(2,051,452)	(29,638)
Balance at end of year	₱1,231,780	₱4,564,032

Derivative Instruments Accounted for as Cash Flow Hedges

As at December 31, 2018, 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		Principal	Fair Value	Receive	Pay	US\$:PhP	Maturity
	<i>(In US\$)</i>	<i>(In PhP)</i>						
	<i>(In Thousands)</i>							
Parent:								
	\$53,000	₱2,761,300	₱2,786,740	₱266,068	LIBOR + spread	5.3%	₱52.10	March 6, 2023
	100,000	5,210,000	5,288,000	350,872	LIBOR + spread	5.9%	52.10	April 16, 2023
	56,159	3,000,000	2,952,827	96,914	LIBOR + spread	6.1%	53.42	July 26, 2023
SM Prime:								
	25,000	1,246,900	1,314,500	(72,266)	LIBOR + spread	5.4%	49.88	March 27, 2022
	25,000	1,246,900	1,314,500	(70,878)	LIBOR + spread	5.4%	49.88	March 27, 2022
	50,000	2,580,500	2,629,000	32,366	LIBOR + spread	5.0%	51.61	June 30, 2022
	50,000	2,666,500	2,629,000	13,282	LIBOR + spread	6.4%	53.33	June 14, 2023
	60,000	3,199,200	3,154,800	11,490	LIBOR + spread	6.4%	53.32	June 14, 2023

Principal only and interest rate swaps:

	Notional Amount	Principal	Fair Value		Interest Rate	Interest Rate	Maturity
			Principal Only Swap	Interest Rate Swap	US\$:CNY¥		
			<i>(In Thousands)</i>				
SM Prime	US\$150,000	₱8,487,737	₱—	₱38,909	¥—	3.2%	April 14, 2019
	270,000	14,196,645	(224,231)	395,264	6.458-6.889	6.2%	January 29, 2021

Derivative Instruments Accounted for as Fair Value Hedge

Forward swaps:

	Notional Amount	Principal	Fair Value	Strike Price		Maturity
				Low	High	
		<i>(in thousands)</i>				
SM Prime	US\$100,000	₱5,578,980	₱125,099	¥6.314	¥6.485	April 15, 2019
	100,000	5,578,980	117,177	6.289	6.496	April 15, 2019
	100,000	5,578,980	151,713	6.383	6.547	April 15, 2019

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 gains of ₱314.4 million and ₱38.6 million in 2018 and 2017, respectively.

30. EPS Computation

	2018	2017	2016
	<i>(In Thousands Except Per Share Data)</i>		
Net income attributable to owners of the Parent (a)	₱37,078,325	₱32,923,455	₱31,204,304
Weighted average number of common shares outstanding (b)	1,204,583	1,204,583	1,204,583
EPS (a/b)	₱30.78	₱27.33	₱25.90

31. Change in Liabilities Arising From Financing Activities

	2018		2017	
	Bank Loans (Note 17)	Long-term Debt (Note 19)	Bank Loans (Note 17)	Long-term Debt (Note 19)
	<i>(In Thousands)</i>			
Balance at beginning of year	₱24,172,965	₱332,853,001	₱13,987,765	₱305,855,809
Availments	32,199,317	70,787,135	59,419,602	55,866,308
Payments	(37,256,817)	(40,292,241)	(49,234,402)	(31,640,120)
Cumulative translation adjustment on cash flow hedges	—	(50,799)	—	2,713,427
Foreign exchange movement	—	3,621,088	—	(172,455)
Loan refinancing	(230,000)	230,000	—	—
Others	—	(111,941)	—	230,032
Balance at end of year	₱18,885,465	₱367,036,243	₱24,172,965	₱332,853,001

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

32. Reclassification

The Group reclassified certain consolidated statement of income accounts in 2017 and 2016 to conform to the 2018 consolidated financial statements presentation and classification. The reclassification has no impact on the 2018 and 2017 profit or loss and equity of the Group.

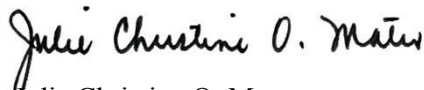


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SM Investments Corporation
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-1A, Pasay City 1300

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Investments Corporation and Subsidiaries as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, and have issued our report thereon dated February 28, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Julie Christine O. Mateo

Partner

CPA Certificate No. 93542

SEC Accreditation No. 0780-AR-3 (Group A),
August 16, 2018, valid until August 15, 2021

Tax Identification No. 198-819-116

BIR Accreditation No. 08-001998-68-2018,
February 26, 2018, valid until February 25, 2021

PTR No. 7332594, January 3, 2019, Makati City

February 28, 2019



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE A – FINANCIAL ASSETS
AS AT DECEMBER 31, 2018
(Amounts in Thousands Except Per Share Data)

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Temporary investments*:				
BDO Unibank, Inc.		₱42,542,557	₱–	₱540,120
China Banking Corporation		10,486,337	–	194,662
Others		12,674,974	–	936,840
		65,703,868	–	1,671,622
Time deposits – current*		25,842,829	–	241,671
Financial Asset at FVPL:				
Bonds and Corporate Notes		–	–	14,924
Shares of Stock:				
Common shares:				
Shang Properties, Inc.	189,550,548 shares	591,398	591,398	37,057
Republic Glass Holdings Corporation	14,350,000 shares	37,283	37,283	1,076
PICOP Resources, Inc.	40,000,000 shares	8,200	8,200	–
Export and Industry Bank, Inc.	7,829,000 shares	2,035	2,035	–
Benguet Corporation	266,757 shares	400	400	–
		639,316	639,316	38,133
Total Current Financial Assets		₱92,186,013	₱639,316	₱1,966,350

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Financial Asset at FVOCI– noncurrent:				
Shares of Stock				
Listed:				
Ayala Corporation	20,987,551 shares	₱18,888,797	₱18,888,797	₱140,257
Manila Electric Company	105,490 shares	8,143	8,143	–
Philippine Long Distance Telephone Company	292,531 shares	2,967	2,967	3
Philippine Bank of Communications	13,431 shares	247	247	–
Prime Media Holdings, Inc.	500,000 shares	615	615	–
D.M. Wenceslao and Associates, Incorporated	79,167,800 shares	617,509	617,509	–
The Philippine Stock Exchange, Inc.	3,595,639 shares	647,215	647,215	25,169
Others		2,577,251	2,577,251	
Unlisted:				
Ace Hardware International Holdings, Inc.	10,182 shares	47,996	47,996	–
Allfirst Equity Holdings, Inc.	95,000 shares	763,875	763,875	–
Heavenly Garden Development Corp.	25,000 shares	2,500	2,500	–
SM Insurance Brokers Services, Inc.	129,390 shares	150	150	–
Mutual Development Center, Inc.	4,633 shares	1,259	1,259	–
Manila North Tollways Corporation	732,600 shares	1,535,010	1,535,010	164,390
Wave Computing	4,764,700 shares	262,900	262,900	–
		25,356,434	25,356,434	329,819

(Forward)

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Bonds and corporate notes		₱1,314,500	₱1,314,500	₱41,320
Club Shares				
Cebu Golf & Country Club	1 share	6,500	6,500	—
Baguio Country Club	1 share	2,700	2,700	—
Country Club of Tagaytay Highlands	36 shares	5,900	5,900	—
Mimosa Golf & Country Club, Inc.	1 share	150	150	—
Camp John Hay	2 shares	440	440	—
Subic Bay Yacht Club	1 share	350	350	—
Splendido Taal Golf Club	1 share	90	90	—
Calatagan Golf Club	1 share	50	50	—
Cresta del Mar	1 share	35	35	—
Ridge Resort	1 share	15	15	—
Tagaytay Midlands Golf Club	24 shares	15,600	15,600	—
		31,830	31,830	—
		26,702,764	26,702,764	371,139
Time Deposits – noncurrent*		2,392,622	—	1,310,287
Total Noncurrent Financial Assets		₱29,095,386	₱26,702,764	₱1,681,426

**Excluding cash on hand and in banks.*

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL
STATEMENTS
AS AT DECEMBER 31, 2018
(Amounts in Thousands)

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
<u>Accounts receivable – Tenants</u>							
Sanford Marketing Corporation	₱62,976	₱430,409	₱429,136	₱–	₱64,249	₱–	₱64,249
Mainstream Business, Inc.	87,856	390,583	385,627	–	92,812	–	92,812
Market Strategic Firm, Inc.	86,377	346,492	341,533	–	91,336	–	91,336
Major Shopping Management Corporation	57,483	246,408	250,674	–	53,217	–	53,217
Metro Main Star Asia Corp.	77,344	324,095	317,894	–	83,545	–	83,545
Meridien Business Leader, Inc.	63,064	242,628	237,153	–	68,539	–	68,539
Madison Shopping Plaza, Inc.	77,508	291,025	288,440	–	80,093	–	80,093
Multi Stores Corporation	26,089	168,781	163,556	–	31,314	–	31,314
Mandurriao Star, Inc.	85,069	354,694	351,973	–	87,790	–	87,790
Metro Manila Shopping Mecca Corp.	69,612	290,470	287,608	–	72,474	–	72,474
Mercantile Stores Group, Inc.	88,224	350,956	346,303	–	92,877	–	92,877
Mindanao Shopping Destination Corp.	19,435	86,263	83,711	–	21,987	–	21,987
Manila Southern Associates, Inc.	74,360	293,619	289,899	–	78,080	–	78,080
My Shoppinglane Cebu Corp.	20,144	66,510	62,754	–	23,900	–	23,900
Mindanao Shoppers Daily Destination Corp.	22,757	87,798	85,267	–	25,288	–	25,288

(Forward)

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
SM Mart, Inc.	₱103,221	₱570,545	568,896	₱—	₱104,870	₱—	₱104,870
Supervalue, Inc.	490,153	3,409,439	3,359,473	—	540,119	—	540,119
Super Shopping Market, Inc.	253,006	1,910,922	1,884,823	—	279,105	—	279,105
Waltermart Supermarket	—	10,274	10,274	—	—	—	—
SM Retail, Inc.	7,390	53,765	53,349	—	7,806	—	7,806
Accessories_Management Corp.	337	2,474	2,451	—	360	—	360
CF_Mgt. Corp.	439	2,934	2,931	—	442	—	442
LF_Mgt. Corp.	540	3,804	3,783	—	561	—	561
Shoemart, Inc. (formerly LTBG_Mgmt. Corp.)	1,995	14,976	14,407	—	2,564	—	2,564
MF_Mgt. Corp.	440	3,249	3,257	—	432	—	432
MCLG_Mgmt. Corp.	223	1,620	1,717	—	126	—	126
Masters Shoppers Venue, Inc.	10,730	36,665	34,305	—	13,090	—	13,090
Main Shopping Princess Phils., Inc.	4,375	10,910	4,375	—	10,910	—	10,910
Miniso Philippines, Inc.	4,140	4,140	8,319	—	(39)	—	(39)
Mini Depato Corp.	21,870	218,120	200,866	—	39,124	—	39,124
MLC Shoes and Bags	478	3,353	3,325	—	506	—	506
Forever Agape and Glory, Inc.	29,262	199,972	200,556	—	28,678	—	28,678
Ace Hardware Philippines, Inc.	131,894	1,287,349	1,259,512	—	159,731	—	159,731
CK Fashion Collection Corp.	37	267	264	—	40	—	40
Homeworld Shopping Corporation	35,452	297,777	293,279	—	39,950	—	39,950
International Toy World, Inc.	45,853	307,881	302,161	—	51,573	—	51,573

(Forward)

Schedule C

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Kultura Store, Inc.	₱11,325	₱93,556	₱88,783	₱—	₱16,098	₱—	₱16,098
Nursery Care Corporation	4,305	36,688	36,713	—	4,280	—	4,280
Signature Lines, Inc.	4,453	32,361	32,325	—	4,489	—	4,489
Sports Central (Manila), Inc.	20,070	165,866	157,174	—	28,762	—	28,762
Star Appliance Center, Inc.	107,594	960,292	948,884	—	119,002	—	119,002
Supplies Station, Inc.	1,780	6,700	6,929	—	1,551	—	1,551
Premium Global Essences Stores Inc	5,552	40,741	41,007	—	5,286	—	5,286
Walk EZ Retail Corp.	3,790	43,553	41,148	—	6,195	—	6,195
Mayon Shoppers	—	20,630	6,821		13,809	—	13,809
Middle Stone Inc.	—	16,627	8,542		8,085	—	8,085
Alfamart	—	33,692	26,363		7,329	—	7,329
Wareco	—	104,258	94,590		9,668	—	9,668
HMS Development Corp.	—	60,876	60,433		443	—	443
Costa del Hamilo, Inc.	105	3,996	3,573	—	528	—	528
Summerhills Home Development Corp.	—	4,603	3,841	—	762	—	762
Manila Southcoast Development Corp.	127	769	765	—	131	—	131
SM Development Corp.	—	421	421				
SM Prime Holdings, Inc.	9,603	87,946	87,374	—	10,175	—	10,175
SM Hotels and Conventions Corp.	616	7,312	6,906	—	1,022	—	1,022
Highlands Prime, Inc.	572	4,724	4,687	—	609	—	609
Intercontinental Development Corp.	3,554	—	3,554	—	—	—	—
SM Investments Corporation	5,116	45,391	45,540	—	4,967	—	4,967

Schedule C

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Total Accounts Receivable-Tenants	₱2,238,695	₱14,092,169	₱13,840,224	₱–	₱2,490,640	₱–	₱2,490,640

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
<u>Due From Related Parties</u>							
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	₱518,577	1,199,285		₱–	1,717,862	₱–	1,717,862
Intercontinental Development Corporation	406,423	8,629	290,052	–	125,000	–	125,000
Mountain Bliss Resort and Development Corp. and a subsidiary	979,317	637,118	637,118	–	979,317	–	979,317
Manila Southcoast Development Corp.	2,204,468	140,299	(182,416)	–	2,527,183	–	2,527,183
SM Prime Holdings, Inc.	–	9,163	(16,900)	–	26,063	–	26,063
Multi Realty Development Corporation	10,108,839	1,375,000	–	–	11,483,839	–	11,483,839
Tagaytay Resort Development Corporation	–	–	–	–	–	–	–
Prime Central Limited	–	4,942,075	–	–	4,942,075		4,942,075
Sto. Roberto Marketing Corp.	12,500	–	12,500	–	–	–	–
Total Due From Related Parties	₱14,230,124	₱8,311,569	₱740,354	₱–	₱21,801,339	₱–	₱21,801,339

Accounts receivable—management and service fees	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Sanford Marketing Corporation	₱1,980	₱251,602	₱251,206	₱—	₱2,376	₱	₱2,376
Mainstream Business, Inc.	—	176,913	176,913	—			
Market Strategic Firm, Inc.	—	159,602	159,602	—	—	—	—
Major Shopping Management Corporation	—	126,073	126,073	—	—	—	—
Metro Main Star Asia Corp.	—	123,475	123,475	—	—	—	—
Meridien Business Leader, Inc.	3,195	80,725	67,370	—	16,550	—	16,550
Madison Shopping Plaza, Inc.	—	121,095	75,101	—	45,994	—	45,994
Multi Stores Corporation	—	74,789	74,789	—	—	—	—
Mandurriao Star, Inc.	—	160,912	160,912	—	—	—	—
Metro Manila Shopping Mecca Corp.	—	109,231	109,231	—	—	—	—
Mercantile Stores Group, Inc.	—	162,705	162,705	—	—	—	—
Mindanao Shopping Destination Corp.	—	40,267	40,267	—	—	—	—
Mindanao Shoppers Daily Destination	—	266	266	—	—	—	—
Masters Shoppers Venue, Inc.	—	209	209	—	—	—	—
SM Mart, Inc.	—	311,383	258,678	—	52,705	—	52,705
Supervalu, Inc.	879	269,692	269,102	—	1,469	—	1,469
Super Shopping Market, Inc.	3,132	181,245	182,292	—	2,085	—	2,085
Manila Southern Associates, Inc.	—	133,261	133,261	—	—	—	—

(Forward)

Accounts receivable—management and service fees	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Current
Ace Hardware Philippines, Inc.	—	160	160	—	—	—	—
CK Fashion Collection Corp.	—	24	24	—	—	—	—
Homeworld Shopping Corporation	—	616	616	—	—	—	—
International Toy World, Inc.	—	335	335	—	—	—	—
Kultura Store, Inc.	—	38	38	—	—	—	—
Sports Central (Manila), Inc.	—	199	199	—	—	—	—
Supplies Station, Inc.	—	145	145	—	—	—	—
Star Appliance Center, Inc.	138,912	534,264	499,299	—	173,877	—	173,877
Premium Global Essences Stores Inc.	—	38	38	—	—	—	—
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	6,862	—	—	—	6,862	—	6,862
SM Prime Holdings, Inc	18	207,805	207,823	—	—	—	—
Intercontinental Development Corp.	—	4,827	3,697	—	1,130	—	1,130
SM Development Corporation and Subsidiaries	—	—	—	—	—	—	—
SM Investments Corporation	34,726	60,485	81,211	—	14,000	—	14,000
Accounts receivable—management and service fees	₱189,704	₱3,292,381	₱3,165,037	₱—	₱317,048	₱—	₱317,048

Dividends Receivable	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Multi-Realty Development Corporation	₱970,455	₱—	₱970,455	₱—	₱—	₱—	₱—
SM Retail, Inc	8,120,944	6,567,823	5,030,229	—	9,658,538	—	9,658,538
SM Prime Holdings, Inc.	—	5,023,725	5,023,725	—	—	—	—
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	1,188,000	554,400	1,499,850	—	242,550	—	242,550
Sto Roberto Marketing Corporation	194,000	150,300	344,300	—	—	—	—
Net Group	—	883,500	836,000	—	47,500	—	47,500
SM Investments Corporation	—	1,212	1,212	—	—	—	—
<u>Total Dividends Receivable</u>	₱10,473,399	₱13,180,960	₱13,705,771	₱—	₱9,948,588	₱—	₱9,948,588

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS – Other Assets
AS AT DECEMBER 31, 2018
(Amounts in Thousands)

Description	Balance at beginning of year	Additions at Cost	Charged to Cost and Expenses	Other changes Additions (Deductions)	Charged to Other Accounts	Balance at end of year
Goodwill	₱17,306,871	₱–	₱–	₱–	₱–	₱17,306,871
Trademarks and brand names	8,284,361	–	(120,536)	–	–	8,163,825
Total Intangible Assets	₱25,591,232	₱–	(₱120,536)	₱–	₱–	₱25,470,696

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
AS AT DECEMBER 31, 2018

Title of Issue	Number of Shares Authorized	Number of Shares Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held by		
				Affiliates	Directors, Officers and Principal Stockholders	Others
Common Stock	2,790,000,000	1,204,582,867	—	98,538,381	572,467,538	533,576,948

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
COMPUTATION OF PUBLIC OWNERSHIP
AS AT DECEMBER 31, 2018

	"% to total I/O shares"	Number of Shares	Total
Number of Shares Issued and Outstanding (I/O)			1,204,582,867
Directors:			
Teresita T. Sy			
Direct	7.07%	85,127,731	
Indirect	0.03%	312,777	
Henry Sy, Jr.			
Direct	7.17%	86,375,415	
Indirect	0.09%	1,127,593	
Harley T. Sy			
Direct	7.21%	86,792,438	
Indirect	0.07%	812,333	
Jose T. Sio			
Direct	0.00%	21	
Frederick C. DyBuncio			
Indirect	0.00%	10	
Tomas H. Lipana			
Direct	0.00%	150	
Alfredo E. Pascual			
Direct	0.00%	10	
Joseph R. Higdon			
Direct	0.00%	187	
Subtotal	21.64%	260,548,665	

(Forward)

	" % to total I/O shares"	Number of Shares	Total
Officers -			
Franklin C. Gomez			
Indirect	0.00%	4,500	
Cecilia R. Patricio			
Direct	0.00%	130	
Epitacio B. Borcelis, Jr.			
Direct	0.00%	198	
Subtotal	0.00%	4,828	
Principal Stockholders:			
Henry Sy, Sr.			
Indirect	0.40%	4,773,825	
Felicidad T. Sy			
Direct	3.18%	38,283,090	
Indirect	0.02%	312,169	
Hans T. Sy			
Direct	6.27%	75,526,898	
Indirect	1.93%	23,242,238	
Herbert T. Sy			
Direct	8.17%	98,440,231	
Indirect	0.02%	312,777	
Elizabeth T. Sy			
Direct	5.82%	70,084,482	
Indirect	0.08%	938,335	
Subtotal	25.89%	311,914,045	

(Forward)

	" % to total I/O shares"	Number of Shares	Total
Affiliates:			
Multi-Realty Development Corporation Indirect	0.00%	1,648	
SM Prime Holdings, Inc. Indirect	0.01%	146,104	
Belle Corporation Direct	0.00%	48,877	
Syntrix Holdings, Inc. Direct	3.89%	46,875,000	
Sysmart Corporation Direct	2.40%	28,925,745	
Indirect	0.00%	41,007	
Tansmart Corporation Direct	1.87%	22,500,000	
Subtotal	8.17%	98,538,381	
Total Shares held by Directors, Officers, Principal Stockholders and Affiliates	55.70%		671,005,919
Total Number of Shares Owned by the Public	44.30%		533,576,948

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

		<u>2018</u>	<u>2017</u>
i.	Current ratio		
	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.14 : 1	1.21 : 1
ii.	Debt-to-equity ratio		
	$\frac{\text{Total interest-bearing debt}}{\text{Total equity attributable to equity holders of the parent} + \text{Total interest-bearing debt}}$	52 : 48	52 : 48
	Net debt-to-equity ratio		
	$\frac{\text{Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available-for-sale}}{\text{Total equity attributable to equity holders of the parent} + \text{Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available-for-sale}}$	44 : 56	43 : 57
iii.	Asset to equity ratio		
	$\frac{\text{Total assets}}{\text{Total equity}}$	2.15	2.12
iv.	Interest rate coverage ratio		
	$\frac{\text{Income from operations} + \text{Depreciation and amortization}}{\text{Interest expense}}$	6.14	5.77
v.	Return on assets		
	$\frac{\text{Net income}}{\text{Average assets}}$	5.8%	5.5%
	Return on equity		
	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Average equity attributable to equity holders of the parent}}$	10.9%	10.4%

**RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As at December 31, 2018
(Amounts in Thousands)**

SM Investments Corporation
10th Floor, One E-Com Center, Harbor Drive,
Mall of Asia Complex, CBP-1A, Pasay City 1300

Unappropriated RE, December 31, 2017 **₱16,151,499**

Adjustments to beginning unappropriated RE:

Rental income from straight-line amortization in excess of rental payments	(265,150)	
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Adjustments to the retained earnings as a result of adoption of new standards	122,804	
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Actuarial loss as at January 1, 2013 recorded as expense	48,548	(93,798)
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Unappropriated RE, as adjusted to available for dividend distribution, beginning		16,057,701
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Net income during the period closed to Retained Earnings	10,994,336	
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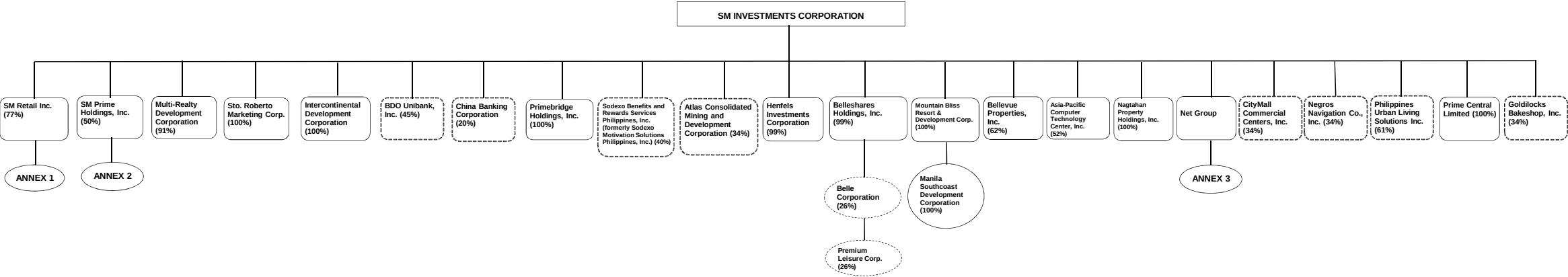
Add: Rental payments in excess of rental income from straight-line amortization	22,484	
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Net income actually earned during the period		11,016,820
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Less: Cash dividends declared during the period		(9,877,580)
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Unappropriated RE, as adjusted to available for dividend distribution, ending		₱17,196,941
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SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2018
(Effective Ownership Interest)



Legend:

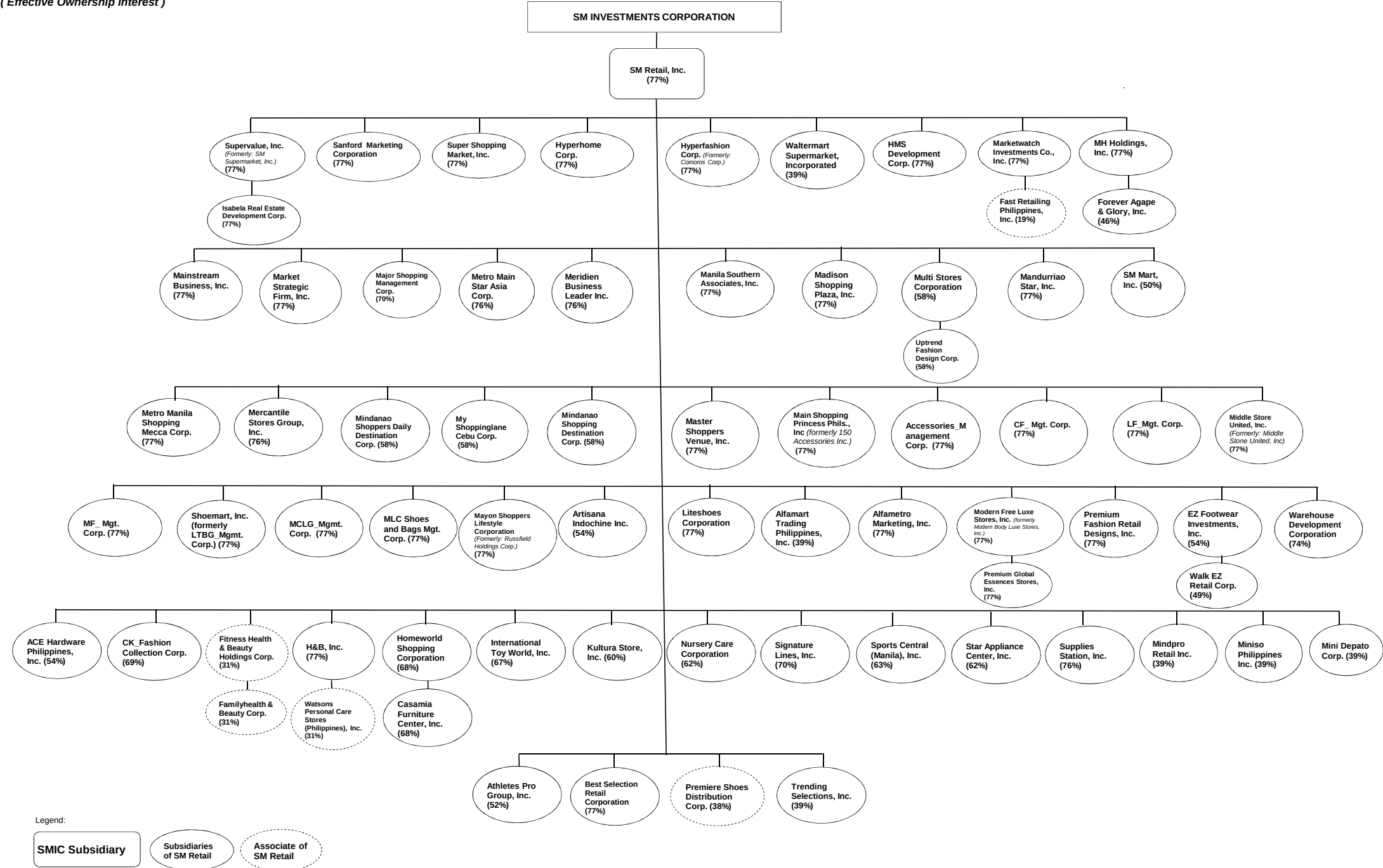
SMIC Subsidiary

Subsidiaries of SMIC Subsidiary

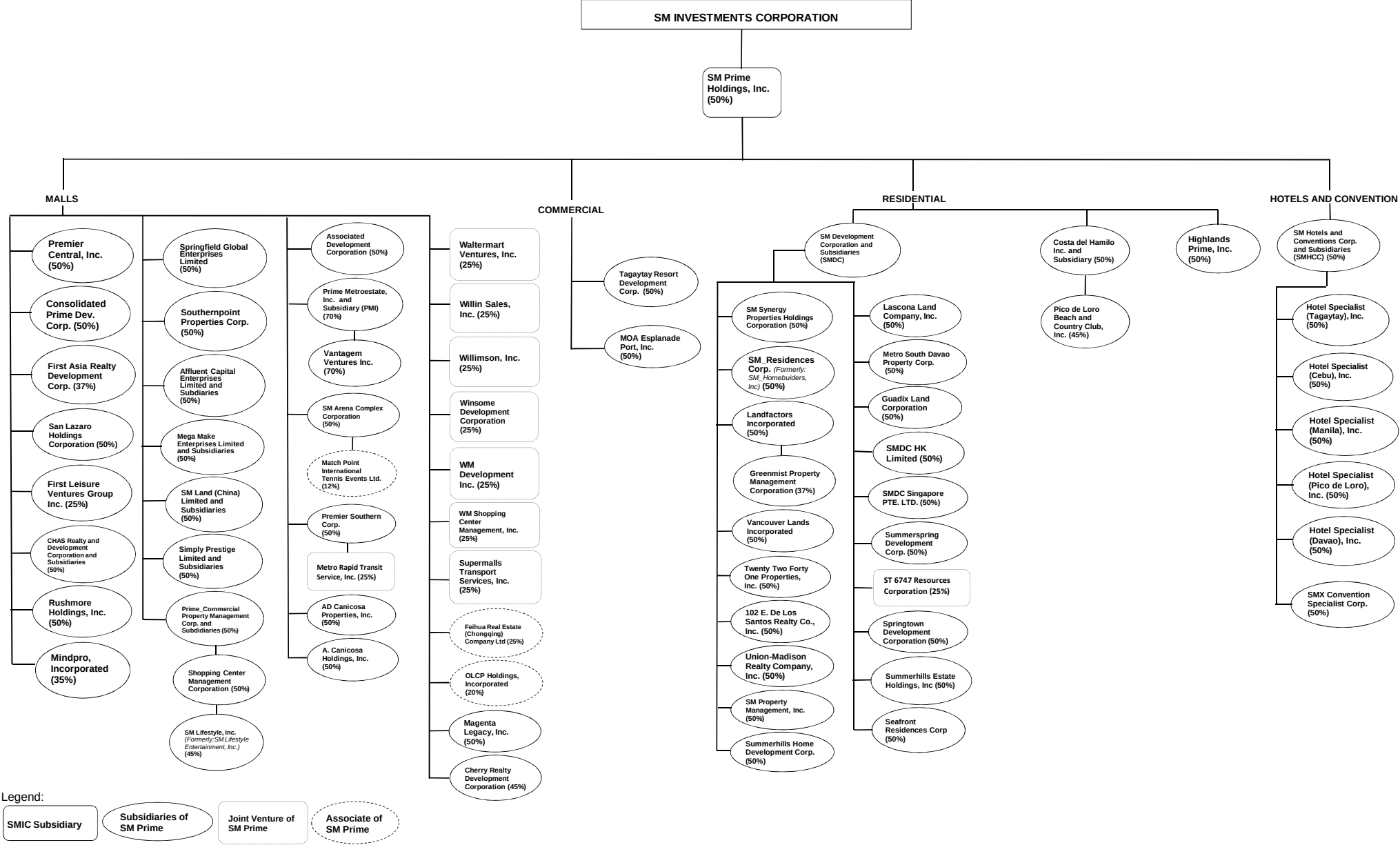
Associates

Associate of SMIC Subsidiary

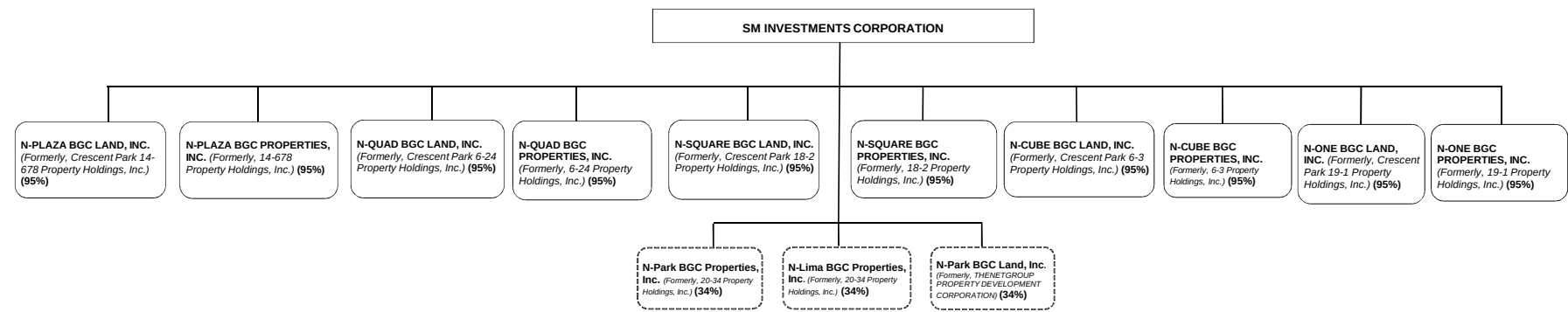
SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2018
(Effective Ownership Interest)



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2018
(Effective Ownership Interest)



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2018
(Effective Ownership Interest)



Legend:

SMIC Subsidiary

Associate of SMIC

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
List of Philippine Financial Reporting Standards (PFRSs) and
Interpretations Effective as at December 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements	✓		
	Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*	Not Early Adopted		
	Amendments to PFRS 3, <i>Definition of a Business</i> *	Not Early Adopted		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9 with PFRS 4			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposals			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures – Servicing Contracts			✓
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not Early Adopted		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*	Not Early Adopted		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
	Amendments to PFRS 12: Clarification of the Scope of the Standard	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases*	Not Early Adopted		
PFRS 17	Insurance Contracts*	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Presentation of Financial Statements - Disclosure Initiative	✓		
	Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*	Not Early Adopted		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Statement of Cash Flows - Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*	Not Early Adopted		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*	Not Early Adopted		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of servicing equipment	✓		
	Amendment to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Depreciation/Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate			✓
	Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement*	Not Early Adopted		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
	Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization*	Not Early Adopted		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not Early Adopted		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
	Amendments to PAS 40: Investment Property, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2 Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 15	Agreements for the Construction of Real Estate	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		
IFRIC 23	Uncertainty over Income Tax Treatments*	Not Early Adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases – Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

* Standards and interpretations which will become effective subsequent to December 31, 2018.

Note: Standards and interpretations tagged as “Not Applicable” are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.