April 8, 2020

**SECURITIES AND EXCHANGE COMMISSION**
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City

Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**
Director, Markets and Securities Regulation Department

**PHILIPPINE STOCK EXCHANGE**
6th Floor, PSE Tower
28th St. corner 5th Ave.
BGC, Taguig City

Attention: **Ms. Janet A. Encarnacion**
*Head, Disclosure Department*

**PHILIPPINE DEALING & EXCHANGE CORP.**
29th Floor, BDO Equitable Tower
8751 Paseo de Roxas, Makati City

Attention: **Atty. Marie Rose M. Magallen-Lirio**
*Head, Issuer Compliance and Disclosure Department*

Re: **Submission of Parent Company Audited Financial Statements as of December 31, 2019**
==================================================

Ladies and Gentlemen:

Please find attached the Special Form for Financial Statements of Publicly-Held and Investment Companies, and Audited Financial Statements of SM Investment Corporation (Parent Company) for the year ending December 31, 2019.

Thank you.

Very truly yours,

**ELMER B. SERRANO**
Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 17-C**

**CURRENT REPORT UNDER SECTION 17**
**OF THE SECURITIES REGULATION CODE**
**AND SRC RULE 17.2(c) THEREUNDER**

1. **April 8, 2020**
   Date of Report (Date of earliest event reported)

2. SEC Identification Number **16342**

3. BIR Tax Identification No. **000-169-020-000**

4. **SM Investments Corporation**
   Exact name of issuer as specified in its charter

5. **Philippines**
   Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
   Industry Classification Code:

7. **10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, Pasay City**
   Address of principal office

   **1300**
   Postal Code

8. **(632) 8857-0105**
   Issuer's telephone number, including area code

9. **N.A.**
   Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common** | **1,204,582,867** |

11. Indicate the item numbers reported herein: **Item 9 - Other Events**

**Item 9. Other Events –**

Please find attached the Special Form for Financial Statements of Publicly-Held and Investment Companies, and the Audited Financial Statements of the SM Investment Corporation (Parent Company) for the year ending December 31, 2019.

**SM Investments Corporation**
Issuer

By:

**Elmer B. Serrano**
*Corporate Secretary*

Date: April 8, 2020
……………..…..………

# COVER SHEET
## for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1 | 6 | 3 | 4 | 2 |

Company Name

**SM INVESTMENTS CORPORATION**

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

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

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| PHFS1 | | |

COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Secondary License Type, If Applicable |
|---|---|---|
| | 857-0100 | _ |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| 1,261 | 04/29 | 12/31 |

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Mr. Franklin C. Gomez | - | 857-0100 | - |

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 occurance thereof with information and complete contact details of the new contact person designated.

**Note 2:** All boxes must be properly and completely filled-up. Failure to do so shall cause 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.

Control No.:
Form Type: *PHFS1 (rev 2006)*

**SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES**

**NAME OF CORPORATION:** SM INVESTMENTS CORPORATION (PARENT)
**CURRENT ADDRESS:** 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, 1300
**TEL. NO.:** 8857-0100 **FAX NO.:**
**COMPANY TYPE :** Holding Company **PSIC:** 68110

*If these are based on consolidated financial statements, please so indicate in the caption.*

## Table 1. Balance Sheet

| FINANCIAL DATA | 2019 ( in P'000 ) | 2018 ( in P'000 ) |
|---|---|---|
| **A. ASSETS (A.1 + A.2 + A.3 + A.4 + A.5 + A.6 + A.7 + A.8 + A.9 + A.10)** | **265,409,075** | **292,624,823** |
| A.1 Current Assets (A.1.1 + A.1.2 + A.1.3 + A.1.4 + A.1.5) | 43,534,373 | 69,852,457 |
| A.1.1 Cash and cash equivalents (A.1.1.1 + A.1.1.2 + A.1.1.3) | 5,039,065 | 5,032,905 |
| A.1.1.1 On hand | 218 | 72 |
| A.1.1.2 In domestic banks/entities | 5,038,847 | 5,032,833 |
| A.1.1.3 In foreign banks/entities | | |
| A.1.2 Trade and Other Receivables (A.1.2.1 + A.1.2.2) | 32,810,045 | 34,663,427 |
| A.1.2.1 Due from domestic entities (A.1.2.1.1 + A.1.2.1.2 + A.1.2.1.3 + A.1.2.1.4) | 32,810,045 | 34,663,427 |
| A.1.2.1.1 Due from customers (Management and Service Fees and Tenants) | 2,333,514 | 1,472,080 |
| A.1.2.1.2 Due from related parties | 19,438,307 | 21,786,327 |
| A.1.2.1.3 Others, specify (A.1.2.1.3.1 + A.1.2.1.3.2 + A.1.2.1.3.3) | 11,038,224 | 11,405,020 |
| A.1.2.1.3.1 Accrued interest | 61,586 | 218,980 |
| A.1.2.1.3.2 Dividends | 9,689,672 | 9,927,114 |
| A.1.2.1.3.3 Non-trade and others | 1,286,966 | 1,258,926 |
| A.1.2.1.4 Allowance for doubtful accounts (negative entry) | 0 | 0 |
| A.1.2.2 Due from foreign entities, specify (A.1.2.2.1 + A.1.2.2.2 + A.1.2.2.3 + A.1.2.2.4) | 0 | 0 |
| A.1.2.2.1 | | |
| A.1.2.2.2 | | |
| A.1.2.2.3 | | |
| A.1.2.2.4 Allowance for doubtful accounts (negative entry) | | |
| A.1.3 Inventories (A.1.3.1 + A.1.3.2 + A.1.3.3 + A.1.3.4 + A.1.3.5 + A.1.3.6) | 0 | 0 |
| A.1.3.1 Raw materials and supplies | | |
| A.1.3.2 Goods in process (including unfinished goods, growing crops, unfinished seeds) | | |
| A.1.3.3 Finished goods | | |
| A.1.3.4 Merchandise/Goods in transit | | |
| A.1.3.5 Unbilled Services (in case of service providers) | | |
| A.1.3.6 Others, specify (A.1.3.6.1 + A.1.3.6.2) | 0 | 0 |
| A.1.3.6.1 | | |
| A.1.3.6.2 | | |
| A.1.4 Financial Assets other than Cash/Receivables/Equity investments (A.1.4.1 + A.1.4.2 + A.1.4.3 + A.1.4.4 + A.1.4.5 + A.1.4.6) | 1,678,683 | 151,200 |
| A.1.4.1 Financial Assets at Fair Value through Profit or Loss - issued by domestic entities: (A.1.4.1.1 + A.1.4.1.2 + A.1.4.1.3 + A.1.4.1.4 + A.1.4.1.5) | 0 | 151,200 |
| A.1.4.1.1 National Government | | |
| A.1.4.1.2 Public Financial Institutions | | |
| A.1.4.1.3 Public Non-Financial Institutions | | |
| A.1.4.1.4 Private Financial Institutions | | 151,200 |
| A.1.4.1.5 Private Non-Financial Institutions | | |
| A.1.4.2 Held to Maturity Investments - issued by domestic entities: (A.1.4.2.1 + A.1.4.2.2 + A.1.4.2.3 + A.1.4.2.4 + A.1.4.2.5) | 0 | 0 |
| A.1.4.2.1 National Government | | |
| A.1.4.2.2 Public Financial Institutions | | |
| A.1.4.2.3 Public Non-Financial Institutions | | |
| A.1.4.2.4 Private Financial Institutions | | |
| A.1.4.2.5 Private Non-Financial Institutions | | |

NOTE:

This special form is applicable to Investment Companies and Publicly-held Companies (enumerated in Section 17.2 of the Securities Regulation Code (SRC), except banks and insurance companies). As a supplemental form to PHFS, it shall be used for reporting Consolidated Financial Statements of Parent corporations and their subsidiaries.

Domestic corporations are those which are incorporated under Philippine laws or branches/subsidiaries of foreign corporations that are licensed to do business in the Philippines where the center of economic interest or activity is within the Philippines. On the other hand, foreign corporations are those that are incorporated abroad, including branches of Philippine corporations operating abroad.

Financial Institutions are corporations principally engaged in financial intermediation, facilitating financial intermediation, or auxiliary financial services. Non-Financial institutions refer to corporations that are primarily engaged in the production of market goods and non-financial services.

Control No.:
Form Type: PHFS1 (rev 2006)

**SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES**

**NAME OF CORPORATION:** SM INVESTMENTS CORPORATION (PARENT)

**CURRENT ADDRESS:** 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, 1300

**TEL. NO.:** 8857-0100 **FAX NO.:**

**COMPANY TYPE :** Holding Company **PSIC:** 68110

*If these are based on consolidated financial statements, please so indicate in the caption.*

## Table 1. Balance Sheet

| FINANCIAL DATA | 2019 ( in P'000 ) | 2018 ( in P'000 ) |
|---|---|---|
| A.1.4.3 Loans and Receivables - issued by domestic entities: (A.1.4.3.1 + A.1.4.3.2 + A.1.4.3.3 + A.1.4.3.4 + A.1.4.3.5) | 0 | 0 |
| A.1.4.3.1 National Government | | |
| A.1.4.3.2 Public Financial Institutions | | |
| A.1.4.3.3 Public Non-Financial Institutions | | |
| A.1.4.3.4 Private Financial Institutions | | |
| A.1.4.3.5 Private Non-Financial Institutions | | |
| A.1.4.4 Available-for-sale financial assets - issued by domestic entities: (A.1.4.4.1 + A.1.4.4.2 + A.1.4.4.3 + A.1.4.4.4 + A.1.4.4.5) | 1,678,683 | 0 |
| A.1.4.4.1 National Government | | |
| A.1.4.4.2 Public Financial Institutions | | |
| A.1.4.4.3 Public Non-Financial Institutions | 1,678,683 | |
| A.1.4.4.4 Private Financial Institutions | | |
| A.1.4.4.5 Private Non-Financial Institutions | | |
| A.1.4.5 Financial Assets issued by foreign entities: (A.1.4.5.1+A.1.4.5.2+A.1.4.5.3+A.1.4.5.4) | 0 | 0 |
| A.1.4.5.1 Financial Assets at fair value through profit or loss | | |
| A.1.4.5.2 Held-to-maturity investments | | |
| A.1.4.5.3 Loans and Receivables | | |
| A.1.4.5.4 Available-for-sale financial assets | | |
| A.1.4.6 Allowance for decline in market value (negative entry) | 0 | 0 |
| A.1.5 Other Current Assets (state separately material items) (A.1.5.1 + A.1.5.2 + A.1.5.3) | 4,006,580 | 30,004,925 |
| A.1.5.1 Time deposits | 11,752 | 25,842,829 |
| A.1.5.2 Prepaid taxes and other prepayments and supplies | 3,994,828 | 4,162,096 |
| A.1.5.3 | | |
| A.1.5.4 | | |
| A.2 Property, plant, and equipment (A.2.1 + A.2.2 + A.2.3 + A.2.4 + A.2.5 + A.2.6 + A.2.7+ A.2.8) | 589,540 | 623,567 |
| A.2.1 Land | | |
| A.2.2 Building and improvements including leasehold improvement | 102,070 | 101,818 |
| A.2.3 Machinery and equipment (on hand and in transit) | 29,878 | 29,878 |
| A.2.4 Transportation/motor vehicles, automotive equipment, autos and trucks, and delivery equipment | 444,485 | 403,977 |
| A.2.5 Others, specify (A.2.5.1 + A.2.5.2 + A.2.5.3 + A.2.5.4 + A.2.5.5) | 893,571 | 809,061 |
| A..2.5.1 Property, or equipment used for education purposes | | |
| A..2.5.2 Construction in progress | | |
| A..2.5.3 Furniture, fixtures and office equipment | 893,571 | 809,061 |
| A..2.5.4 | | |
| A..2.5.5 | | |
| A.2.6 Appraisal increase, specify (A.2.6.1 + A.2.6.2 + A.2.6.3 + A.2.6.4 + A.2.6.5) | 0 | 0 |
| A..2.6.1 | | |
| A..2.6.2 | | |
| A..2.6.3 | | |
| A..2.6.4 | | |
| A..2.6.5 | | |
| A.2.7 Accumulated Depreciation (negative entry) | -880,464 | -721,167 |
| A.2.8 Impairment Loss or Reversal (if loss, negative entry) | | |
| A.3 Investments accounted for using the equity method (A.3.1 + A.3.2 + A.3.3 + A.3.4) | 177,688,277 | 173,128,545 |
| A.3.1 Equity in domestic subsidiaries/affiliates | 177,688,229 | 170,978,953 |
| A.3.2 Equity in foreign branches/subsidiaries/affiliates | 48 | 2,149,592 |
| A.3.3 Others, specify (A.3.3.1 + A.3.3.2 + A.3.3.3 + A.3.3.4 + A.3.3.5) | 0 | 0 |
| A.3.3.1 | 0 | 0 |
| A.3.3.2 | | |
| A.3.3.3 | | |
| A.3.3.4 | | |
| A.3.3.5 | | |
| A.4 Investment Property | 3,298,881 | 3,413,731 |
| A.5 Biological Assets | | |
| A.6 Intangible Assets | 44,194 | 66,196 |
| A.6.1 Major item/s, specify (A.6.1.1 + A.6.1.2) | 44,194 | 66,196 |
| A.6.1.1 Software | 44,194 | 66,196 |
| A.6.1.2 | | |
| A.6.2 Others, specify (A.6.2.1 + A.6.2.2) | 0 | 0 |
| A.6.2.1 | | |
| A.6.2.2 | | |
| A.7 Assets Classified as Held for Sale | | |
| A.8 Assets included in Disposal Groups Classified as Held for Sale | | |

Control No.:
Form Type: PHFS1 (rev 2006)

**SPECIAL FORM FOR CONSOLIDATED FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES**

**NAME OF CORPORATION:** SM INVESTMENTS CORPORATION (PARENT)
**CURRENT ADDRESS:** 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, 1300
**TEL. NO.:** 8857-0100 **FAX NO.:**
**COMPANY TYPE :** Holding Company **PSIC:** 68110

*If these are based on consolidated financial statements, please so indicate in the caption.*

## Table 1. Balance Sheet

| FINANCIAL DATA | 2019 ( in P'000 ) | 2018 ( in P'000 ) |
|---|---|---|
| A.9 Long-term receivables (net of current portion) (A.9.1 + A.9.2 + A.9.3) | 0 | 0 |
| A.9.1 From domestic entities, specify (A.9.1.1 + A.9.1.2 + A.9.1.3) | 0 | 0 |
| A.9.1.1 | 0 | 0 |
| A.9.1.2 | | |
| A.9.1.3 | | |
| A.9.2 From foreign entities, specify (A.9.2.1 + A.9.2.2 + A.9.2.3) | 0 | 0 |
| A.9.2.1 | | |
| A.9.2.2 | | |
| A.9.2.3 | | |
| A.9.3 Allowance for doubtful accounts, net of current portion (negative entry) | | |
| A.10 Other Assets (A.10.1 + A.10.2 + A.10.3 + A.10.4 + A.10.5) | 40,253,810 | 45,540,327 |
| A.10.1 Deferred charges - net of amortization | | |
| A.10.2 Deferred Income Tax | | |
| A.10.3 Advance/Miscellaneous deposits | | |
| A.10.4 Others, specify (A.10.4.1 + A.10.4.2 + A.10.4.3 + A.10.4.4+A.10.4.5+A.10.4.6+10.4.7+10.4.8) | 40,253,810 | 45,540,327 |
| A.10.4.1 Time deposits | 0 | 0 |
| A.10.4.2 Available-for-sale investments | 12,721,054 | 14,839,815 |
| A.10.4.3 Bonds and deposits | 20,973,634 | 23,091,851 |
| A.10.4.4 Long term notes | 5,942,878 | 6,739,026 |
| A.10.4.5 Refundable deposits | 34,736 | 25,780 |
| A.10.4.6 Derivative assets | 0 | 713,855 |
| A.10.4.7 Escrow fund | 130,000 | 130,000 |
| A.10.4.8 Right-of-use assets | 451,508 | 0 |
| A.10.5 Allowance for write-down of deferred charges/bad accounts (negative entry) | | |
| **B. LIABILITIES (B.1 + B.2 + B.3 + B.4 + B.5)** | **137,093,643** | **160,413,349** |
| B.1 Current Liabilities (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5 + B.1.6 + B.1.7) | 26,880,264 | 49,960,639 |
| B.1.1 Trade and Other Payables to Domestic Entities (B.1.1.1 + B.1.1.2 + B.1.1.3 + B.1.1.4 + B.1.1.5 + B.1.1.6) | 10,873,253 | 7,550,308 |
| B.1.1.1 Loans/Notes Payables | 8,829,900 | 4,850,000 |
| B.1.1.2 Trade Payables | 519,472 | 543,300 |
| B.1.1.3 Payables to Related Parties | 264,581 | 586,000 |
| B.1.1.4 Advances from Directors, Officers, Employees and Principal Stockholders | | |
| B.1.1.5 Accruals, specify material items (B.1.1.5.1 + B.1.1.5.2 + B.1.1.5.3) | 1,259,300 | 1,571,008 |
| B.1.1.5.1 Accrued interest | 848,937 | 1,181,215 |
| B.1.1.5.2 Accrued expenses | 410,363 | 389,793 |
| B.1.1.5.3 | 0 | 0 |
| B.1.1.6 Others, specify (B.1.1.6.1 + B.1.1.6.2 + B.1.1.6.3) | 0 | 0 |
| B.1.1.6.1 | | |
| B.1.1.6.2 | | |
| B.1.1.6.3 | | |
| B.1.2 Trade and Other Payables to Foreign Entities (specify) (B.1.2.1 + B.1.2.2 + B.1.2.3) | 0 | 0 |
| B.1.2.1 | | |
| B.1.2.2 | | |
| B.1.2.3 | | |
| B.1.3 Provisions | 6,138,606 | 3,548,730 |
| B.1.4 Financial Liabilities (excluding Trade and Other Payables and Provisions) (B.1.4.1 + B.1.4.2 + B.1.4.3 + B.1.4.4 + B.1.4.5) | 2,152,656 | 2,073,956 |
| B.1.4.1 Derivative liability | 0 | 0 |
| B.1.4.2 Advance rental and deposits | 130,866 | 52,166 |
| B.1.4.3 Subscription payable | 2,021,790 | 2,021,790 |
| B.1.4.4 | | |
| B.1.4.5 | | |
| B.1.5 Liabilities for Current Tax | | |
| B.1.6 Deferred Tax Liabilities | | |
| B.1.7 Others, specify (If material, state separately; indicate if the item is payable to public/private or financial/non-financial institutions) (B.1.7.1 + B.1.7.2 + B.1.7.3 + B.1.7.4 + B.1.7.5 + B.1.7.6) | 7,715,749 | 36,787,645 |
| B.1.7.1 Dividends declared and not paid at balance sheet date | | |
| B.1.7.2 Acceptances Payable | | |
| B.1.7.3 Liabilities under Trust Receipts | | |
| B.1.7.4 Portion of Long-term Debt due within one year | 7,226,297 | 36,424,476 |
| B.1.7.5 Deferred Income | | |
| B.1.7.6 Any other current liability in excess of 5% of Total Current Liabiilities, specify: | 489,452 | 363,169 |
| B.1.7.6.1 Payable to government agencies | 470,668 | 363,169 |
| B.1.7.6.2 Lease liabilities | 18,784 | |
| B.1.7.6.3 | | |

Control No.:
Form Type: PHFS1 (rev 2006)

**SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES**

**NAME OF CORPORATION:** SM INVESTMENTS CORPORATION (PARENT)
**CURRENT ADDRESS:** 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, 1300
**TEL. NO.:** 8857-0100 **FAX NO.:**
**COMPANY TYPE :** Holding Company **PSIC:** 68110

*If these are based on consolidated financial statements, please so indicate in the caption.*

## Table 1. Balance Sheet

| FINANCIAL DATA | | 2019 ( in P'000 ) | 2018 ( in P'000 ) |
|---|---|---|---|
| B.2 Long-term Debt - Non-current Interest-bearing Liabilities (B.2.1 + B.2.2 + B.2.3 + B.2.4 + B.2.5) | | 105,672,203 | 106,893,074 |
| B.2.1 Domestic Public Financial Institutions | | | |
| B.2.2 Domestic Public Non-Financial Institutions | | | |
| B.2.3 Domestic Private Financial Institutions | | 39,928,510 | 39,262,361 |
| B.2.4 Domestic Private Non-Financial Institutions | | 44,203,089 | 44,150,793 |
| B.2.5 Foreign Financial Institutions | | 21,540,604 | 23,479,920 |
| B.3 Indebtedness to Affiliates and Related Parties (Non-Current) | | | |
| B.4 Liabilities Included in the Disposal Groups Classified as Held for Sale | | | |
| B.5 Other Liabilities (B.5.1 + B.5.2) | | 4,541,176 | 3,559,636 |
| B.5.1 Deferred Tax | | 355,847 | 424,232 |
| B.5.2 Others, specify (B.5.2.1 + B.5.2.2 + B.5.2.3 + B.5.2.4 + B.5.2.5) | | 4,185,329 | 3,135,404 |
| B.5.2.1 Tenants' deposits and others | | 2,085,110 | 3,131,756 |
| B.5.2.2 Defined benefit liability | | 396,605 | 3,648 |
| B.5.2.3 Derivative liabilities | | 1,253,930 | |
| B.5.2.4 Lease liabilities | | 449,684 | |
| B.5.2.5 | | | |
| **C. EQUITY (C.3 + C.4 + C.5 + C.6 + C.7 + C.8 + C.9+C.10)** | | **128,315,432** | **132,211,474** |
| C.1 Authorized Capital Stock (no. of shares, par value and total value; show details) (C.1.1+C.1.2+C.1.3) | | 28,000,000 | 28,000,000 |
| C.1.1 Common shares | **2017 and 2016: 2,790,000,000 @ P10 par** | 27,900,000 | 27,900,000 |
| C.1.2 Preferred Shares | **10,000,000 sh @ P10 par** | 100,000 | 100,000 |
| C.1.3 Others | | | |
| C.2 Subscribed Capital Stock (no. of shares, par value and total value) (C.2.1 + C.2.2 + C.2.3) | | 12,045,828 | 12,045,828 |
| C.2.1 Common shares | **2017 and 2016: 1,240,582,867 sh @ P10 par** | 12,045,828 | 12,045,828 |
| C.2.2 Preferred Shares | | | |
| C.2.3 Others | | | |
| C.3 Paid-up Capital Stock (C.3.1 + C.3.2) | | 12,045,828 | 12,045,828 |
| C.3.1 Common shares | | 12,045,828 | 12,045,828 |
| C.3.2 Preferred Shares | | | |
| C.4 Additional Paid-in Capital / Capital in excess of par value / Paid-in Surplus | | 62,383,271 | 62,383,271 |
| C.5 Minority Interest | | | |
| C.6 Others, specify (C.6.1 + C.6.2 + C.6.3) | | 385,399 | 3,391,317 |
| C.6.1 Net unrealized gain on available-for-sale investments and others | | 1,238,692 | 3,745,950 |
| C.6.2 Remeasurement loss on defined benefit liability | | -853,293 | -354,633 |
| C.6.3 Net fair value changes on cash flow hedges | | | |
| C.7 Appraisal Surplus/Revaluation Increment in Property/Revaluation Surplus | | | |
| C.8 Retained Earnings (C.8.1 + C.8.2) | | 53,500,934 | 54,391,058 |
| C.8.1 Appropriated | | 37,000,000 | 37,000,000 |
| C.8.2 Unappropriated | | 16,500,934 | 17,391,058 |
| C.9 Head / Home Office Account (for Foreign Branches only) | | | |
| C.10 Cost of Stocks Held in Treasury (negative entry) | | | |
| **TOTAL LIABILITIES AND EQUITY (B + C)** | | **265,409,075** | **292,624,823** |

Control No.:
Form Type: PHFS1 (rev 2006)

**SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES**

**NAME OF CORPORATION:** SM INVESTMENTS CORPORATION (PARENT)
**CURRENT ADDRESS:** 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, 1300
**TEL. NO.:** 8857-0100 **FAX NO.:**
**COMPANY TYPE :** Holding Company **PSIC:** 68110

*If these are based on consolidated financial statements, please so indicate in the caption.*

## Table 2. Income Statement

| FINANCIAL DATA | 2019 ( in P'000 ) | 2018 ( in P'000 ) |
|---|---|---|
| **A. REVENUE / INCOME (A.1 + A.2 + A.3)** | 27,100,122 | 23,918,056 |
| A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity) | | |
| A.2 Share in the Profit or Loss of Associates and Joint Ventures accounted for using the Equity | | |
| A.3 Other Revenue (A.3.1 + A.3.2 + A.3.3 + A.3.4 + A.3.5) | 5,887,534 | 4,901,715 |
| A.3.1 Rental Income from Land and Buildings | 1,243,049 | 1,163,676 |
| A.3.2 Receipts from Sale of Merchandise (trading) (from Secondary Activity) | | |
| A.3.3 Sale of Real Estate or other Property and Equipment | | |
| A.3.4 Royalties, Franchise Fees, Copyrights (books, films, records, etc.) | | |
| A.3.5 Others, specify (A.3.5.1 + A.3.5.2 + A.3.5.3 + A.3.5.4 + A.3.5.5 + A.3.5.6 + A.3.5.7 + A.3.5.8) | 4,644,485 | 3,738,039 |
| A.3.5.1 Management and service fees | 4,644,485 | 3,736,702 |
| A.3.5.2 Gain / (Loss) on sale of financial assets | | 1,337 |
| A.3.5.3 | | |
| A.3.5.4 | | |
| A.3.5.5 | | |
| A.3.5.6 | | |
| A.3.5.7 | | |
| A.3.5.8 | | |
| A.4 Other Income (non-operating) (A.4.1 + A.4.2 + A.4.3 + A.4.4) | 21,212,588 | 19,016,341 |
| A.4.1 Interest Income | 2,076,035 | 2,291,975 |
| A.4.2 Dividend Income | 18,770,905 | 15,929,423 |
| A.4.3 Gain / (**Loss**) from selling of Assets, specify (A.4.3.1 + A.4.3.2 + A.4.3.3 + A.4.3.4) | 6,423 | 34,079 |
| A.4.3.1 property and equipment and investment properties | 6,423 | 34,079 |
| A.4.3.2 | | |
| A.4.3.3 | | |
| A.4.3.4 | | |
| A.4.4 Others, specify (A.4.4.1 + A.4.4.2 + A.4.4.3 + A.4.4.4) | 359,225 | 760,864 |
| A.4.4.1 Gain / (**Loss**) on Foreign Exchange | 374,240 | 556,490 |
| A.4.4.2 Gain / (**Loss**) on fair value of derivatives | -15,015 | 204,374 |
| A.4.4.3 | | |
| A.4.4.4 | | |
| **B. COST OF GOODS SOLD (B.1 + B.2 + B.3)** | 0 | 0 |
| B.1 Cost of Goods Manufactured (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5) | 0 | 0 |
| B.1.1 Direct Material Used | | |
| B.1.2 Direct Labor | | |
| B.1.3 Other Manufacturing Cost / Overhead | | |
| B.1.4 Goods in Process, Beginning | | |
| B.1.5 Goods in Process, End (**negative entry**) | | |
| B.2 Finished Goods, Beginning | | |
| B.3 Finished Goods, End (**negative entry**) | | |
| **C. COST OF SALES (C.1 + C.2 + C.3)** | 0 | 0 |
| C.1 Purchases | | |
| C.2 Merchandise Inventory, Beginning | | |
| C.3 Merchandise Inventory, End (**negative entry**) | | |
| **D. GROSS PROFIT (A - B - C)** | 27,100,122 | 23,918,056 |

| | |
|---|---|
| *Control No.:* | |
| *Form Type:* | *PHFS1 (rev 2006)* |

**SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES**

**NAME OF CORPORATION:** SM INVESTMENTS CORPORATION (PARENT)

**CURRENT ADDRESS:** 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, 1300

**TEL. NO.:** 8857-0100 **FAX NO.:**

**COMPANY TYPE :** Holding Company **PSIC:** 68110

***If these are based on consolidated financial statements, please so indicate in the caption.***

## Table 2. Income Statement

| FINANCIAL DATA | 2019 ( in P'000 ) | 2018 ( in P'000 ) |
|---|---|---|
| **E. OPERATING EXPENSES (E.1 + E.2 + E.3 + E.4)** | **8,889,861** | **4,862,251** |
| E.1 Selling or Marketing Expenses | | |
| E.2 Administrative Expenses | 5,346,442 | 4,862,251 |
| E.3 General Expenses | | |
| E.4 Other Expenses, specify (E.4.1 + E.4.2 + E.4.3 + E.4.4 + E.4.5 + E.4.6 + E.4.7 + E.4.8 + E.4.9 + E.4.10) | 3,543,419 | 0 |
| E.4.1 Impairment loss on investment | 3,543,419 | |
| E.4.2 | | |
| E.4.3 | | |
| E.4.4 | | |
| E.4.5 | | |
| E.4.6 | | |
| E.4.7 | | |
| E.4.8 | | |
| E.4.9 | | |
| E.4.10 | | |
| **F. FINANCE COSTS (F.1 + F.2 + F.3 + F.4 + F.5)** | **7,482,917** | **7,638,985** |
| F.1 Interest on Short-Term Promissory Notes | 190,841 | 232,941 |
| F.2 Interest on Long-Term Promissory Notes | 7,050,554 | 7,143,899 |
| F.3 Interest on bonds, mortgages and other long-term loans | | |
| F.4 Amortization | | |
| F.5 Other interests, specify (F.5.1 + F.5.2 + F.5.3 + F.5.4 + F.5.5) | 241,522 | 262,145 |
| F.5.1 Debt issue cost | 192,280 | 207,307 |
| F.5.2 Lease liabilities | 38,868 | |
| F.5.3 Others | 10,374 | 54,838 |
| F.5.4 | | |
| F.5.5 | | |
| **G. NET INCOME (LOSS) BEFORE TAX (D - E - F)** | **10,727,344** | **11,416,820** |
| **H. INCOME TAX EXPENSE (negative entry)** | **-486,490** | **-422,484** |
| **I. INCOME(LOSS) AFTER TAX** | **10,240,854** | **10,994,336** |
| **J. Amount of (i) Post-Tax Profit or Loss of Discontinued Operations; and (ii) Post-Tax Gain or Loss Recognized on theMeasurement of Fair Value less Cost to Sell or on the Disposal of the Assets or Disposal Group(s) constituting the Discontinued Operation (if any)** | | |
| J.1 | | |
| J.2 | | |
| **K. PROFIT OR LOSS ATTRIBUTABLE TO MINORITY INTEREST** | | |
| **L PROFIT OR LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | **10,240,854** | **10,994,336** |
| **M. EARNINGS (LOSS) PER SHARE** | | |
| M.1 Basic | | |
| M.2 Diluted | | |

Control No.:
Form Type: PHFS1 (rev 2006)

**SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES**

**NAME OF CORPORATION:** SM INVESTMENTS CORPORATION (PARENT)
**CURRENT ADDRESS:** 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, 1300
**TEL. NO.:** 8857-0100 **FAX NO.:**
**COMPANY TYPE** Holding Company **PSIC:** 68110

*If these are based on consolidated financial statements, please so indicate in the caption.*

## Table 3. Cash Flow Statements

| FINANCIAL DATA | 2019 ( in P'000 ) | 2018 ( in P'000 ) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Net Income (Loss) Before Tax and Extraordinary Items** | 10,727,344 | 11,416,820 |
| **Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities** | | |
| Depreciation and amortization | 360,146 | 355,428 |
| Others, specify: Dividend income | -18,770,905 | -15,929,423 |
| Interest expense | 7,482,917 | 7,638,985 |
| Interest income | -2,076,035 | -2,291,975 |
| Loss (gain) on fair value changes of derivatives - net | 15,015 | -204,374 |
| Impairment loss on investment | 3,543,419 | 0 |
| Provisions | 2,589,877 | 2,207,000 |
| Gain sale of investment in shares, investment property and property and equipment | -6,423 | -34,079 |
| Net benefit expense | 73,650 | 69,355 |
| Net unrealized foreign exchange loss | 23,718 | 39,429 |
| Amortization of deferred rent income | -8,519 | -4,234 |
| Loss (gain) on sale of available-for-sale investments | 0 | -1,337 |
| Changes in Assets and Liabilities: | | |
| Decrease (Increase) in: | | |
| Receivables | 3,561,960 | -963,082 |
| Prepaid taxes and other current assets | 167,269 | 122,844 |
| Increase (Decrease) in: | | |
| Accounts payable and other current liabilities | 21,540 | -598,633 |
| Tenants' deposits | -780,296 | -279,259 |
| Income tax paid | -264,455 | -139,525 |
| Contributions to the plan | -179,354 | -170,963 |
| **A. Net Cash Provided by (Used in) Operating Activities (sum of above rows)** | **6,480,868** | **1,232,977** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| (Increase) Decrease in Time deposits | 25,831,077 | 11,505,256 |
| (Increase) Decrease in Other noncurrent assets | 555,590 | -853,713 |
| Proceeds from sale of , specify: Available-for-sale investmenents | 0 | 42,675 |
| Investment in shares of stocks | 1,206 | 0 |
| Software cost | 0 | 0 |
| Property and equipment | 0 | 150,472 |
| Investment properties | 6,793 | 0 |
| Additions to , specify: Investment in shares of stocks | -8,644,977 | -4,987,596 |
| Available-for-sale investments | -828,558 | -405,640 |
| Investment properties | -31,931 | -89,810 |
| Software cost | 0 | -5,325 |
| Property and equipment | -125,271 | -372,153 |
| | | |
| Dividends received | 18,554,149 | 13,576,375 |
| Interest received | 2,023,290 | 2,022,545 |
| **B. Net Cash Provided by (Used in) Investing Activities (sum of above rows)** | **37,341,368** | **20,583,086** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from: | | |
| Bank loans | 20,827,800 | 24,923,500 |
| Long-term debt | 10,178,166 | 16,546,427 |
| Payments of: | | |
| Bank loans | -16,847,900 | -30,273,500 |
| Long-term debt | -39,331,556 | -13,604,572 |
| Dividends | -10,985,796 | -9,877,580 |
| Lease liabilites | -54,344 | |
| Interest expense | -7,597,697 | -7,268,510 |
| **C. Net Cash Provided by (Used in) Financing Activities (sum of above rows)** | **-43,811,327** | **-19,554,235** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)** | 10,909 | 2,261,828 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | -4,749 | -214 |
| Cash and Cash Equivalents | | |
| Beginning of year | 5,032,905 | 2,771,291 |
| End of year | 5,039,065 | 5,032,905 |

Control No.:
Form Type: PHFS1 (rev 2006)

**SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES**

**NAME OF CORPORATION:** SM INVESTMENTS CORPORATION (PARENT)
**CURRENT ADDRESS:** 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City, 1300
**TEL. NO.:** 857-0100 **FAX NO.:**
**COMPANY TYPE :** Holding Company **PSIC:** 68110

*If these are based on consolidated financial statements, please so indicate in the caption.*

## Table 4. Statement of Changes in Equity

(Amount in P'000)

| FINANCIAL DATA | Capital Stock | Additional Paid-in Capital | Remeasurement loss on defined benefit liability | Net unrealized gain on AFS investments and others | Appropriated Retained Earnings | Unappropriated Retained Earnings | TOTAL |
|---|---|---|---|---|---|---|---|
| **A. Balance, 2017** | 12,045,828 | 62,383,271 | -271,929 | 4,813,135 | 37,000,000 | 16,151,499 | 132,121,804 |
| A.1 Correction of Error(s) | | | | | | | 0 |
| A.2 Changes in Accounting Policy | | | | 727,487 | | 122,804 | 850,291 |
| **B. Restated Balance** | 12,045,828 | 62,383,271 | -271,929 | 5,540,622 | 37,000,000 | 16,274,303 | 132,972,095 |
| **C. Surplus** | 0 | 0 | -82,704 | -1,794,672 | 0 | 0 | -1,877,376 |
| C.1 Surplus (Deficit) on Revaluation of Properties | | | | | | | 0 |
| C.2 Surplus (Deficit) on Revaluation of Investments | | | | -1,794,672 | | | -1,794,672 |
| C.3 Currency Translation Differences | | | | | | | 0 |
| C.4 Other Surplus (specify) | 0 | 0 | -82,704 | 0 | 0 | 0 | -82,704 |
| C.4.1 Remeasurement loss | | | -82,704 | | | | -82,704 |
| C.4.2 | | | | | | | 0 |
| C.4.3 | | | | | | | 0 |
| C.4.4 | | | | | | | 0 |
| C.4.5 | | | | | | | 0 |
| **D. Net Income (Loss) for the Period** | | | | | | 10,994,336 | 10,994,336 |
| **E. Dividends (negative entry)** | | | | | | -9,877,581 | -9,877,581 |
| **F. Appropriation for (specify)** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| F.1 | | | | | | | 0 |
| F.2 | | | | | | | 0 |
| F.3 | | | | | | | 0 |
| F.4 | | | | | | | 0 |
| F.5 | | | | | | | 0 |
| **G. Issuance of Capital Stock** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| G.1 Common Stock | 0 | 0 | | | | | 0 |
| G.2 Preferred Stock | | | | | | | 0 |
| G.3 Others | | | | | | | 0 |
| **H. Balance, 2018** | 12,045,828 | 62,383,271 | -354,633 | 3,745,950 | 37,000,000 | 17,391,058 | 132,211,474 |
| H.1 Correction of Error (s) | | | | | | | 0 |
| H.2 Changes in Accounting Policy | | | | | | -145,183 | -145,183 |
| **I. Restated Balance** | 12,045,828 | 62,383,271 | -354,633 | 3,745,950 | 37,000,000 | 17,245,875 | 132,066,291 |
| **J. Surplus** | 0 | 0 | -498,660 | -2,507,258 | 0 | 0 | -3,005,918 |
| J.1 Surplus (Deficit) on Revaluation of Properties | | | | | | | 0 |
| J.2 Surplus (Deficit) on Revaluation of Investments | | | | -2,507,258 | | | -2,507,258 |
| J.3 Currency Translation Differences | | | | | | | 0 |
| J.4 Other Surplus (specify) | 0 | 0 | -498,660 | 0 | 0 | 0 | -498,660 |
| J.4.1 Remeasurement loss | | | -498,660 | | | | -498,660 |
| J.4.2 | | | | | | | 0 |
| J.4.3 | | | | | | | 0 |
| J.4.4 | | | | | | | 0 |
| J.4.5 | | | | | | | 0 |
| **K. Net Income (Loss) for the Period** | | | | | | 10,240,854 | 10,240,854 |
| **L. Dividends (negative entry)** | | | | | | -10,985,795 | -10,985,795 |
| **M. Appropriation for (specify)** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| M.1 | | | | | | | 0 |
| M.2 | | | | | | | 0 |
| M.3 | | | | | | | 0 |
| M.4 | | | | | | | 0 |
| M.5 | | | | | | | 0 |
| **N. Issuance of Capital Stock** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| N.1 Common Stock | | | | | | | 0 |
| N.2 Preferred Stock | | | | | | | 0 |
| N.3 Others | | | | | | | 0 |
| **O. Balance, 2019** | 12,045,828 | 62,383,271 | -853,293 | 1,238,692 | 37,000,000 | 16,500,934 | 128,315,432 |

INVESTMENTS
CORPORATION

10/F OneE-com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300 Philippines

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY**
**FOR FINANCIAL STATEMENTS**

The management of SM Investments Corporation is responsible for the preparation and fair presentation of the parent company financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with Philippine Financial Reporting Standards and for such internal controls as management determines is necessary, to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

The Board of Directors reviews and approves the parent company 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 parent company financial statements of the company 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** | **FREDERIC C. DYBUNCIO** | **MARCELO C. FERNANDO, Jr.** |
| Chairman of the Board | President | Treasurer |

Signed this 28th day of February 2020

REPUBLIC OF THE PHILIPPINES )
Pasig City )

**SUBSCRIBED AND SWORN** to before this FEB 2 8 2020 at Pasig 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 |

KRISTINE R. BONGCAROL
Appointment No. 102 (2020-2021)
Notary Public for Pasig City
Until December 31,2021
Attorney's Roll No. 60559
33rd Floor The Orient Square F. Ortigas Jr. Road
Ortigas Center, Pasig City
PTR No. 6445318;01.02.20;Pasig City
IBP No.089193;01.02.20;RSM
MCLE Compliance No. VI-0013199;04.14.22

DOC No. 3
PAGE No. 2
BOOK No. I
SERIES of 2020

# SM Investments Corporation

Parent Company Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24
SEC Accreditation No. 0012-FR-5 (Grou
November 6, 2018, valid until Novemb

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
SM Investments Corporation

## Opinion

We have audited the parent company financial statements of SM Investments Corporation (the Company), which comprise the parent company balance sheets as at December 31, 2019 and 2018, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended 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 Parent Company Financial Statements* section of our report. We are independent of the Company 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 parent company 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.

## Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

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

In preparing the parent company financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

**Auditor's Responsibilities for the Audit of the Parent Company Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company 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 Company'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 Company'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 parent company 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 Company to cease to continue as a going concern.

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

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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010**

The supplementary information required under Revenue Regulations No. 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of SM Investments Corporation in a separate schedule. Revenue Regulations No. 15-2010 require the information to be presented in the notes to parent company financial statements. Such information is not a required part of the basic parent company financial statements. The information is also not required by Revised Securities Regulation Code Rule 68. Our opinion on the basic parent company financial statements is not affected by the presentation of the information in a separate schedule.

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. 8125278, January 7, 2020, Makati City

February 28, 2020

# SM INVESTMENTS CORPORATION
# PARENT COMPANY BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | **2019** | 2018 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 5, 23 and 27) | **₱5,039,065,154** | ₱5,032,905,439 |
| Time deposits (Notes 6, 23 and 27) | **11,751,840** | 25,842,828,552 |
| Receivables (Notes 7, 23 and 27) | **32,810,045,122** | 34,663,426,734 |
| Financial assets (Notes 8, 23 and 27) | **1,678,683,126** | 151,200,000 |
| Prepaid taxes and other current assets (Note 9) | **3,994,827,366** | 4,162,096,389 |
| Total Current Assets | **43,534,372,608** | 69,852,457,114 |
| **Noncurrent Assets** | | |
| Financial assets (Notes 8, 23, 27 and 28) | **12,721,053,688** | 14,839,815,441 |
| Investments in subsidiaries and associates (Note 10) | **177,688,276,767** | 173,128,544,827 |
| Property and equipment (Note 11) | **589,540,426** | 623,566,989 |
| Investment properties (Note 12) | **3,298,881,145** | 3,413,731,343 |
| Software (Note 13) | **44,194,407** | 66,196,327 |
| Right-of-use assets (Note 26) | **451,507,716** | – |
| Other noncurrent assets (Notes 14, 23, 27 and 28) | **27,081,248,197** | 30,700,510,785 |
| Total Noncurrent Assets | **221,874,702,346** | 222,772,365,712 |
| | **₱265,409,074,954** | ₱292,624,822,826 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Bank loans (Notes 15, 23, 27 and 29) | **₱8,829,900,000** | ₱4,850,000,000 |
| Accounts payable and other current liabilities (Notes 16, 23, 26 and 27) | **4,685,460,102** | 5,137,432,067 |
| Provisions (Notes 17 and 27) | **6,138,606,314** | 3,548,729,673 |
| Current portion of long-term debt (Notes 18, 23, 27 and 29) | **7,226,296,972** | 36,424,475,986 |
| Total Current Liabilities | **26,880,263,388** | 49,960,637,726 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Notes 18, 23, 27, 28 and 29) | **105,672,203,414** | 106,893,073,513 |
| Defined benefit liability (Note 24) | **396,605,119** | 3,648,113 |
| Deferred tax liabilities (Note 25) | **355,846,873** | 424,231,633 |
| Derivative liabilities (Notes 18, 27 and 28) | **1,253,930,025** | – |
| Lease liabilities - net of current portion (Notes 23, 26, 27 and 29) | **449,683,731** | – |
| Tenants' deposits and others (Notes 23, 26, 27 and 28) | **2,085,110,125** | 3,131,756,169 |
| Total Noncurrent Liabilities | **110,213,379,287** | 110,452,709,428 |
| Total Liabilities | **137,093,642,675** | 160,413,347,154 |
| **Equity** | | |
| Capital stock (Note 19) | **12,045,828,670** | 12,045,828,670 |
| Additional paid-in capital | **62,383,270,999** | 62,383,270,999 |
| Remeasurement loss on defined benefit liability (Note 24) | **(853,293,467)** | (354,633,193) |
| Net unrealized gain (loss) on financial assets and others (Notes 8 and 28) | **1,238,692,340** | 3,745,950,600 |
| Retained earnings (Note 19): | | |
| Appropriated | **37,000,000,000** | 37,000,000,000 |
| Unappropriated | **16,500,933,737** | 17,391,058,596 |
| Total Equity | **128,315,432,279** | 132,211,475,672 |
| | **₱265,409,074,954** | ₱292,624,822,826 |

*See accompanying Notes to Parent Company Financial Statements.*

## SM INVESTMENTS CORPORATION
## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2019** | 2018 |
| **REVENUES** | | |
| Dividends (Note 23) | **₱18,770,905,192** | ₱15,929,422,849 |
| Management and service fees (Notes 20 and 23) | **4,644,484,858** | 3,736,701,501 |
| Rent (Notes 12, 23 and 26) | **1,243,048,907** | 1,163,675,895 |
| Gain on sale of financial assets - net (Note 8) | **–** | 1,337,511 |
| | **24,658,438,957** | 20,831,137,756 |
| **COSTS AND EXPENSES** (Note 21) | **(5,346,441,949)** | (4,862,251,169) |
| **OTHER INCOME (CHARGES)** | | |
| Interest expense (Notes 22 and 23) | **(7,482,917,037)** | (7,638,985,427) |
| Impairment loss on investment (Note 10) | **(3,543,419,246)** | – |
| Interest income (Notes 22 and 23) | **2,076,034,960** | 2,291,975,002 |
| Gain (loss) on fair value changes of derivatives - net (Note 28) | **(15,015,262)** | 204,374,200 |
| Gain on sale of property and equipment and investment properties (Notes 11 and 12) | **6,423,000** | 34,079,311 |
| Foreign exchange gain and others - net (Note 27) | **374,240,544** | 556,490,258 |
| | **(8,584,653,041)** | (4,552,066,656) |
| **INCOME BEFORE INCOME TAX** | **10,727,343,967** | 11,416,819,931 |
| **PROVISION FOR INCOME TAX** (Note 25) | **486,489,901** | 422,484,135 |
| **NET INCOME** | **10,240,854,066** | 10,994,335,796 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Items to be reclassified to profit or loss in subsequent periods: | | |
| Change in fair value of financial assets and others - net (Notes 8 and 28) | **(1,381,557,300)** | 669,712,342 |
| Income tax effect (Note 25) | **206,276,372** | (206,276,372) |
| | **(1,175,280,928)** | 463,435,970 |
| Item not to be reclassified to profit or loss in subsequent periods: | | |
| Change in fair value of financial assets and others - net (Notes 8) | **(1,320,049,986)** | (2,295,002,699) |
| Remeasurement loss on defined benefit liability (Note 24) | **(498,660,274)** | (82,704,528) |
| Income tax effect (Note 25) | **(11,927,346)** | 36,895,177 |
| | **(1,830,637,606)** | (2,340,812,050) |
| **OTHER COMPREHENSIVE LOSS** | **(3,005,918,534)** | (1,877,376,080) |
| **TOTAL COMPREHENSIVE INCOME** | **₱7,234,935,532** | ₱9,116,959,716 |

*See accompanying Notes to Parent Company Financial Statements.*

# SM INVESTMENTS CORPORATION

## PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | Capital Stock (Note 19) | Additional Paid-in Capital | Remeasurement Loss on Defined Benefit Liability (Note 24) | Net Unrealized Gain on Financial Assets and Others (Notes 8 and 28) | Retained Earnings (Note 19) Appropriated | Unappropriated | Total |
|---|---|---|---|---|---|---|---|
| As at January 1, 2019, as previously reported | **₱12,045,828,670** | **₱62,383,270,999** | **(₱354,633,193)** | **₱3,745,950,600** | **₱37,000,000,000** | **₱17,391,058,596** | **₱132,211,475,672** |
| Effect of adoption of new accounting standards (Note 3) | – | – | – | – | – | **(145,183,178)** | **(145,183,178)** |
| As adjusted | **12,045,828,670** | **62,383,270,999** | **(354,633,193)** | **3,745,950,600** | **37,000,000,000** | **17,245,875,418** | **132,066,292,494** |
| Net income | – | – | – | – | – | **10,240,854,066** | **10,240,854,066** |
| Other comprehensive loss | – | – | **(498,660,274)** | **(2,507,258,260)** | – | – | **(3,005,918,534)** |
| Total comprehensive income (loss) | – | – | **(498,660,274)** | **(2,507,258,260)** | – | **10,240,854,066** | **7,234,935,532** |
| Cash dividends - ₱9.12 a share | – | – | – | – | – | **(10,985,795,747)** | **(10,985,795,747)** |
| As at December 31, 2019 | **₱12,045,828,670** | **₱62,383,270,999** | **(₱853,293,467)** | **₱1,238,692,340** | **₱37,000,000,000** | **₱16,500,933,737** | **₱128,315,432,279** |
| | | | | | | | |
| As at January 1, 2018 | ₱12,045,828,670 | ₱62,383,270,999 | (₱271,928,665) | ₱4,813,134,058 | ₱37,000,000,000 | ₱16,151,498,653 | ₱132,121,803,715 |
| Effect of adoption of new accounting standards | – | – | – | 727,488,094 | – | 122,803,656 | 850,291,750 |
| As adjusted | 12,045,828,670 | 62,383,270,999 | (271,928,665) | 5,540,622,152 | 37,000,000,000 | 16,274,302,309 | 132,972,095,465 |
| Net income | – | – | – | – | – | 10,994,335,796 | 10,994,335,796 |
| Other comprehensive loss | – | – | (82,704,528) | (1,794,671,552) | – | – | (1,877,376,080) |
| Total comprehensive income (loss) | – | – | (82,704,528) | (1,794,671,552) | – | 10,994,335,796 | 9,116,959,716 |
| Cash dividends - ₱8.20 a share | – | – | – | – | – | (9,877,579,509) | (9,877,579,509) |
| As at December 31, 2018 | ₱12,045,828,670 | ₱62,383,270,999 | (₱354,633,193) | ₱3,745,950,600 | ₱37,000,000,000 | ₱17,391,058,596 | ₱132,211,475,672 |

*See accompanying Notes to Parent Company Financial Statements.*

**SM INVESTMENTS CORPORATION**
## PARENT COMPANY STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2019** | 2018 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱10,727,343,967** | ₱11,416,819,931 |
| Adjustments for: | | |
| Dividend income (Note 23) | **(18,770,905,192)** | (15,929,422,849) |
| Interest expense (Notes 22 and 23) | **7,482,917,037** | 7,638,985,427 |
| Impairment loss on investment (Note 10) | **3,543,419,246** | – |
| Provisions (Notes 17 and 21) | **2,589,876,641** | 2,207,000,000 |
| Interest income (Notes 22 and 23) | **(2,076,034,960)** | (2,291,975,002) |
| Depreciation and amortization (Notes 11, 12, 13, 21 and 26) | **360,146,142** | 355,428,547 |
| Net benefit expense (Notes 21 and 24) | **73,650,382** | 69,354,701 |
| Net unrealized foreign exchange loss | **23,717,683** | 39,428,574 |
| Loss (gain) on fair value changes of derivatives - net (Note 28) | **15,015,262** | (204,374,200) |
| Amortization of deferred rent income | **(8,519,446)** | (4,233,802) |
| Gain on sale of property and equipment and investment properties (Notes 11 and 12) | **(6,423,000)** | (34,079,311) |
| Gain on sale of financial assets - net (Note 8) | **–** | (1,337,511) |
| Income before working capital changes | **3,954,203,762** | 3,261,594,505 |
| Decrease (increase) in: | | |
| Receivables | **3,561,960,210** | (963,082,053) |
| Prepaid taxes and other current assets | **167,269,023** | 122,844,177 |
| Increase (decrease) in: | | |
| Accounts payable and other current liabilities | **21,540,442** | (598,632,716) |
| Tenants' deposits and others | **(780,296,464)** | (279,258,760) |
| Cash generated from operations | **6,924,676,973** | 1,543,465,153 |
| Income tax paid | **(264,455,130)** | (139,525,574) |
| Contributions to plan assets (Note 24) | **(179,353,650)** | (170,963,039) |
| Net cash provided by operating activities | **6,480,868,193** | 1,232,976,540 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to: | | |
| Investments in subsidiaries and associates (Note 10) | **(8,644,977,105)** | (4,987,595,610) |
| Financial assets | **(828,557,822)** | (405,639,559) |
| Property and equipment (Note 11) | **(125,270,576)** | (372,152,910) |
| Investment properties (Note 12) | **(31,930,792)** | (89,809,898) |
| Software (Note 13) | **–** | (5,325,417) |
| Dividends received | **18,554,148,786** | 13,576,375,221 |
| Proceeds from sale of: | | |
| Investments in subsidiaries and associates | **1,206,100** | – |
| Investment properties | **6,793,119** | – |
| Financial assets | **–** | 42,675,121 |
| Property and equipment | **–** | 150,471,876 |
| Interest received | **2,023,289,567** | 2,022,544,507 |
| Decrease (increase) in: | | |
| Time deposits | **25,831,076,712** | 11,505,255,919 |
| Other noncurrent assets | **555,590,296** | (853,713,092) |
| Net cash provided by investing activities | **37,341,368,285** | 20,583,086,158 |

*(Forward)*

| | Years Ended December 31 | |
|---|---|---|
| | **2019** | 2018 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Availments of: | | |
| Bank loans (Notes 15 and 29) | **₱20,827,800,000** | ₱24,923,500,000 |
| Long-term debt (Notes 18 and 29) | **10,178,165,500** | 16,546,427,333 |
| Payments of: | | |
| Bank loans (Notes 15 and 29) | **(16,847,900,000)** | (30,273,500,000) |
| Long-term debt (Notes 18 and 29) | **(39,331,555,675)** | (13,604,572,137) |
| Dividends (Notes 19 and 29) | **(10,985,795,747)** | (9,877,579,509) |
| Lease liabilities (Notes 26 and 29) | **(54,344,317)** | – |
| Interest (Note 29) | **(7,597,697,351)** | (7,268,510,518) |
| Net cash used in financing activities | **(43,811,327,590)** | (19,554,234,831) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **10,908,888** | 2,261,827,867 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(4,749,173)** | (213,732) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** (Note 5) | **5,032,905,439** | 2,771,291,304 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | **₱5,039,065,154** | ₱5,032,905,439 |

*See accompanying Notes to Parent Company Financial Statements.*

## 1. Corporate Information

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

The Company is the largest publicly listed company in the Philippines that is invested in market leading businesses in retail, banking and property. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

The accompanying parent company 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, 2020.

## 2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The parent company financial statements are prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities which are measured at fair value. The parent company financial statements are presented in Philippine Peso, the Company's functional and presentation currency under Philippine Financial Reporting Standards (PFRSs). All values are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance
The parent company financial statements have been prepared in compliance with PFRSs, which include the availment of the relief granted by the SEC under Memorandum Circular No. 3, Series of 2019.

The Company prepares and issues consolidated financial statements in compliance with PFRS and for the same period as the parent company financial statements. These consolidated financial statements may be obtained at the registered office address of the Company or at the Philippine SEC.

## 3. Summary of Significant Accounting Policies, Changes and Improvements

The significant accounting policies adopted in the preparation of the parent company 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 12 months after the reporting period are presented under noncurrent assets.

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

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

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

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

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

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

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

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

For assets and liabilities that are recognized in the parent company financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization at the end of each reporting period.

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

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

*"Day 1" Difference.* Where the transaction price in a 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 markets, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the parent company statement of comprehensive income (SCI) 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 SCI when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the amount of "Day 1" difference.

Financial Instruments

*Financial Assets*

Initial Recognition and Measurement
At initial recognition, financial assets are classified as, and measured at amortized cost, fair value through other comprehensive income (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 Company'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 Company'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 Company commits to purchase or sell the asset.

Subsequent Measurement
Subsequent to initial recognition, the Company 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 Company measures financial assets at amortized cost when:

- The financial asset is held within a business model with the objective to hold these and collect contractual cash flows; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

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

The Company's financial assets at amortized cost include cash and cash equivalents, time deposits, receivables (excluding certain other receivables), certain bonds and deposits, long-term notes, escrow fund and refundable deposits (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 they 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 value are recognized in the SCI.

A derivative embedded in a hybrid contract, with a financial liability or nonfinancial 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 the SCI. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required, or a reclassification of a financial asset out of the FVPL category.

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

The Company's financial assets at FVPL include the corporate note (included under "Financial assets" account) and derivative assets (included under "Other noncurrent assets" account) as at December 31, 2018.

*Financial Assets at FVOCI (Debt Instruments)*
The Company measures debt instruments at FVOCI when:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI.

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

The Company's debt instruments at FVOCI include investments in corporate bonds (included under "Financial assets" account).

*Financial Assets Designated at FVOCI (Equity Instruments)*
Upon initial recognition, the Company 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 SCI when the right of payment is established, except when the Company 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 Company'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 Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company 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 Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company 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 Company 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 Company could be required to repay.

*Impairment*
The Company 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 Company expects to receive, discounted at an approximation of the original EIR. 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 Company uses a provision matrix for receivable from tenants 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 receivables, the Company applies a simplified approach in calculating ECLs. The Company does not track changes in credit risk, instead, recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company 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 Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

For debt instruments at FVOCI, the Company applies the low credit risk simplification. At every reporting date, the Company 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 Company reassesses the internal credit rating of the debt instrument. The Company considers there to be a significant increase in credit risk when contractual payments become past due.

*Financial Liabilities*

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

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

The Company's financial liabilities include bank loans, accounts payable and other current liabilities (excluding payable to government agencies and advance rentals and deposits), long-term debt, lease liabilities and tenants' deposits and others (excluding deferred rent income).

<u>Subsequent Measurement</u>

*Loans and Borrowings*
Interest-bearing loans and borrowings and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the SCI 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 SCI.

*Financial Liabilities at FVPL*
Financial liabilities at FVPL include those held for trading as well as derivative financial instruments entered into by the Company 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 SCI.

*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 SCI.

*Offsetting of Financial Instruments*
Financial assets and financial liabilities are offset and the net amount is reported in the parent company 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 Company uses derivative financial instruments such as cross-currency swaps and non-deliverable forwards and swaps to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as 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 Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

*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 SCI. 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 Company 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 "Net unrealized gain on financial assets and others" account.

The amounts accumulated in OCI are accounted for depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a nonfinancial 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 nonfinancial asset or nonfinancial 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.

Prepaid Taxes
Prepaid taxes (included under the "Prepaid taxes and other current assets" account) are carried at cost less any impairment in value. Prepaid taxes consist mainly of tax credits which may be used for payments of Internal Revenue taxes.

Investments in Subsidiaries and Associates
The Company's investments in subsidiaries (entities which the Company controls) and associates (entities in which the Company has significant influence and are neither subsidiaries nor joint ventures) are carried at cost less any impairment in value.

Under the cost method, the Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated profits of the subsidiary or associate. The Company recognizes dividend income from its subsidiaries and associates when its right to receive the dividend is established.

Common control transactions with the subsidiaries are recorded at the carrying value of assets given up. No gain or loss is recognized from the transactions.

Property and Equipment
Property and equipment is stated at cost less accumulated depreciation and any accumulated 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 Company and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

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

| | |
|---|---|
| Buildings, condominium units and improvements | 5–25 years |
| Machinery and equipment | 10 years |
| Transportation equipment | 5–15 years |
| Furniture, fixtures and office equipment | 3–5 years |

The residual values, useful lives and methods of depreciation 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 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 accumulated provision for impairment loss is removed from the accounts and any resulting gain or loss is recognized in the SCI.

Investment Properties
Investment properties include property held to earn rentals and for capital appreciation. Investment properties, except land, are measured at cost, less accumulated depreciation 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 recognized in the SCI.

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

| | |
|---|---|
| Land improvements | 10 years |
| Buildings and improvements | 5–25 years |
| Building equipment, furniture and others | 3–10 years |

The residual values, useful lives and method of depreciation 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 recognized in the SCI.

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, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company 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 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.

Software
Software is measured on initial recognition at cost. Following initial recognition, software is carried at cost less accumulated amortization and any accumulated impairment loss. Software is amortized over its economic useful life and assessed for impairment whenever there is an indication of impairment.

Amortization is computed using the straight-line method over the estimated useful life of five years. The residual value, if any, useful life and amortization method of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains or losses arising on derecognition of software (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the SCI in the year the asset is derecognized.

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 Company's investment properties. At the termination of the lease contracts, the deposits received by the Company 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 12 months.

Impairment of Nonfinancial Assets
The carrying value of nonfinancial assets (investment in subsidiaries and associates, property and equipment, investment properties, software and right-of-use (ROU) 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 cash-generating units (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 SCI in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period 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. A previously recognized impairment loss is reversed only when there is a change in the 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. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized in prior years. Such reversal is recognized in the SCI. 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 are deducted from the proceeds, net of tax.

Retained Earnings
Retained earnings include cumulative profits, dividend distributions, effects of changes in accounting policy and other capital adjustments. Unappropriated retained earnings is the portion which is available for distribution to stockholders as dividends, subject to adjustments based on the regulatory requirements of the Philippine SEC. Appropriated retained earnings is the portion that is restricted and therefore, not available for dividend distribution.

Revenue 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 Company expects to be entitled in exchange for those goods or services. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Company has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria, other than disclosed in Note 2 to the parent company financial statements, shall be met before revenue is recognized:

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

*Management and Service Fees.* Revenue is recognized when earned in accordance with the terms of the agreements.

*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.

*Gain on Sale of Financial Assets.* Revenue is recognized upon delivery of the securities to, and confirmation of the sale by the broker.

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

Costs and Expenses
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease in equity, other than those relating to distributions to equity participants. Costs and expenses are generally recognized as incurred.

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

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

Defined benefit costs comprise the following:

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to the SCI 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 Company, nor can these be paid directly to the Company. 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 the SCI.

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.

*Company as Lessor*
Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rent 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 rent income. Contingent rent is recognized as revenue in the period in which it is earned.

*Effective beginning on or after January 1, 2019*

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

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

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

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

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

*Effective before January 1, 2019*

*Company as Lessee*
Finance leases, which transfer to the Company substantially all the risk and benefits incidental to ownership of the leased item, are capitalize at 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 SCI.

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 Company will obtain ownership by the end of the lease term.

Leases which do not transfer to the Company 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 SCI on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Provisions
Provisions are recognized when the Company 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 Company 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 is 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 Company. 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 each reporting period.

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

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused 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 unused 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 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 OCI is recognized in OCI and not in SCI.

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 the "Prepaid taxes and other current assets" or "Accounts payable and other current liabilities" accounts in the parent company balance sheet.

Segment Reporting

The Company 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. The residential and commercial segments are involved in the development and transformation of major residential, commercial, entertainment and tourism districts through sustained capital investments in buildings and infrastructure. The hotels and convention centers segment engages in and carries on the business of hotels and convention centers and operates and maintains any and all services and facilities incident thereto.

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

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

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

Contingencies

Contingent liabilities are not recognized in the parent company financial statements. These are disclosed in the notes to parent company financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company financial statements but are disclosed in the notes to parent company financial statements when an inflow of economic benefits is probable.

Events after the Reporting Period

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

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new standards, amendments to standards and improvements, starting January 1, 2019. Unless otherwise indicated, the adoption did not have any significant impact on the parent company financial statements.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments*

  IFRIC 23 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 address the following:

  - Whether an entity considers uncertainty 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

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  The adoption of IFRIC 23 did not have any significant impact on the parent company financial statements.

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

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

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

- *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*

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

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

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation Standard Interpretations Committee (SIC)-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most of leases on the balance sheet.

  Lessor accounting under PFRS 16 is substantially unchanged from 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 did not have an impact for leases where the Company is the lessor.

  The Company adopted PFRS 16 using the modified retrospective approach and applied the standard to contracts that were previously identified as leases under PAS 17 and Philippine Interpretation IFRIC 4.

  The effect of adoption of PFRS 16 as at January 1, 2019 is, as follows:

| | Increase (Decrease) |
|---|---|
| ROU assets | ₱483,943,928 |
| Deferred tax liabilities | 145,183,178 |
| Lease liabilities | 483,943,928 |
| Retained earnings | (145,183,178) |

  Before the adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

  *Leases Previously Accounted for as Operating Leases*. The Company recognized ROU assets and lease liabilities for those leases previously classified as operating leases. ROU assets were recognized based on an amount equal to lease liabilities and adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of remaining lease payments, discounted using the IBR at the date of initial application.

  The lease liability as at January 1, 2019 is reconciled with the operating lease commitments as at December 31, 2018. Details follow:

| | |
|---|---|
| Operating lease commitments as at December 31, 2018 | ₱45,145,440 |
| Weighted average IBR as at January 1, 2019 | 7.50% |
| Discounted operating lease commitments as at January 1, 2019 | 41,738,191 |
| Add: Payments in optional extension periods not recognized as at December 31, 2018 | 442,205,737 |
| Lease liabilities recognized as at January 1, 2019 | ₱483,943,928 |

  With the adoption of PFRS 16 in 2019, the Company's operating profit and interest expense increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

Future Changes in Accounting Policies

The following are the new standards and amendments to PFRS that were issued but are not yet effective as at December 31, 2019. Unless otherwise indicated, the Company does not expect the future adoption of the said new standards and amendments to have a significant impact on the parent company financial statements. The Company intends to adopt the applicable standards and amendments when these become effective.

*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.

  These amendments shall be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- 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.

  These amendments shall be applied 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.

*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 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 is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board 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.

- Philippine Interpretation Committee (PIC) updates on PFRS 15 implementation issues. On August 27, 2019, the real estate industry sent a Position Paper to the PIC requesting the latter to revisit its position on certain issues relating to the adoption of PFRS 15 among others. In line with this, the PIC issued two response letters to the Industry dated September 13 and 27, 2019. Pending finalization of PIC's position on the matters raised by the Industry, PIC has provided the following options:

  - Conclusion of PIC Q&A No. 2018-12D Step 3, *Determining the Transaction Price for the Contract*, temporarily allows the recording of the difference between the consideration received from customers and the value of goods or services transferred to customers as either a contract asset, with disclosures pursuant to PFRS 15, or as installment contracts receivable with disclosures pursuant to PFRS 9. The Company opted to retain its accounting policy of presenting the difference between the consideration received and value of goods or services transferred as a contract asset with disclosures pursuant to PFRS 15.

  - Conclusion of PIC Q&A No. 2018-12H, *Accounting for Common Usage Service Area (CUSA)*, recommends the industry to consider an alternative presentation wherein CUSA is not presented as part of revenues if these are not considered a main source of revenue and are immaterial in value.

- *March 2019 IFRIC Agenda Decision on Over Time Transfer of Constructed Good (PAS 23, Borrowing Costs)*. In March 2019, the IFRIC issued an Agenda Decision clarifying the criteria for the capitalization of borrowing costs in relation to the construction of residential multi-unit real estate development which are sold to customers prior to the start of construction or completion of the development.

  Paragraph 8 of PAS 23 allows the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Paragraph 5 of PAS 23 defines a qualifying asset as an asset that takes a substantial period of time to get ready for its intended use or sale. The IFRIC Agenda Decision clarified that the related assets namely, installment contracts receivable, contract asset or inventory, are not considered qualifying assets and therefore the corresponding borrowing cost may not be capitalized.

In February 2020, the SEC decided to provide relief to the real estate industry by deferring the implementation of the March 2019 IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, real estate companies shall adopt this IFRIC Interpretation of PAS 23 on the capitalization of borrowing costs and subsequent amendments thereto as the SEC shall prescribe.

## 4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments
In the process of applying the Company'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 parent company financial statements:

*Operating Lease Commitments - Company as Lessor.* Management has determined that the Company 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.

*Determining the Lease Term of Contracts with Renewal and Termination Options - Company as Lessee (On or after January 1, 2019).* The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating the certainty or possibility exercising the option to renew or terminate the lease contracts. The Company considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Company reassesses the lease term for any significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew or to terminate the lease contracts (e.g. construction of significant leasehold improvements or significant customization to the leased asset). In most cases, the Company exercises its option to renew.

*Operating Lease Commitments - Company as Lessee (Before January 1, 2019).* 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.

*Classification of Property.* In classifying assets as investment property or property and equipment, the Company considers the nature and intended use of each property separately.

- Investment property includes land, building spaces and improvements which are not occupied by or used in the operations of the Company. These are not available for sale in the ordinary course of business. The properties are held primarily to earn rental and for capital appreciation.

- Property and equipment includes properties used in the operations of the Company. These are not available for sale in the ordinary course of business.

See Notes 11 and 12 for related balances.

*Classifying Investments in Associates and Subsidiaries.* The classification of investments in associates or subsidiaries requires significant judgment. In making this judgment, the Company evaluates whether it has significant influence over or control of the investees.

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

Control is achieved when the Company is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if the Company 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.

*Philippines Urban Living Solutions, Inc. (PULSI).* In April 2017, the Company acquired 674.9 million common shares equivalent to 61.2% equity interest in PULSI, the developer and operator of *MyTown* dormitories. Despite the Company's 61.2% equity interest, PULSI has been accounted for as an associate under PAS 28, *Investments in Associates and Joint Ventures*, since the Company did not meet the requirements to obtain control over PULSI as prescribed by PFRS 10, *Consolidated Financial Statements*.

In November 2019, the Company exercised its call option and purchased 22.9 million common shares of PULSI amounting to ₱136.8 million, thereby increasing its equity interest to 63.3%. Beginning November 2019, PULSI was considered as a subsidiary in accordance with PFRS 3, *Business Combinations*.

*SM Prime Holdings, Inc. and Subsidiaries (SM Prime)*. The Company has 50% ownership interest in SM Prime. Management assessed that the Company 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 Company the power to direct relevant activities of SM Prime.

*BDO Unibank, Inc.and Subsidiaries (BDO).* The Company has 39% ownership interest in BDO. Management assessed that the Company does not have control of BDO as the Company's voting rights is not sufficient to give it power to direct the relevant activities of BDO.

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

See Note 10 for related balances.

<u>Estimates and Assumptions</u>
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.

*Provision for ECLs of Receivables*. The Company maintains an allowance for impairment loss at a level considered adequate to provide for potential uncollectible receivables. The Company uses a provision matrix for receivable from tenants to calculate ECLs. The Company 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 7 for related balances.

*Impairment of Debt Instruments at FVOCI.* The Company assesses the counterparty's ability to comply with the contractual obligations to pay out principal and interest. Further, the Company assesses whether the risk on that financial instruments has increased significantly since initial recognition. See Note 8 for the related balances.

*Impairment of Investments in Subsidiaries and Associates*. Impairment review of investments in subsidiaries and associates 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 10 for related balances.

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

The preparation of the estimated future cash flows involves judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of recoverable values and may lead to future additional impairment charges. See Notes 11, 12, 13 and 26 for related balances.

*Estimated Useful Lives of Property and Equipment, Investment Properties and Software (except for ROU Assets).* The useful life of each item of the Company's property and equipment, investment properties and software 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 11, 12 and 13 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 Company's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT over RCIT 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. See Note 25 for related balances.

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

The Company determines the appropriate discount rate at the reporting date. In determining the discount rate, the Company 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 Company's pension and other pension obligations. See Note 24 for related balances.

*Fair Value of Financial Assets and Liabilities.* The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect the SCI and OCI. See Note 28 for related balances.

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

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

The determination of cash flows and discount factors for unquoted equity investments requires significant estimation. In valuing the Company's financial assets at FVOCI at fair value in compliance with PFRS 9, *Financial Instruments*, 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 Company.

*Leases - Estimating the IBR.* The Company cannot readily determine the interest rate implicit in the lease, therefore, it used its IBR to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's stand-alone credit rating). See Note 26 for related balances.

*Contingencies.* The Company is involved in certain legal and administrative proceedings. The Company, 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.

*Provisions.* The Company has present and potential obligations (legal or constructive) as a result of past events. Management believes that it is probable that an outflow of resources will be required to settle the obligation. The Company makes a reliable estimate of the amount to be settled.

Provision amounted to ₱6,138.6 million and ₱3,548.7 million as at December 31, 2019 and 2018, respectively. Other information required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, were not disclosed as it may prejudice the Company's negotiation with third parties.

## 5. Cash and Cash Equivalents

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Cash on hand and in banks (Note 23) | **₱30,556,272** | ₱57,586,403 |
| Temporary investments (Note 23) | **5,008,508,882** | 4,975,319,036 |
| | **₱5,039,065,154** | ₱5,032,905,439 |

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 Company. These investments earn interest at prevailing rates. Interest income earned from cash in banks and temporary investments is disclosed in Note 22.

## 6. Time Deposits

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Peso-denominated | **₱11,751,840** | ₱11,563,493 |
| U.S. dollar-denominated (Note 23) | **–** | 25,831,265,059 |
| | **₱11,751,840** | ₱25,842,828,552 |

As at December 31, 2019 and 2018, the Peso-denominated time deposits bear annual interest of 2.0%. The U.S. dollar-denominated time deposits bear annual interest ranging from 2.0% to 4.0% as at December 31, 2018. Interest income earned from time deposits is disclosed in Note 22.

## 7. Receivables

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Receivables from related parties (Note 23) | **₱19,438,307,229** | ₱21,786,326,454 |
| Dividends (Note 23) | **9,689,672,200** | 9,927,113,791 |
| Management and service fees (Notes 20 and 23) | **1,873,319,835** | 970,663,432 |
| Receivables from tenants (Note 23) | **460,194,245** | 501,416,754 |
| Accrued interest (Notes 5, 6, 8, 14 and 23) | **61,585,879** | 218,980,409 |
| Non-trade receivables and others (Note 23) | **1,286,965,734** | 1,258,925,894 |
| | **₱32,810,045,122** | ₱34,663,426,734 |

The terms and conditions of these receivables follow:

- Dividends and non-trade receivables and others are noninterest-bearing and are collectible within the next financial year.

- Receivables from tenants and management and service fees, mostly from affiliates, are noninterest-bearing and are normally collectible on 30 to 180-day terms.

- Accrued interest pertains mostly to interest income earned from time deposits, investment in corporate bonds and long-term notes which pay interest either quarterly or semi-annually.

- The terms and conditions relating to related party receivables are discussed in Note 23.

The aging analysis of receivables follow:

| | **2019** | | |
|---|---|---|---|
| | **Neither Past Due nor Impaired** | **Over 31 Days Past Due but not Impaired** | **Total** |
| Receivable from related parties | **₱19,438,307,229** | **₱–** | **₱19,438,307,229** |
| Dividends | **9,689,672,200** | **–** | **9,689,672,200** |
| Management and service fees | **1,873,319,835** | **–** | **1,873,319,835** |
| Receivable from tenants | **457,705,051** | **2,489,194** | **460,194,245** |
| Accrued interest | **61,585,879** | **–** | **61,585,879** |
| Non-trade receivables and others | **1,286,965,734** | **–** | **1,286,965,734** |
| | **₱32,807,555,928** | **₱2,489,194** | **₱32,810,045,122** |

| | 2018 | | |
|---|---|---|---|
| | Neither Past Due nor Impaired | Over 31 Days Past Due but not Impaired | Total |
| Receivable from related parties | ₱21,786,326,454 | ₱– | ₱21,786,326,454 |
| Dividends | 9,927,113,791 | – | 9,927,113,791 |
| Management and service fees | 970,663,432 | – | 970,663,432 |
| Receivable from tenants | 486,441,801 | 14,974,953 | 501,416,754 |
| Accrued interest | 218,980,409 | – | 218,980,409 |
| Non-trade receivables and others | 1,258,925,894 | – | 1,258,925,894 |
| | ₱34,648,451,781 | ₱14,974,953 | ₱34,663,426,734 |

## 8. Financial Assets

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Financial assets at FVOCI: | | |
| Equity instruments: | | |
| Shares of stock: | | |
| Listed (Note 28) | **₱11,861,354,161** | ₱12,433,881,961 |
| Unlisted (Note 28) | **847,299,527** | 767,783,890 |
| Club shares (Note 28) | **12,400,000** | 10,880,000 |
| Debt instruments | | |
| Corporate bonds (Notes 23 and 28) | **1,678,683,126** | 1,627,269,590 |
| Financial assets at FVPL - | | |
| Corporate note (Note 28) | **–** | 151,200,000 |
| | **14,399,736,814** | 14,991,015,441 |
| Less current portion | **1,678,683,126** | 151,200,000 |
| Noncurrent portion | **₱12,721,053,688** | ₱14,839,815,441 |

- Equity instruments at FVOCI include investments in shares of stock and club shares which are not held for trading and which the Company has irrevocably designated at FVOCI, as the Company considers these investments to be strategic in nature.

- Debt instruments at FVOCI include investments in quoted corporate bonds. Fair values of these debt instruments are determined by reference to published price quotations in an active market.

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

- Investments in corporate bonds as at December 31, 2019 and 2018 bear fixed interest rate of 5.1%. These investments will mature in March 2020. The fair value of these investments amounted to ₱1,678.7 million and ₱1,627.3 million as at December 31, 2019 and 2018, respectively.

The movements in net unrealized gain on financial assets at FVOCI follow:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of year | **₱3,264,639,063** | ₱5,592,568,285 |
| Net loss due to changes in fair value of financial assets at FVOCI | **(1,280,563,796)** | (2,326,591,711) |
| Reclassified to profit or loss | **–** | (1,337,511) |
| Balance at the end of year | **₱1,984,075,267** | ₱3,264,639,063 |

Gain from disposal of financial assets at FVOCI amounted to ₱1.3 million in 2018.

Interest earned from financial assets is disclosed in Note 22.

## 9. Prepaid Taxes and Other Current Assets

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Prepaid taxes and other prepayments | **₱3,993,521,047** | ₱4,161,134,381 |
| Supplies inventory | **1,306,319** | 962,008 |
| | **₱3,994,827,366** | ₱4,162,096,389 |

Prepaid taxes and other prepayments substantially consist of creditable tax certificates received by the Company.

## 10. **Investments in Subsidiaries and Associates**

The movements in this account follow:

| | **2019** | 2018 |
|---|---|---|
| Acquisition cost: | | |
| Balance at beginning of year | **₱173,203,888,627** | ₱168,216,293,017 |
| Additions | **8,694,977,105** | 4,987,595,610 |
| Disposals | **(1,206,100)** | – |
| Reclassifications | **(590,619,819)** | – |
| Balance at end of year | **181,307,039,813** | 173,203,888,627 |
| Allowance for impairment loss: | | |
| Balance at beginning of year | **75,343,800** | 75,343,800 |
| Additions | **3,543,419,246** | – |
| Balance at end of year | **3,618,763,046** | 75,343,800 |
| | **₱177,688,276,767** | ₱173,128,544,827 |

The subsidiaries and associates of the Company follow:

| | | Percentage of Ownership | | | |
|---|---|---|---|---|---|
| | | **2019** | | 2018 | |
| Company | Principal Activities | **Direct** | **Indirect** | Direct | Indirect |
| ***Subsidiaries*** | | | | | |
| **Property** | | | | | |
| SM Prime | Real estate development | **50** | **–** | 50 | – |
| SM Development Corporation and Subsidiaries | Real estate development | **–** | **100** | – | 100 |
| Highlands Prime, Inc. | Real estate development | **–** | **100** | – | 100 |
| Costa del Hamilo, Inc. and Subsidiary | Real estate development | **–** | **100** | – | 100 |
| Magenta Legacy, Inc. | Real estate development | **–** | **100** | – | 100 |
| Associated Development Corporation | Real estate development | **–** | **100** | – | 100 |
| Prime Metro Estate, Inc. and Subsidiary | Real estate development | **–** | **100** | 40 | 60 |
| Tagaytay Resort Development Corp | Real estate development | **–** | **100** | – | 100 |
| SM Arena Complex Corporation | Conventions | **–** | **100** | – | 100 |
| MOA Esplanade Port, Inc. | Port terminal operations | **–** | **100** | – | 100 |
| Premier Clark Complex | Real estate development | **–** | **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 *[British Virgin Islands (BVI)] | Real estate development | **–** | **100** | – | 100 |
| 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 *[Hong Kong] | Real estate development | **–** | **100** | – | 100 |
| Rushmore Holdings, Inc. | Real estate development | **–** | **100** | – | 100 |
| Prime_Commercial Property Management Corp. and Subsidiaries | Real estate development | **–** | **100** | – | 100 |
| Mindpro, Incorporated | Real estate development | **–** | **70** | – | 70 |
| A. Canicosa Holdings, Inc. | Real estate development | **–** | **100** | – | 100 |
| AD Canicosa Properties, Inc. | Real estate development | **–** | **100** | – | 100 |
| Cherry Realty Development Corporation | Real estate development | **–** | **100** | – | 91 |
| Supermalls Transport Services, Inc. | Real estate development | **–** | **100** | – | 51 |

| Company | Principal Activities | Percentage of Ownership 2019 Direct | 2019 Indirect | 2018 Direct | 2018 Indirect |
|---|---|---|---|---|---|
| Mountain Bliss Resort & Development Corporation and Subsidiary | Real estate development | **100** | **–** | 100 | – |
| Intercontinental Development Corporation | Real estate development | **97** | **3** | 97 | 3 |
| Prime Central Limited and Subsidiaries *[BVI] | Investment | **100** | **–** | 100 | – |
| Bellevue Properties, Inc. | Real estate development | **62** | **–** | 62 | – |
| Neo Subsidiaries [(a)] | Real estate development | **95** | **–** | 95 | – |
| Nagtahan Property Holdings, Inc. | Real estate development | **100** | **–** | 100 | – |
| PULSI | Real estate development | **63** | **–** | – | – |
| **Retail** | | | | | |
| SM Retail Inc. and Subsidiaries | Retail | **77** | **–** | 77 | – |
| **Others** | | | | | |
| Primebridge Holdings, Inc. (Primebridge) | Investment | **100** | **–** | 100 | – |
| Asia-Pacific Computer Technology Center, Inc. (APC) [(b)] | Education | **–** | **–** | 52 | – |
| Multi-Realty Development Corporation (MRDC) | Investment | **91** | **–** | 91 | – |
| Henfels Investments Corporation | Investment | **99** | **–** | 99 | – |
| Belleshares Holdings, Inc. and Subsidiaries (Belleshares) | Investment | **99** | **–** | 59 | 40 |
| Neo Property Management Incorporated (formerly Sto. Roberto Marketing Corp.) | Investment | **100** | **–** | 100 | – |
| ***Associates*** | | | | | |
| BDO | Financial Services | **39** | **8** | 38 | 8 |
| China Banking Corporation and Subsidiaries (China Bank) | Financial Services | **23** | **–** | 18 | 5 |
| Atlas Consolidated Mining and Development Corporation and Subsidiaries (Atlas) | Mining | **34** | **–** | 34 | – |
| Sodexo Benefits and Rewards Services Philippines, Inc. | Retail | **40** | **–** | 40 | – |
| CityMall Commercial Centers, Inc. | Real estate development and tourism | **34** | **–** | 34 | – |
| PLC | Gaming | **5** | **–** | 5 | – |
| PULSI | Real estate development | **–** | **–** | 61 | – |
| 2GO Group, Inc. (2GO) | Integrated supply chain | **31** | **–** | 34 | – |
| Neo Associates [(c)] | Real estate development | **34** | **–** | 34 | – |
| Goldilocks Bakeshop, Inc. (GBI) | Bakery products and other food items | **34** | **–** | 34 | – |
| APC [(b)] | Education | **42** | **–** | – | – |
| GPay Network PH Inc. (GPay) | Mobile wallet payment solution | **35** | **–** | – | – |

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

*(a) Neo Subsidiaries include 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.*
*(b) In 2019, the Company's equity interest in APC was reduced to 42%.*
*(c) Neo Associates include of N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc. and N-Park BGC Land, Inc.*

Neo Subsidiaries
In December 2018, the Company acquired additional shares from various parties, increasing its equity interest to 95.0%.

Primebridge
In June 2018, the Company acquired 0.04 million shares from MRDC, increasing its equity interest to 100.0%.

Belleshares
In January 2019, the Company received property dividends from Neo Property Management Incorporated (formerly Sto. Roberto Marketing Corp.) consisting of 50.0 million common shares of Belleshares, increasing its equity interest to 99.0%.

BDO
In June 2019, the Company acquired 36,250,000 shares equivalent to 0.74% equity interest.

China Bank
In August 2019, the Company acquired 119,404,664 shares from SM Prime, increasing its equity interest to 22.6%.

In July 2018, the Company acquired 22.0 million shares equivalent to 0.8% equity interest.

2GO
In 2019, 2GO was merged with Negros Navigation Co., Inc., its parent company, with 2GO as the surviving entity. As a result, the Company's equity interest in 2GO has been reduced to 30.5% from 34.5%.

GBI
In June 2018, the Company acquired 191.3 million shares equivalent to 34.1% equity interest.

GPay
In March and April 2019, the Company acquired 526,718 shares equivalent to 34.5% equity interest.

## 11. Property and Equipment

The movements in this account follow:

| | Buildings, Condominium Units and Improvements | Machinery and Equipment | Transportation Equipment | Furniture, Fixtures and Office Equipment | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at December 31, 2017 | ₱97,384,158 | ₱29,792,010 | ₱338,539,308 | ₱725,182,031 | ₱1,190,897,507 |
| Additions | 4,433,352 | 86,339 | 340,116,268 | 27,516,951 | 372,152,910 |
| Disposals/retirements | – | – | (274,678,352) | (118,656) | (274,797,008) |
| Reclassifications | – | – | – | 56,480,816 | 56,480,816 |
| Balance as at December 31, 2018 | 101,817,510 | 29,878,349 | 403,977,224 | 809,061,142 | 1,344,734,225 |
| Additions | 252,738 | – | 40,507,909 | 84,509,929 | 125,270,576 |
| **Balance as at December 31, 2019** | **₱102,070,248** | **₱29,878,349** | **₱444,485,133** | **₱893,571,071** | **₱1,470,004,801** |
| **Accumulated Depreciation** | | | | | |
| Balance as at December 31, 2017 | ₱40,036,914 | ₱21,571,200 | ₱216,981,244 | ₱417,447,405 | ₱696,036,763 |
| Depreciation (Note 21) | 8,771,518 | 933,923 | 23,888,722 | 150,007,957 | 183,602,120 |
| Disposals/retirements | – | – | (158,291,408) | (113,035) | (158,404,443) |
| Reclassification | – | – | – | (67,204) | (67,204) |
| Balance as at December 31, 2018 | 48,808,432 | 22,505,123 | 82,578,558 | 567,275,123 | 721,167,236 |
| Depreciation (Note 21) | 8,563,415 | 906,036 | 23,720,427 | 126,107,261 | 159,297,139 |
| **Balance as at December 31, 2019** | **₱57,371,847** | **₱23,411,159** | **₱106,298,985** | **₱693,382,384** | **₱880,464,375** |
| **Net Book Value** | | | | | |
| **As at December 31, 2019** | **₱44,698,401** | **₱6,467,190** | **₱338,186,148** | **₱200,188,687** | **₱589,540,426** |
| As at December 31, 2018 | 53,009,078 | 7,373,226 | 321,398,666 | 241,786,019 | 623,566,989 |

## 12. Investment Properties

The movements in this account follow:

| | Land and Improvements | Buildings and Improvements | Building Equipment, Furniture and Others | Construction in Progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance as at December 31, 2017 | ₱1,855,248,207 | ₱2,932,248,150 | ₱89,889,656 | ₱12,866,167 | ₱4,890,252,180 |
| Additions | 1,673,647 | 3,448,154 | 7,997,447 | 76,690,650 | 89,809,898 |
| Reclassifications | 405,067 | – | – | (57,824,116) | (57,419,049) |
| Balance as at December 31, 2018 | 1,857,326,921 | 2,935,696,304 | 97,887,103 | 31,732,701 | 4,922,643,029 |
| Additions | 1,785,714 | 1,711,516 | 19,237,318 | 9,196,244 | 31,930,792 |
| Disposals/retirements | (1,112,726) | – | – | – | (1,112,726) |
| **Balance as at December 31, 2019** | **₱1,857,999,909** | **₱2,937,407,820** | **₱117,124,421** | **₱40,928,945** | **₱4,953,461,095** |

*(Forward)*

| | Land and Improvements | Buildings and Improvements | Building Equipment, Furniture and Others | Construction in Progress | Total |
|---|---|---|---|---|---|
| **Accumulated Depreciation** | | | | | |
| Balance as at December 31, 2017 | ₱67,579,379 | ₱1,245,286,675 | ₱49,670,204 | ₱– | ₱1,362,536,258 |
| Depreciation (Note 21) | 14,877,344 | 124,288,919 | 7,209,165 | – | 146,375,428 |
| Balance as at December 31, 2018 | 82,456,723 | 1,369,575,594 | 56,879,369 | – | 1,508,911,686 |
| Depreciation (Note 21) | 14,986,950 | 122,856,785 | 8,567,136 | – | 146,410,871 |
| Disposals/retirements | (742,607) | – | – | – | (742,607) |
| **Balance as at December 31, 2019** | **₱96,701,066** | **₱1,492,432,379** | **₱65,446,505** | **₱–** | **₱1,654,579,950** |
| **Net Book Value** | | | | | |
| **As at December 31, 2019** | **₱1,761,298,843** | **₱1,444,975,441** | **₱51,677,916** | **₱40,928,945** | **₱3,298,881,145** |
| As at December 31, 2018 | 1,774,870,198 | 1,566,120,710 | 41,007,734 | 31,732,701 | 3,413,731,343 |

No impairment loss was recognized in 2019 and 2018.

The fair value of the investment properties amounting to ₱28,518.8 million as at December 31, 2018 was determined by an accredited and independent appraiser with appropriate qualifications and recent 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.

The valuation approach used in the appraisal is the market data approach. The fair value of investment properties is categorized under Level 3 as these were based on unobservable inputs with price adjustments ranging from 6.3% to 15.0%.

Rent income from investment properties amounted to ₱1,243.0 million and ₱1,163.7 million in 2019 and 2018, respectively. The corresponding direct operating expenses amounted to ₱1,011.9 million and ₱968.1 million in 2019 and 2018, respectively.

## 13. Software

The movements in this account follow:

| | **2019** | 2018 |
|---|---|---|
| Cost: | | |
| Balance at beginning of year | **₱141,498,673** | ₱136,173,256 |
| Additions | – | 5,325,417 |
| Balance at end of year | **141,498,673** | 141,498,673 |
| Accumulated amortization: | | |
| Balance at beginning of year | **75,302,346** | 49,851,347 |
| Amortization (Note 21) | **22,001,920** | 25,450,999 |
| Balance at end of year | **97,304,266** | 75,302,346 |
| Net book value | **₱44,194,407** | ₱66,196,327 |

## 14. Other Noncurrent Assets

This account consists of:

| | 2019 | 2018 |
|---|---|---|
| Bonds and deposits (Notes 23, 27 and 28) | **₱20,973,634,309** | ₱23,091,850,859 |
| Long-term notes (Notes 23, 27 and 28) | **5,942,877,758** | 6,739,025,545 |
| Escrow fund (Notes 23 and 27) | **130,000,000** | 130,000,000 |
| Refundable deposits (Note 27) | **34,736,130** | 25,779,816 |
| Derivative assets (Notes 27 and 28) | – | 713,854,565 |
| | **₱27,081,248,197** | ₱30,700,510,785 |

- Bonds and deposits include advances made by the Company to various suppliers and other parties relative to ongoing services and other transactions. Bonds and deposits also include assets used to secure certain obligations of subsidiaries and/or associates.
- Long-term notes pertain to a 7-year loan amounting to US$117.4 million that was extended to Carmen Copper Corporation (CCC), a wholly owned subsidiary of Atlas. The loan bears a fixed interest that starts at 5.0% and escalates annually up to 10.0%, payable quarterly. The Company collected US$10.8 million from CCC for such loan in 2019.
- Escrow fund pertains to funds deposited in the account of an escrow agent as required by the Philippine SEC, in connection with the corporate restructuring in 2013.
- Interest income earned from bonds and deposits, long-term notes and escrow fund is disclosed in Note 22.

## 15. Bank Loans

This account consists of unsecured peso-denominated loans amounting to ₱8,829.9 million and ₱4,850.0 million as at December 31, 2019 and 2018, respectively. The loans bear fixed interest ranging from 3.8% to 5.8%.

Interest expense on bank loans is disclosed in Note 22.

## 16. Accounts Payable and Other Current Liabilities

This account consists of:

| | 2019 | 2018 |
|---|---|---|
| Subscription payable (Note 23) | **₱2,021,789,648** | ₱2,021,789,648 |
| Accrued interest (Notes 15, 18 and 23) | **848,937,002** | 1,181,215,160 |
| Payable to suppliers | **519,472,281** | 543,299,648 |
| Payable to government agencies | **470,667,920** | 363,168,958 |
| Accrued expenses | **410,362,756** | 389,792,885 |
| Payable to related parties (Note 23) | **264,580,730** | 585,999,995 |
| Lease liabilities (Notes 23 and 26) | **18,784,101** | – |
| Advance rentals and deposits | **130,865,664** | 52,165,773 |
| | **₱4,685,460,102** | ₱5,137,432,067 |

The terms and conditions of the liabilities above follow:

- Subscription payable pertains to the unpaid subscriptions of shares of certain companies which is due and demandable.
- Accrued interest pertains to unpaid interest expense on bank loans and long-term debt, which is normally settled quarterly or semi-annually.
- Payable to suppliers include contractual obligations of the Company with various suppliers for the construction of special projects and are normally settled on 30 to 60-day terms.
- Payable to government agencies mainly consists of VAT liability which is normally settled within the next financial year.
- Accrued expenses pertain to costs and expenses incurred in the normal course of business and are normally settled within the next financial year.
- The terms and conditions of payable to related parties are discussed in Note 23.
- Advance rentals and deposits pertain substantially to the advance rental payments from various lessees for the rental of space in the Company's investment properties. The lease agreements provide that the advance rental payments will be applied to rentals within the next financial year. Advance rental is not remeasured at amortized cost.

## 17. Provisions

Provisions are amounts appropriated for potential obligations of the Company. The information usually required by PAS 37 is not disclosed as it may prejudice the Company's negotiation with third parties. Provisions were previously presented as part of "Accounts payable and other current liabilities".

## 18. **Long-Term Debt**

This account consists of:

| | Availment | Maturity | Security | Interest Rate/Term | 2019 | 2018 |
|---|---|---|---|---|---|---|
| U.S. dollar-denominated: | | | | | | |
| Fixed rate bonds | | | | | | |
| US$350.0 million senior bonds | June 10, 2014 | June 10, 2024 | Unsecured | Fixed 4.88%; semi-annual | **₱17,722,250,000** | ₱18,403,000,000 |
| US$500.0 million senior bonds | October 17, 2012 | October 17, 2019 | Unsecured | Fixed 4.25%; semi-annual | – | 26,100,712,000 |
| US$209.2 million five-year term loans | March 6, 2018 to July 26, 2018 | March 6, 2023 to July 26, 2023 | Unsecured | Floating three-month LIBOR + margin; quarterly | **10,590,752,903** | 10,997,566,657 |
| US$200.0 million five-year term loans | June 28, 2019 to July 16, 2019 | June 28, 2024 | Unsecured | Floating three-month LIBOR + margin; semi-annual | **10,127,000,000** | – |
| Other U.S. dollar bank loans (Note 23) | March 31, 2017 to September 19, 2017 | September 18, 2020 to May 4, 2022 | Unsecured | Floating three-month LIBOR + margin; quarterly | **6,481,280,000** | 9,595,850,000 |
| Peso-denominated: | | | | | | |
| Seven-year and ten-year retail bonds | | | | | | |
| Series C Bonds | July 16, 2012 | July 16, 2019 | Unsecured | Fixed 6.00%; semi-annual | **–** | 4,648,460,000 |
| Series D Bonds | July 16, 2012 | July 16, 2022 | Unsecured | Fixed 6.94%; semi-annual | **7,683,810,000** | 7,683,810,000 |
| Series E Bonds | May 19, 2014 | May 19, 2021 | Unsecured | Fixed 5.30%; semi-annual | **11,669,620,000** | 11,669,620,000 |
| Series F Bonds | May 19, 2014 | May 19, 2024 | Unsecured | Fixed 5.61%; semi-annual | **3,330,380,000** | 3,330,380,000 |
| Series G Bonds | December 9, 2016 | December 9, 2023 | Unsecured | Fixed 5.159% semi-annual | **20,000,000,000** | 20,000,000,000 |
| Other peso bank loans (Note 23) | April 23, 2013 to December 27, 2018 | January 14, 2019 to August 8, 2025 | Unsecured | Fixed 4.39% to 5.40% and three-month PHP BVAL + margin; semi-annual and quarterly | **25,814,200,000** | 31,531,900,000 |
| | | | | | **113,419,292,903** | 143,961,298,657 |
| Less debt issue cost | | | | | **520,792,517** | 643,749,158 |
| | | | | | **112,898,500,386** | 143,317,549,499 |
| Less current portion | | | | | **7,226,296,972** | 36,424,475,986 |
| | | | | | **₱105,672,203,414** | ₱106,893,073,513 |

*LIBOR – London Interbank Offered Rate*
*BVAL – Bloomberg Valuation*

The US$209.2 million and the US$200.0 million Five-year U.S. Dollar Term Loans
The loans amounting to US$209.2 million and US$200.0 million are hedged against interest rate and foreign exchange risks using cross-currency swap contracts (see Notes 27 and 28).

Interest expense incurred on long-term debt is disclosed in Note 22.

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

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of year | **₱643,749,158** | ₱708,559,710 |
| Additions | **76,834,500** | 124,872,667 |
| Amortization (Note 22) | **(192,280,110)** | (207,306,642) |
| Foreign exchange movement | **(7,375,355)** | 18,172,166 |
| Prepayments | **(135,676)** | (548,743) |
| Balance at end of year | **₱520,792,517** | ₱643,749,158 |

Repayment Schedule
The repayment schedule of long-term debt as at December 31, 2019 follows:

| | Gross Debt | Debt Issue Cost | Net |
|---|---|---|---|
| 2020 | ₱7,227,950,000 | ₱1,653,028 | ₱7,226,296,972 |
| 2021 | 16,016,070,000 | 26,875,880 | 15,989,194,120 |
| 2022 | 16,687,540,000 | 73,631,157 | 16,613,908,843 |
| 2023 | 35,712,202,903 | 206,876,656 | 35,505,326,247 |
| 2024 | 37,075,530,000 | 207,433,291 | 36,868,096,709 |
| 2025 | 700,000,000 | 4,322,505 | 695,677,495 |
| | ₱113,419,292,903 | ₱520,792,517 | ₱112,898,500,386 |

Debt Covenants
The long-term debt of the Company is covered with certain covenants including adherence to 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, 2019 and 2018, the Company is in compliance with the terms of its debt covenants.

## 19. **Equity**

Capital Stock

a. Common stock

| | Number of Shares | |
|---|---|---|
| | **2019** | 2018 |
| Authorized - ₱10.0 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, 2019 and 2018, the Company is compliant with the minimum public float required by the PSE.

Information on the Company's registration of securities under the Securities Regulation Code follows:

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

The total number of shareholders of the Company is 1,261 and 1,255 as at December 31, 2019 and 2018, respectively.

b. Redeemable preferred shares

| | Number of Shares | |
|---|---|---|
| | **2019** | 2018 |
| Authorized - ₱10.0 par value per share | **10,000,000** | 10,000,000 |

There are no issued and subscribed preferred shares as at December 31, 2019 and 2018.

Retained Earnings

a. Appropriated

Following are the appropriations approved by the BOD:

| | Date of BOD Approval | Amount |
|---|---|---|
| Balance as at January 1, 2015 | | ₱27,000,000,000 |
| Reversal | November 4, 2015 | (18,000,000,000) |
| Addition | November 4, 2015 | 27,000,000,000 |
| Reversal | November 8, 2017 | (27,800,000,000) |
| Addition | November 8, 2017 | 28,800,000,000 |

Retained earnings appropriated as at December 31, 2019 is intended for the payment of certain long-term debts and new investments as follows:

| | Timeline | Amount |
|---|---|---|
| Debt servicing | 2020–2024 | ₱27,000,000,000 |
| New investments | 2020–2021 | 10,000,000,000 |
| | | ₱37,000,000,000 |

b. Unappropriated

The cash dividend declarations in 2019 and 2018 follow:

| Declaration Date | Record Date | Payment Date | Cash Dividend per Share | Total Cash Dividends Declared |
|---|---|---|---|---|
| **April 24, 2019** | **May 9, 2019** | **May 23, 2019** | **₱9.12** | **₱10,985,795,747** |
| April 25, 2018 | May 10, 2018 | May 24, 2018 | 8.20 | 9,877,579,509 |

## 20. Management and Service Fees

The disaggregation of management and service fees follows:

| | **2019** | 2018 |
|---|---|---|
| Retail | **₱4,533,039,643** | ₱3,660,173,229 |
| Property | **78,238,406** | 72,893,877 |
| Financial services and others | **33,206,809** | 3,634,395 |
| | **₱4,644,484,858** | ₱3,736,701,501 |

## 21. Cost and Expenses

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Provisions (Note 17) | **₱2,589,876,641** | ₱2,207,000,000 |
| Personnel cost (Note 23) | **1,475,527,281** | 1,261,858,531 |
| Depreciation and amortization (Notes 11, 12, 13 and 26) | **360,146,142** | 355,428,547 |
| Repairs and maintenance | **296,455,740** | 275,349,130 |
| Taxes and licenses (Note 23) | **113,116,769** | 147,830,068 |
| Communication | **65,816,911** | 71,118,128 |
| Utilities | **63,803,736** | 63,154,959 |
| Management and service fees (Note 23) | **61,431,483** | 61,187,320 |
| Advertising and promotions | **55,233,340** | 115,335,279 |
| Donations and contributions | **54,971,679** | 55,332,976 |
| Dues and subscription | **42,193,601** | 8,443,293 |
| Entertainment, amusement and recreation | **32,025,559** | 47,105,754 |
| Others | **135,843,067** | 193,107,184 |
| | **₱5,346,441,949** | ₱4,862,251,169 |

Various reimbursements (considered as taxable income) amounting to ₱1,006.0 million and ₱847.1 million in 2019 and 2018, respectively, were offset against cost and expenses.

Personnel cost consists of:

| | 2019 | 2018 |
|---|---|---|
| Salaries and wages (Note 23) | **₱1,252,159,169** | ₱1,071,503,486 |
| Pension benefits (Note 24) | **73,650,382** | 69,354,701 |
| Other employee benefits | **149,717,730** | 121,000,344 |
| | **₱1,475,527,281** | ₱1,261,858,531 |

Other employee benefits pertain to government-mandated bonuses.

## 22. Interest Income and Expense

The sources of interest income and interest expense follow:

| | 2019 | 2018 |
|---|---|---|
| Interest income on: | | |
| Time deposits (Notes 6 and 23) | **₱574,010,896** | ₱936,781,211 |
| Bonds and deposits (Notes 14 and 23) | **825,376,852** | 838,081,659 |
| Long-term notes (Notes 14 and 23) | **387,437,156** | 345,699,749 |
| Financial assets (Notes 8 and 23) | **85,514,760** | 103,212,322 |
| Cash and cash equivalents (Notes 5 and 23) | **65,438,471** | 50,822,894 |
| Others (Notes 7, 14 and 23) | **138,256,825** | 17,377,167 |
| | **₱2,076,034,960** | ₱2,291,975,002 |
| Interest expense on: | | |
| Long-term debt (Notes 18 and 23) | **₱7,050,554,214** | ₱7,143,899,003 |
| Bank loans (Notes 15 and 23) | **190,840,473** | 232,941,485 |
| Debt issue cost (Note 18) | **192,280,110** | 207,306,642 |
| Lease liabilities (Notes 23 and 26) | **38,868,221** | – |
| Others | **10,374,019** | 54,838,297 |
| | **₱7,482,917,037** | ₱7,638,985,427 |

## 23. 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:

a. Dividend Income

The Company earns dividend income from related parties under common stockholders.

b. Rent

The Company has existing lease agreements for land and office space with subsidiaries and other related companies (retail subsidiaries, bank associates and other affiliates).

The Company has a lease agreement with SM Prime (as lessor) over two parcels of land, where the Company's principal offices are located. Rent payable by the Company is fixed per square meter per month. The Company has the right to construct a commercial building and other improvements on the leased property. SM Prime has the obligation to pay the real estate taxes on the leased property whereas the Company has the obligation to pay the real estate taxes on the improvements (see Note 26).

c. Management and Service Fees

The Company pays management fees to Shopping Center Management Corporation (a subsidiary of SM Prime) and service fees to SM Prime for the management of its office premises and of its various commercial properties (see Note 21).

The Company also provides management and consultancy services to subsidiaries and other affiliates. As consideration for the services provided, the Company receives management and service fees based on a certain percentage of the related companies' net sales as defined in the management contracts (see Note 20).

d. Cash Placements and Loans

The Company has certain bank accounts, short-term placements and time deposits with BDO and China Bank that earn interest based on prevailing rates (see Notes 5 and 6).

The Company has long-term notes from an associate (see Note 14).

The Company has bank loans and long-term debt from BDO and China Bank that pays interest based on prevailing rates (see Notes 15 and 18).

e. Others
The Company, in the normal course of business, has outstanding receivables from and payables to related parties which are unsecured and normally settled in cash.

The related party transactions and outstanding balances follow:

| Category | Year | Transaction Amount | Outstanding Amount | Terms | Conditions |
|---|---|---|---|---|---|
| | | *(In Thousands)* | | | |
| ***Subsidiaries*** | | | | | |
| Dividend income | **2019** | **₱15,172,870** | **₱9,297,667** | Noninterest-bearing | Unsecured, |
| | 2018 | 12,956,746 | 9,850,588 | | no impairment |
| Management and service fee income | **2019** | **3,320,496** | **207,095** | Noninterest-bearing, | Unsecured, |
| | 2018 | 3,004,293 | 295,056 | payable semi-annual | no impairment |
| Rent income | **2019** | **587,834** | **60,324** | Noninterest-bearing, | Unsecured, |
| | 2018 | 550,227 | 57,803 | 30 to 90 day terms | no impairment |
| Interest income | **2019** | **208,275** | **5,701** | 5.1% interest, | Unsecured, |
| | 2018 | 68,412 | 5,701 | payable semi-annual | no impairment |
| Rent expense | **2019** | **313** | **–** | Noninterest-bearing | Unsecured |
| | 2018 | 45,471 | 4,025 | | |

*(Forward)*

| Category | Year | Transaction Amount | Outstanding Amount | Terms | Conditions |
|---|---|---|---|---|---|
| | | *(In Thousands)* | | | |
| Management and service fee expense | **2019** | **₱60,783** | **₱14,321** | Noninterest-bearing | Unsecured |
| | 2018 | 60,485 | 14,236 | | |
| Interest expense | **2019** | **38,516** | **–** | Noninterest-bearing | Unsecured |
| | 2018 | – | – | | |
| Receivable from related parties | **2019** | | **19,438,307** | Noninterest-bearing | Unsecured, |
| | 2018 | | 21,786,326 | | no impairment |
| Non-trade receivables | **2019** | | **1,123,803** | Noninterest-bearing | Unsecured, |
| | 2018 | | 1,135,787 | | no impairment |
| Investments in corporate bonds | **2019** | | **1,678,683** | 5.1% interest, | Unsecured, |
| | 2018 | | 1,627,270 | payable semi-annual | no impairment |
| Subscription payable | **2019** | | **55,313** | Noninterest-bearing | Unsecured |
| | 2018 | | 55,313 | | |
| Payable to related parties | **2019** | | **264,581** | Noninterest-bearing | Unsecured |
| | 2018 | | 586,000 | | |
| Lease liabilities | **2019** | | **465,347** | Noninterest-bearing | Unsecured |
| | 2018 | | – | | |
| Tenants' deposit | **2019** | | **35,854** | Noninterest-bearing | Unsecured |
| | 2018 | | 35,808 | | |
| ***Associates*** | | | | | |
| Dividend income | **2019** | **3,456,199** | **336,098** | Noninterest-bearing | Unsecured, |
| | 2018 | 2,812,662 | 33,600 | | no impairment |
| Management and service fee income | **2019** | **85,302** | **1,864** | Noninterest-bearing, | Unsecured, |
| | 2018 | 78,835 | 7,675 | 30 to 90 day terms | no impairment |
| Rent income | **2019** | **16,258** | **1,878** | Noninterest-bearing, | Unsecured, |
| | 2018 | 14,952 | 1,662 | 30 to 90 day terms | no impairment |
| Interest income | **2019** | **1,634,612** | **55,794** | 1.4% to 6.0%, | Unsecured, |
| | 2018 | 1,899,786 | 204,397 | 90 to 180 day terms | no impairment |
| Rent expense | **2019** | **–** | **–** | Noninterest-bearing | Unsecured |
| | 2018 | 1,366 | – | | |
| Interest expense | **2019** | **371,326** | **26,955** | Fixed 3.9% to 5.3% | Unsecured |
| | 2018 | 562,440 | 59,837 | | |
| Cash and cash equivalents | **2019** | | **5,025,896** | Interest-bearing, | Unsecured, |
| | 2018 | | 5,020,379 | 1.4% to 5.0% | no impairment |
| Time deposits | **2019** | | **–** | Interest-bearing, | Unsecured, |
| | 2018 | | 25,831,265 | 2.1% to 4.0% | no impairment |
| Non-trade receivables | **2019** | | **56,773** | Noninterest-bearing | Unsecured, |
| | 2018 | | 35,301 | | no impairment |
| Other noncurrent assets - Escrow fund | **2019** | | **130,000** | Interest-bearing, | Unsecured, |
| | 2018 | | 130,000 | 3.6% to 5.4% | no impairment |
| Other noncurrent assets - Long-term notes | **2019** | | **5,942,878** | 5.0% to 10.0% interest, | Unsecured, |
| | 2018 | | 6,739,026 | payable quarterly | no impairment |
| Other noncurrent assets - Bonds and deposits | **2019** | | **17,722,250** | 4.5% interest, | Unsecured, |
| | 2018 | | 18,403,000 | payable semi-annual | no impairment |
| Subscription payable | **2019** | | **1,966,477** | Noninterest-bearing | Unsecured |
| | 2018 | | 1,966,477 | | |
| Long-term debt | **2019** | | **6,845,300** | Interest-bearing, | Unsecured |
| | 2018 | | 11,266,500 | 3.9% to 5.3% | |
| Tenants' deposit | **2019** | | **7,070** | Noninterest-bearing | Unsecured |
| | 2018 | | 6,491 | | |

*(Forward)*

| Category | Year | Transaction Amount | Outstanding Amount | Terms | Conditions |
|---|---|---|---|---|---|
| | | *(In Thousands)* | | | |
| ***Under Common Ownership*** | | | | | |
| Dividend income | **2019** | **₱725** | **₱725** | Noninterest-bearing | Unsecured, |
| | 2018 | 41,800 | – | | no impairment |
| Management and service fee income | **2019** | **1,238,687** | **1,664,360** | Noninterest-bearing | Unsecured, |
| | 2018 | 653,574 | 667,932 | | no impairment |
| Rent income | **2019** | **101,567** | **11,216** | Noninterest-bearing, | Unsecured, |
| | 2018 | 89,612 | 12,747 | 30 to 90 day terms | no impairment |
| Non-trade receivables | **2019** | | **3,268** | Noninterest-bearing | Unsecured, |
| | 2018 | | 3,757 | | no impairment |
| Tenants' deposit | **2019** | | **14,261** | Noninterest-bearing | Unsecured |
| | 2018 | | 12,516 | | |

Terms and Conditions of Transactions with Related Parties
The Company did not make any provision for doubtful accounts relating to amounts owed by related parties.

Compensation of Key Management Personnel
The aggregate compensation and benefits relating to key management personnel of the Company in 2019 and 2018 consist of short-term employee benefits amounting to ₱517.9 million and ₱434.2 million, respectively, and post-employment benefits amounting to ₱60.0 million and ₱54.1 million, respectively.

## 24. Pension Benefits

The Company has funded defined benefit pension plan covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The Company had an actuarial valuation done for the December 31, 2019 report.

Changes in defined benefit liability in 2019 follow:

| | Present Value of Defined Benefit Obligation | Fair Value of Plan Assets | Defined Benefit Liability |
|---|---|---|---|
| As at December 31, 2018 | **₱789,635,318** | **₱785,987,205** | **₱3,648,113** |
| Net benefit expense in profit or loss (Note 21): | | | |
| Current service cost | **80,460,464** | **–** | **80,460,464** |
| Net interest | **61,196,737** | **68,006,819** | **(6,810,082)** |
| | **141,657,201** | **68,006,819** | **73,650,382** |
| Remeasurements in other comprehensive income: | | | |
| Return on plan assets (excluding amount included in net interest) | **–** | **7,547,032** | **(7,547,032)** |
| Actuarial changes arising from: | | | |
| Changes in financial assumptions | **129,583,448** | **–** | **129,583,448** |
| Changes in demographic assumptions | **(6,117,412)** | **–** | **(6,117,412)** |
| Actuarial changes due to experience adjustment | **382,741,270** | **–** | **382,741,270** |
| | **506,207,306** | **7,547,032** | **498,660,274** |
| Actual contributions | **–** | **179,353,650** | **(179,353,650)** |
| Benefits paid | **(37,345,439)** | **(37,345,439)** | **–** |
| Transfer to the plan | **10,552,389** | **10,552,389** | **–** |
| As at December 31, 2019 | **₱1,410,706,775** | **₱1,014,101,656** | **₱396,605,119** |

Changes in defined benefit liability in 2018 follow:

| | Present Value of Defined Benefit Obligation | Fair Value of Plan Assets | Defined Benefit Liability |
|---|---|---|---|
| As at December 31, 2017 | ₱698,252,478 | ₱675,700,555 | ₱22,551,923 |
| Net benefit expense in profit or loss (Note 21): | | | |
| Current service cost | 72,720,167 | – | 72,720,167 |
| Net interest | 40,289,168 | 43,654,634 | (3,365,466) |
| | 113,009,335 | 43,654,634 | 69,354,701 |
| Remeasurements in other comprehensive income: | | | |
| Return on plan assets (excluding amount included in net interest) | – | (95,125,780) | 95,125,780 |
| Actuarial changes arising from: | | | |
| Changes in financial assumptions | (95,202,291) | – | (95,202,291) |
| Changes in demographic assumptions | (10,803,236) | – | (10,803,236) |
| Actuarial changes due to experience adjustment | 93,584,275 | – | 93,584,275 |
| | (12,421,252) | (95,125,780) | 82,704,528 |
| Actual contributions | – | 170,963,039 | (170,963,039) |
| Benefits paid | (7,949,650) | (7,949,650) | – |
| Transfer from the plan | (1,255,593) | (1,255,593) | – |
| As at December 31, 2018 | ₱789,635,318 | ₱785,987,205 | ₱3,648,113 |

The Company expects to contribute ₱235.8 million to its Pension Plan in 2020.

The principal assumptions used in determining the Company's pension obligation follow:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **5.58%** | 7.75% |
| Future salary increases | **9.00%** | 9.00% |

The assets of the 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 Plan. The carrying value, which approximates the fair values of the Plan assets, follow:

| | **2019** | 2018 |
|---|---|---|
| Cash and cash equivalents | **₱5,957,567** | ₱65,345,603 |
| Investment in debt and other securities | **237,609,197** | 212,292,862 |
| Investment in common trust funds | **404,566,844** | 256,301,056 |
| Investment in equity securities | **10,328,862** | 18,115,365 |
| Investment in government securities | **349,629,184** | 229,275,145 |
| Others | **6,010,002** | 4,657,174 |
| | **₱1,014,101,656** | ₱785,987,205 |

- 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 4.00% to 7.51% and have maturities from February 2020 to October 2026.
- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.

- Investment in government securities consists of retail treasury bonds that bear interest ranging from 3.25% to 8.75% and have maturities from February 2020 to May 2030.
- Others consist primarily of accrued interest income on cash deposits and debt securities held by the Plan.

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

| | **2019** | 2018 |
|---|---|---|
| Balances: | | |
| Cash and cash equivalents | **₱5,957,567** | ₱65,345,603 |
| Investment in common trust funds | **404,566,844** | 256,301,056 |
| Transactions: | | |
| Interest income from cash and cash equivalents | **42,588,161** | 1,655,781 |
| Income (loss) from investment in common trust funds | **26,124,131** | (2,182,715) |

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, 2019 and 2018, assuming all other assumptions were held constant:

| | | Change in Basis Points | Increase (Decrease) in Defined Benefit Obligation |
|---|---|---|---|
| **2019** | **Discount rates** | **50** | **(₱33,216,294)** |
| | | **(50)** | **35,550,598** |
| | **Future salary increases** | **100** | **70,486,887** |
| | | **(100)** | **(62,941,059)** |
| | **No attrition rate** | **–** | **184,634,835** |
| 2018 | Discount rates | 50 | (₱20,291,677) |
| | | (50) | 20,291,677 |
| | Future salary increases | 100 | 43,880,069 |
| | | (100) | (43,880,069) |
| | No attrition rate | – | 68,775,677 |

The average duration of the defined benefit obligation as at December 31, 2019 and 2018 is 5 years.

The maturity analysis of the undiscounted benefit payments follows:

| | **2019** | 2018 |
|---|---|---|
| Year 1 | **₱779,967,863** | ₱300,127,884 |
| Year 2 | **67,261,472** | 119,515,317 |
| Year 3 | **66,931,122** | 46,493,790 |
| Year 4 | **75,126,259** | 57,341,134 |
| Year 5 | **73,933,374** | 70,911,309 |
| Year 6–10 | **635,709,968** | 457,499,406 |

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

## 25. **Income Tax**

The provision for income tax consists of the following:

| | **2019** | 2018 |
|---|---|---|
| Final tax on interest income | **₱241,253,684** | ₱292,424,523 |
| Current income tax | **264,455,130** | 139,525,574 |
| Deferred income tax | **(19,218,913)** | (9,465,962) |
| | **₱486,489,901** | ₱422,484,135 |

The provision for current income tax in 2019 and 2018 represents MCIT.

The details of the Company's deferred tax liabilities follow:

| | **2019** | 2018 |
|---|---|---|
| ROU assets | **₱135,452,315** | ₱– |
| Excess of fair values over cost of equity instruments | **125,083,654** | 113,156,308 |
| Cumulative excess of rent income over lease payments | **94,301,055** | 103,999,731 |
| Unamortized deferred rent income, net of accretion on tenants' deposits | **1,009,849** | 799,222 |
| Cross currency swaps | **–** | 206,276,372 |
| | **₱355,846,873** | ₱424,231,633 |

The Company did not recognize any deferred tax assets as management believes that taxable profit will not be available in future periods against which these deductible temporary differences, and carryforward benefits of excess MCIT over RCIT and unused NOLCO may be applied.

The deductible temporary differences and carryforward benefits of NOLCO and MCIT for which no deferred tax assets have been recognized follow:

| | **2019** | 2018 |
|---|---|---|
| NOLCO | **₱7,766,923,157** | ₱8,442,830,470 |
| Allowance for impairment losses | **3,618,763,046** | 75,343,800 |
| Cross currency swaps | **745,382,928** | – |
| MCIT | **579,375,728** | 416,022,424 |
| Lease liabilities | **468,467,832** | – |
| Defined benefit liability | **396,605,119** | 3,648,113 |
| Unamortized past service cost | **309,337,721** | 275,278,405 |
| Net unrealized foreign exchange loss | **236,098,229** | 2,704,950,564 |
| Non-refundable advance rentals | **129,500,395** | 50,800,505 |

The unrecognized deferred tax assets from the above deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱4,680.7 million and ₱3,881.9 million as at December 31, 2019 and 2018, respectively.

The carryforward benefits of unused NOLCO and MCIT which may be claimed as additional deductions against future taxable income and as a tax credit against any future regular income tax payable, respectively, follow:

| Year Incurred | Expiry Date | NOLCO | MCIT |
|---|---|---|---|
| 2019 | 2022 | ₱2,199,304,183 | ₱264,455,130 |
| 2018 | 2021 | 3,529,617,136 | 139,525,574 |
| 2017 | 2020 | 2,038,001,838 | 175,395,024 |
| | | ₱7,766,923,157 | ₱579,375,728 |

NOLCO and MCIT amounting to ₱2,875.2 million and ₱101.1 million, respectively, expired in 2019.

The reconciliation between the statutory tax rate and the Company's effective tax rate follows:

| | **2019** | 2018 |
|---|---|---|
| Provision for income tax computed at statutory income tax rate | **30%** | 30% |
| Income tax effects of reconciling items: | | |
| Dividends exempt from income tax | **(49)** | (42) |
| Change in unrecognized deferred tax assets | **18** | 10 |
| Interest income subjected to final tax | **(2)** | (2) |
| Nondeductible interest expense | **1** | 2 |
| Other nondeductible expenses | **7** | 6 |
| Effective tax rates | **5%** | 4% |

26. **Lease Agreements**

The Company as a Lessor

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

The minimum lease receivables under these non-cancellable operating leases as at December 31 follow:

| | **2019** | 2018 |
|---|---|---|
| Within one year | **₱1,206,541,836** | ₱1,193,002,072 |
| After one year but not more than five years | **2,247,970,965** | 3,258,226,245 |
| After five years | **641,042,113** | 359,298,231 |
| | **₱4,095,554,914** | ₱4,810,526,548 |

Deferred rent income is recognized initially as the difference between the principal amount and the present value of the deposits at lease inception dates and amortized using the straight-line method over the lease term. Deferred rent income amounted to ₱29.1 million and ₱34.8 million as at December 31, 2019 and 2018, respectively.

The Company as a Lessee

The Company has lease contracts for office space and land use rights. Leases of office space generally have lease terms between 3 and 5 years, while land use rights generally have lease terms between 14 and 19 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets.

The Company also has certain leases of parking space and convention center with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of ROU assets follow:

| | Land Use Rights | Office Space | Total |
|---|---|---|---|
| **Cost** | | | |
| As at January 1, 2019, as previously reported | ₱– | ₱– | ₱– |
| Effect of adoption of new accounting standards (Note 3) | 477,196,842 | 6,747,086 | 483,943,928 |
| As at January 1, 2019, as restated and as at December 31, 2019 | ₱477,196,842 | ₱6,747,086 | ₱483,943,928 |
| **Accumulated Depreciation** | | | |
| As at January 1, 2019 | ₱– | ₱– | ₱– |
| Depreciation | 28,630,994 | 3,805,218 | 32,436,212 |
| As at December 31, 2019 | ₱28,630,994 | ₱3,805,218 | ₱32,436,212 |
| **Net Book Value** | | | |
| As at December 31, 2019 | ₱448,565,848 | ₱2,941,868 | ₱451,507,716 |

The following are the amounts recognized in the SCI:

| | 2019 |
|---|---|
| Depreciation expense of ROU assets (Note 21) | ₱32,436,212 |
| Interest expense on lease liabilities (Notes 22 and 23) | 38,868,221 |
| Rent expense related to short-term leases (Note 23) | 926,665 |
| Rent expense related to leases of low-value assets | 271,475 |
| | ₱72,502,573 |

The rollforward analysis of lease liabilities follows:

| | 2019 |
|---|---|
| As at January 1, 2019, as previously reported | ₱– |
| Effect of adoption of new accounting standards (Note 3) | 483,943,928 |
| As at January 1, 2019, as restated | 483,943,928 |
| Interest expense (Notes 22 and 23) | 38,868,221 |
| Payments (Note 29) | (54,344,317) |
| As at December 31, 2019 | 468,467,832 |
| Less current portion (Notes 16 and 23) | 18,784,101 |
| Noncurrent portion (Note 23) | ₱449,683,731 |

The Company has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Shown below is the maturity analysis of the undiscounted lease payments:

| | 2019 | 2018 |
|---|---|---|
| Within one year | ₱56,299,146 | ₱45,145,440 |
| After one year but not more than five years | 220,949,546 | – |
| After five years | 549,757,890 | – |
| | ₱827,006,582 | ₱45,145,440 |

27. **Financial Risk Management Objectives and Policies**

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, time deposits, financial assets, long-term notes, bank loans, long-term debt and lease liabilities. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial instruments such as receivables and accounts payable and other current liabilities, which arise directly from its operations.

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

The main risks arising from the Company'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.* Exposure to foreign currency risk arises as the Company has significant investments and debt issuances which are denominated in U.S. dollars.

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

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

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

The BOD reviews and approves the policies for managing each of these risks. The Company's accounting policies in relation to derivatives are set out in Note 3.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's long-term debt obligations (see Note 18).

The Company 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 Company enters into cross-currency swaps in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The cross-currency swaps were designated by the Company under cash flow hedge accounting.

As at December 31, 2019 and 2018, after taking into account the effect of the swaps, approximately 88.7% and 88.6%, respectively, of the Company's borrowings is kept at fixed interest rates.

*Interest Rate Risk Sensitivity Analysis.* The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and investments in corporate bonds.

| | Increase (Decrease) in Basis Points | Effect on Income Before Income Tax | Effect on Equity After Income Tax |
|---|---|---|---|
| | | *(In Millions)* | |
| **2019** | **100** | **(₱138.0)** | **(₱3.0)** |
| | **50** | **(69.0)** | **(1.6)** |
| | **(100)** | **138.0** | **2.6** |
| | **(50)** | **69.0** | **1.2** |
| 2018 | 100 | (₱169.1) | (₱17.2) |
| | 50 | (84.6) | (8.3) |
| | (100) | 169.1 | 18.8 |
| | (50) | 84.6 | 9.7 |

Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis is based on currently observable market environment.

Foreign Currency Risk

The Company aims to reduce foreign currency risks by employing on-balance sheet hedges and derivatives such as cross-currency swaps and non-deliverable forwards and swaps.

The Company's foreign currency-denominated financial assets and liabilities and their peso equivalents follow:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **US$** | **Ph₱** | US$ | Ph₱ |
| Current assets: | | | | |
| Cash and cash equivalents | **$8,806,047** | **₱445,894,182** | $4,284,019 | ₱225,253,706 |
| Receivables | **1,023,017** | **51,800,470** | 55,025,252 | 2,893,227,757 |
| Time deposits | – | – | 491,275,486 | 25,831,265,059 |
| Noncurrent assets: | | | | |
| Bonds and deposits | **367,000,000** | **18,583,045,000** | 367,000,000 | 19,296,860,000 |
| Long-term notes | **117,366,994** | **5,942,877,758** | 128,167,089 | 6,739,025,545 |
| Total foreign currency-denominated assets | **494,196,058** | **25,023,617,410** | 1,045,751,846 | 54,985,632,067 |
| Current liabilities: | | | | |
| Accounts payable | **1,223,253** | **61,939,416** | 5,607,096 | 294,821,095 |
| Current portion of long-term debt | – | – | 495,680,021 | 26,062,855,521 |
| Noncurrent liability: | | | | |
| Long-term debt-net of current portion | **475,028,413** | **24,053,059,679** | 528,424,413 | 27,784,555,660 |
| Total foreign currency-denominated liabilities | **476,251,666** | **24,114,999,095** | 1,029,711,530 | 54,142,232,276 |
| Net foreign currency-denominated assets | **$17,944,392** | **₱908,618,315** | $16,040,316 | ₱843,399,791 |

As at December 31, 2019 and 2018, approximately 36.7% and 43.7%, respectively, of the Company's borrowing are denominated in U.S. dollars.

The Company recognized ₱46.7 million net foreign exchange loss and ₱131.2 million net foreign exchange gain in 2019 and 2018, respectively. This resulted from the movements of the U.S. dollar against the Philippine peso. As at December 31, 2019 and 2018, the U.S. dollar to Philippine peso exchange rate is ₱50.64 and ₱52.58, respectively.

*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, follow:

| | Appreciation (Depreciation) of ₱ | Effect on Income Before Income Tax |
|---|---|---|
| | | *(In Millions)* |
| **2019** | **1.50** | **(₱26.9)** |
| | **1.00** | **(17.9)** |
| | **(1.50)** | **26.9** |
| | **(1.00)** | **17.9** |
| 2018 | 1.50 | (₱24.1) |
| | 1.00 | (16.0) |
| | (1.50) | 24.1 |
| | (1.00) | 16.0 |

Liquidity Risk

The Company manages its liquidity to ensure adequate financing of capital expenditures and debt service. Financing consist of internally generated funds, proceeds from debt and equity issues and sales of certain assets.

The Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund raising initiatives including bank loans, debt capital and equity market issues.

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

| | **2019** | 2018 |
|---|---|---|
| Cash and cash equivalents | **₱5,039,065,154** | ₱5,032,905,439 |
| Current portion of time deposits | **11,751,840** | 25,842,828,552 |
| Current portion of financial assets (corporate bonds) | **1,678,683,126** | – |

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

| | 2019 | | | |
|---|---|---|---|---|
| | **Within 1 Year** | **1 Year to 5 Years** | **More than 5 Years** | **Total** |
| Bank loans, including interest | **₱8,853,916,981** | **₱–** | **₱–** | **₱8,853,916,981** |
| Accounts payable and other current liabilities* | **4,083,926,518** | **–** | **–** | **4,083,926,518** |
| Provisions | **6,138,606,314** | **–** | **–** | **6,138,606,314** |
| Long-term debt, including interest | **7,373,956,638** | **124,489,627,628** | **889,063,194** | **132,752,647,460** |
| Derivative liabilities | **–** | **1,253,930,025** | **–** | **1,253,930,025** |
| Lease liabilities | **–** | **88,749,596** | **360,934,135** | **449,683,731** |
| Tenants' deposits and others** | **–** | **2,046,468,485** | **9,530,946** | **2,055,999,431** |
| | **₱26,450,406,451** | **₱127,878,775,734** | **₱1,259,528,275** | **₱155,588,710,460** |

**Excluding payables to government agencies, and advance rentals and deposits amounting to ₱601.5 million as at December 31, 2019, the amounts of which are not considered as financial liabilities.*
***Excluding deferred rent income amounting to ₱29.1 million as at December 31, 2019, the amounts of which are not considered as financial liabilities.*

| | 2018 | | | |
|---|---|---|---|---|
| | Within 1 Year | 1 Year to 5 Years | More than 5 YEARS | Total |
| Bank loans, including interest | ₱4,894,439,167 | ₱– | ₱– | ₱4,894,439,167 |
| Accounts payable and other current liabilities* | 4,722,097,336 | – | – | 4,722,097,336 |
| Provisions | 3,548,729,673 | – | – | 3,548,729,673 |
| Long-term debt, including interest | 37,542,885,654 | 87,943,100,112 | 43,041,466,010 | 168,527,451,776 |
| Tenants' deposits and others** | – | 3,067,047,379 | 29,952,497 | 3,096,999,876 |
| | ₱50,708,151,830 | ₱91,010,147,491 | ₱43,071,418,507 | ₱184,789,717,828 |

**Excluding payables to government agencies, and advance rentals and deposits amounting to ₱415.3 million as at December 31, 2018, the amounts of which are not considered as financial liabilities.*
***Excluding deferred rent income amounting to ₱34.8 million as at December 31, 2018, the amounts of which are not considered as financial liabilities.*

Credit Risk
The Company trades only with recognized, creditworthy related and third parties. The Company 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 Company's diverse customer base, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company which consist of cash and cash equivalents, time deposits, financial assets, certain bonds and deposits, long-term notes, escrow fund, refundable deposits and certain derivative instruments, the Company's credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

As at December 31, 2019 and 2018, the financial assets, except for certain receivables and nonfinancial bonds and deposits, 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 Company's total financial assets.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Company 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, government agencies and related parties.

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

| | 2019 | | |
|---|---|---|---|
| | **High Quality** | **Standard Quality** | **Total** |
| Cash and cash equivalents (excluding cash on hand) | **₱5,038,847,457** | **₱–** | **₱5,038,847,457** |
| Time deposits | **11,751,840** | **–** | **11,751,840** |
| Financial assets | **13,552,507,287** | **847,229,527** | **14,399,736,814** |
| Receivables* | **32,527,391,368** | **182,016,066** | **32,709,407,434** |
| Other noncurrent assets: | | | |
| Bonds and deposits** | **17,722,250,000** | **–** | **17,722,250,000** |
| Long-term notes | **5,942,877,758** | **–** | **5,942,877,758** |
| Escrow fund | **130,000,000** | **–** | **130,000,000** |
| Refundable deposits | **–** | **34,736,130** | **34,736,130** |
| | **₱74,925,625,710** | **₱1,063,981,723** | **₱75,989,607,433** |

**Excluding past due receivables amounting to ₱2.5 million and nonfinancial other receivables amounting to ₱98.1 million as at December 31, 2019.*
***Excluding nonfinancial bonds and deposits amounting to ₱3,251.4 million as at December 31, 2019.*

| | 2018 | | |
|---|---|---|---|
| | High Quality | Standard Quality | Total |
| Cash and cash equivalents (excluding cash on hand) | ₱5,032,833,439 | ₱– | ₱5,032,833,439 |
| Time deposits | 25,842,828,552 | – | 25,842,828,552 |
| Financial assets | 14,072,031,551 | 918,983,890 | 14,991,015,441 |
| Receivables* | 34,410,179,311 | 157,275,833 | 34,567,455,144 |
| Derivative assets | 713,854,565 | – | 713,854,565 |
| Other noncurrent assets: | | | |
| Bonds and deposits** | 18,403,000,000 | – | 18,403,000,000 |
| Long-term notes | 6,739,025,545 | – | 6,739,025,545 |
| Escrow fund | 130,000,000 | – | 130,000,000 |
| Refundable deposits | – | 25,779,816 | 25,779,816 |
| | ₱105,343,752,963 | ₱1,102,039,539 | ₱106,445,792,502 |

**Excluding past due receivables amounting to ₱15.0 million and nonfinancial other receivables amounting to ₱81.0 million as at December 31, 2018.*
***Excluding nonfinancial bonds and deposits amounting to ₱4,688.9 million as at December 31, 2018.*

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 effect on equity after income tax of a possible change in equity indices with all other variables held constant follows:

| | Change in Equity Price | Effect on Equity After Income Tax |
|---|---|---|
| | | *(In Millions)* |
| **2019** | **+2.86%** | **₱280.4** |
| | **-2.86%** | **(280.4)** |
| 2018 | +1.78% | ₱207.9 |
| | -1.78% | (207.9) |

Capital Management
The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. Accordingly, the Company may adjust the dividend payments to shareholders, secure new and/or pay-off existing debts, return capital to shareholders or issue new shares.

The Company 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

| | **2019** | 2018 |
|---|---|---|
| Bank loans | **₱8,829,900,000** | ₱4,850,000,000 |
| Long term debt (including current portion) | **112,898,500,386** | 143,317,549,499 |
| Less: | | |
| Cash and cash equivalents | | |
| (excluding cash on hand) | **(5,038,847,457)** | (5,032,833,439) |
| Time deposits | **(11,751,840)** | (25,842,828,552) |
| Financial assets (corporate bonds) | **(1,678,683,126)** | (1,627,269,590) |
| Total net interest-bearing debt (a) | **114,999,117,963** | 115,664,617,918 |
| Total equity | **128,315,432,279** | 132,211,475,672 |
| Total net interest-bearing debt and equity (b) | **₱243,314,550,242** | ₱247,876,093,590 |
| Gearing ratio (a/b) | **47%** | 47% |

Gross Gearing Ratio

| | **2019** | 2018 |
|---|---|---|
| Bank loans | **₱8,829,900,000** | ₱4,850,000,000 |
| Long term debt (including current portion) | **112,898,500,386** | 143,317,549,499 |
| Total interest-bearing debt (a) | **121,728,400,386** | 148,167,549,499 |
| Total equity | **128,315,432,279** | 132,211,475,672 |
| Total interest-bearing debt and equity (b) | **₱250,043,832,665** | ₱280,379,025,171 |
| Gearing ratio (a/b) | **49%** | 53% |

## 28. **Financial Instruments**

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

| | 2019 | | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Total** | **Quoted Prices in Active Markets (Level 1)** | **Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| | | | ***(In Thousands)*** | | |
| **Assets Measured at Fair Value** | | | | | |
| Financial Assets at FVOCI: | | | | | |
| Listed shares of stock | **₱11,861,354** | **₱11,861,354** | **₱11,861,354** | **₱–** | **₱–** |
| Unlisted shares of stock | **847,300** | **847,300** | **–** | **–** | **847,300** |
| Club shares | **12,400** | **12,400** | **12,400** | **–** | **–** |
| Corporate bonds | **1,678,683** | **1,678,683** | **1,678,683** | **–** | **–** |
| | **14,399,737** | **14,399,737** | **13,552,437** | **–** | **847,300** |
| **Assets for which Fair Values are Disclosed** | | | | | |
| Other noncurrent assets: | | | | | |
| Bonds and deposits* | **17,722,250** | **19,763,982** | **–** | **–** | **19,763,982** |
| Long-term notes | **5,942,878** | **7,577,904** | **–** | **–** | **7,577,904** |
| | **23,665,128** | **27,341,886** | **–** | **–** | **27,341,886** |
| | **₱38,064,865** | **₱41,741,623** | **₱13,552,437** | **₱–** | **₱28,189,186** |
| **Liabilities Measured at Fair Value** | | | | | |
| Financial Liability at FVPL: | | | | | |
| Derivative liabilities | **₱1,253,930** | **₱1,253,930** | **₱–** | **₱1,253,930** | **₱–** |
| **Liabilities for which Fair Values are Disclosed** | | | | | |
| Other Financial Liabilities: | | | | | |
| Long-term debt (noncurrent portion and net of unamortized debt issue cost) | **105,672,203** | **112,907,945** | **–** | **–** | **112,907,945** |
| Tenants' deposits and others** | **2,055,999** | **2,066,130** | **–** | **–** | **2,066,130** |
| | **107,728,202** | **114,974,075** | **–** | **–** | **114,974,075** |
| | **₱108,982,132** | **₱116,228,005** | **₱–** | **₱1,253,930** | **₱114,974,075** |

**Excluding nonfinancial bonds and deposits amounting to ₱3,251.4 million as at December 31, 2019.*
***Excluding deferred rent income amounting to ₱29.1 million as at December 31, 2019, the amounts of which are not considered as financial liabilities.*

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Total | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | *(In Thousands)* | | |
| Assets Measured at Fair Value | | | | | |
| Financial Assets at FVPL: | | | | | |
| Corporate note | ₱151,200 | ₱151,200 | ₱ | ₱– | ₱151,200 |
| Derivative assets | 713,855 | 713,855 | – | 713,855 | – |
| | 865,055 | 865,055 | – | 713,855 | 151,200 |
| Financial Assets at FVOCI: | | | | | |
| Listed shares of stock | 12,433,882 | 12,433,882 | 12,433,882 | – | – |
| Unlisted shares of stock | 767,784 | 767,784 | – | – | 767,784 |
| Club shares | 10,880 | 10,880 | 10,880 | – | – |
| Corporate bonds | 1,627,270 | 1,627,270 | 1,627,270 | – | – |
| | 14,839,816 | 14,839,816 | 14,072,032 | – | 767,784 |
| Assets for which Fair Values are Disclosed | | | | | |
| 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 |
| | 25,142,026 | 28,289,572 | – | – | 28,289,572 |
| | ₱40,846,897 | ₱43,994,443 | ₱14,072,032 | ₱713,855 | ₱29,208,556 |
| Liabilities for which Fair Values are Disclosed | | | | | |
| Other Financial Liabilities: | | | | | |
| Long-term debt (noncurrent portion and net of unamortized debt issue cost) | ₱106,893,073 | ₱106,112,673 | ₱– | ₱– | ₱106,112,673 |
| Tenants' deposits and others** | 3,097,000 | 3,093,022 | – | – | 3,093,022 |
| | ₱109,990,073 | ₱109,205,695 | ₱– | ₱– | ₱109,205,695 |

**Excluding nonfinancial bonds and deposits amounting to ₱4,688.9 million as at December 31, 2018.*
***Excluding deferred rent income amounting to ₱34.8 million as at December 31, 2018, the amounts of which are not considered as financial liabilities.*

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2019 and 2018.

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:

| | **2019** | 2018 |
|---|---|---|
| Other noncurrent assets: | | |
| Bonds and deposits | **1.72%** | 2.58% |
| Long-term notes | **1.69%–1.94%** | 2.57%–2.82% |
| Tenants' deposits and others | **3.12%–4.40%** | 5.29%–7.07% |

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

| Debt | Fair Value Assumptions |
|---|---|
| Fixed Rate | Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.69% to 4.04% and 2.57% to 7.05% as at December 31, 2019 and 2018, respectively. |
| Variable Rate | For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. |

*Derivative Instruments.* The fair values of cross-currency swaps and non-deliverable forwards and swaps are based on quotes obtained from counterparties.

Derivative Instruments Designated as Accounting Hedges

*Cross-currency Swaps.* The Company's outstanding cross-currency swaps as at December 31, 2019 follow:

| | Notional Amount | | | | | | US$:₱ | |
|---|---|---|---|---|---|---|---|---|
| | *(In US$)* | *(In PhP)* | Principal | Fair Value | Receive | Pay | Rate | Maturity |
| Floating-to-Fixed | US$53,000,000 | ₱2,761,300,000 | ₱2,683,655,000 | (₱138,709,512) | 3M LIBOR + 80 bps | 5.29% | ₱52.10 | March 6, 2023 |
| Floating-to-Fixed | 100,000,000 | 5,210,000,000 | 5,063,500,000 | (400,093,485) | 3M LIBOR + 70 bps | 5.88% | 52.10 | April 16, 2023 |
| Floating-to-Fixed | 56,158,742 | 3,000,000,000 | 2,843,597,903 | (338,579,233) | 3M LIBOR + 60 bps | 6.09% | 53.42 | July 26, 2023 |
| Floating-to-Fixed | 100,000,000 | 5,140,000,000 | 5,063,500,000 | (205,908,011) | 3M LIBOR + 80 bps | 5.48% | 51.40 | June 28, 2024 |
| Floating-to-Fixed | 100,000,000 | 5,115,000,000 | 5,063,500,000 | (170,639,784) | 3M LIBOR + 80 bps | 5.44% | 51.15 | July 28, 2024 |

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

Other Derivative Instruments Not Designated as Accounting Hedges

*Non-deliverable Forwards and Swaps.* There are no outstanding forward contracts as at December 31, 2019 and 2018. Net fair value changes from the settled forward and swap contracts of the Company amounted to ₱15.0 million loss and ₱204.4 million gain in 2019 and 2018, respectively.

Fair Value Changes on Derivatives
The movements in the fair value of derivative instruments follow:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **₱713,854,565** | ₱1,794,745,387 |
| Net changes in fair value during the year | **(1,982,799,852)** | 918,228,765 |
| Fair value on settled derivatives | **15,015,262** | (1,999,119,587) |
| Balance at end of year | **(₱1,253,930,025)** | ₱713,854,565 |

In 2019, the net changes in fair value include mark-to-market net loss on derivatives accounted for as cash flow hedges amounting to ₱1,967.8 million which is included under the "Net unrealized gain (loss) on financial assets and others" account and mark-to-market loss on derivatives not designated as hedges amounting to ₱15.0 million which is included under the "Gain (loss) on fair value changes of derivatives - net" account.

In 2018, the net changes in fair value include mark-to-market net gain on derivatives accounted for as cash flow hedges amounting to ₱713.8 million which is included under the "Net unrealized gain on financial assets and others" account and mark-to-market gain on derivatives not designated as hedges amounting to ₱204.4 million which is included under the "Gain (loss) on fair value changes of derivatives - net" account.

## 29. Change in Liabilities Arising from Financing Activities

| | 2019 | | | 2018 | |
|---|---|---|---|---|---|
| | **Bank Loans (Note 15)** | **Long-term Debt (Note 18)** | **Lease Liabilities (Note 26)** | Bank Loans (Note 15) | Long-term Debt (Note 18) |
| Balance at beginning of year | **₱4,850,000,000** | **₱143,317,549,499** | **₱483,943,928** | ₱10,200,000,000 | ₱138,995,035,290 |
| Availments | **20,827,800,000** | **10,178,165,500** | **–** | 24,923,500,000 | 16,546,427,333 |
| Payments | **(16,847,900,000)** | **(39,331,555,675)** | **(54,344,317)** | (30,273,500,000) | (13,604,572,137) |
| Debt issue cost amortization | **–** | **192,280,110** | **–** | – | 207,306,642 |
| Foreign exchange movement | **–** | **(923,125,294)** | **–** | – | 2,709,035,714 |
| Others | **–** | **(534,813,754)** | **38,868,221** | – | (1,535,683,343) |
| Balance at end of year | **₱8,829,900,000** | **₱112,898,500,386** | **₱468,467,832** | ₱4,850,000,000 | ₱143,317,549,499 |

There are no non-cash changes in dividends and accrued interest. Others include cumulative translation adjustment on cash flow hedges and interest expense on lease liabilities.

## 30. Supplementary Information Required Under Revenue Regulations No. 15-2010

The Bureau of Internal Revenue has issued Revenue Regulations No. 15-2010 which requires certain tax information to be disclosed in the notes to financial statements. The Company presented the required supplementary tax information as a separate schedule attached to its annual income tax return.