INVESTMENTS
CORPORATION

2019 ANNUAL REPORT
FINANCIAL SUPPLEMENTS

CONTENTS

2 Corporate Profile

3 Statement of Management's Responsibility for Financial Statements

4 Report of the Audit Committee

7 Independent Auditor's Report

12 Consolidated Balance Sheets

13 Consolidated Statements of Income

14 Consolidated Statements of Comprehensive Income

15 Consolidated Statements of Changes in Equity

17 Consolidated Statements of Cash Flows

18 Notes to Consolidated Financial Statements

CORPORATE PROFILE

SM Investments Corporation (SMIC) is a leading Philippine company with interests in market leading businesses in retail, banking and property. It also invests in ventures that can capture high growth opportunities in the emerging Philippine economy.

SMIC's retail operations under SM Retail, Inc. are the country's largest and most diversified with its food (SM Markets, WalterMart, Alfamart) and non-food (THE SM STORE and specialty retail stores) portfolio.

SMIC's property arm, SM Prime Holdings, Inc., is one of the largest integrated property developers in Southeast Asia with interests in malls, residences, offices, hotels and convention centers as well as tourism-related property developments.

SMIC has the largest banking footprint in the Philippines through BDO Unibank, Inc. and China Banking Corporation, the country's largest bank and 6th largest bank in terms of assets, loans and deposits, respectively.

VISION

To build world class businesses that are catalysts for development in the communities we serve

MISSION

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

VALUES

Leadership
Sustainability
Innovation
Accountability
Integrity
Hard Work

Statement of Management's Responsibility for Financial Statements

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

JOSE T. SIO
Chairman of the Board

FREDERIC C. DYBUNCIO
President

MARCELO C. FERNANDO, JR.
Treasurer

Signed this 28th day of February 2020

Report of the Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities to ensure the quality and integrity of the Company's financial reporting, internal control system, internal and external audit processes, and compliance with relevant laws and regulations. Likewise, the Committee oversees special investigations as may be necessary. It reviews its Charter annually.

The Committee is composed of three (3) non-executive directors, two (2) of whom are independent directors including the Committee Chairperson. The Committee members have relevant background, knowledge, skill and/or experience in the areas of finance and accounting, audit, risk management, and corporate governance. The profiles and qualifications of the Committee members are as follows:

- **Tomasa H. Lipana (Chair)** is an independent director of SMIC. She is a former Chairperson and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers. She is also an independent director and Audit Committee Chairperson of Flexo Manufacturing Corporation, and Trade and Investment Development Corporation of the Philippines (Philippine Guarantee Corporation, formerly Philippine Export Import Credit Agency), a government-owned and controlled corporation. Previously, she was an independent director of Goldilocks Bakeshop Inc., Inter-Asia Development Bank, and QBE Seaboard Insurance Philippines. She is a fellow and trustee of the Institute of Corporate Directors. She is also a trustee of the Shareholders' Association of the Philippines, Inc., among other non-profit organizations. Ms. Lipana took up Executive Education/Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She received the Outstanding CPA in Public Practice Award from the Philippine Institute of Certified Public Accountants and the Outstanding Alumna Award from the University of the East where she graduated Cum Laude. She is also a CPA Board placer.

- **Alfredo E. Pascual** is the Lead Independent Director of SMIC. He was the President and CEO of the Institute of Corporate Directors (ICD) in 2018 & 2019. From 2011 to 2017, he led the University of the Philippines (UP) System as President and Board Co-Chair. Before his stint in UP, Mr. Pascual worked at the Asian Development Bank (ADB) for 19 years in such positions as Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership (Infrastructure Development). At ADB, he had postings in India and Indonesia as well as board directorships in ADB's investee companies in China, India, and the Philippines. Earlier on, Mr. Pascual held executive positions in investment banking companies, e.g., First Metro Investment Corporation and was a finance professor at the Asian Institute of Management (AIM). Currently also, he is an independent director at other publicly-listed companies and a trustee at nonprofits and foundations. He finished MBA and BS Chemistry (cum laude) at UP.

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

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

Audit Committee							
Committee Designation	**Name**	**Regular**	**Regular**	**Special**	**Special**	**Regular**	**Regular**
		2/28/19	**4/24/19**	**5/8/19**	**6/14/19**	**8/7/19**	**11/6/19**
Chairperson (ID)	Tomasa H. Lipana	√	√	√	√	√	√
Member (ID)	Alfredo E. Pascual	√	√	√	√	√	√
Member (NED)	Jose T. Sio	√	√	√	√	√	√

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

Internal Audit

1. The Committee provided oversight of the Internal Audit.

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

   The Charter also requires the Internal Audit to perform the following:

   - Develop a flexible annual audit plan using an appropriate risk-based methodology to determine the priorities of internal audit activities, consistent with the Company's goals, and submit such plan as well as periodic updates to the Audit Committee for review and approval.
   - Implement the approved annual audit plan, including special tasks or projects mandated by Management or Audit Committee.
   - Maintain a team of professional audit staff with sufficient and relevant knowledge, skills, experience, and professional certifications to meet the requirements of the Charter.
   - Issue periodic reports to the Audit Committee and Management, summarizing results of audit activities. Thereafter, conduct follow-up audit in a timely manner to ascertain the adequacy, effectiveness, and timeliness of management actions on the reported audit observations and agreed recommendations.
   - Assist in the investigation of significant suspected fraudulent activities within the Company and notify Management and the Audit Committee of the results.
   - Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
   - Use of up-to-date tools and technology for audit analytics and keep current on accounting and financial principles, pronouncements, as well as technical issues and trends.
   - Engage a qualified independent third party to perform External Quality Assurance Review at least every five years and communicate its results to the Management and Audit Committee.

To maintain the independence of the Internal Audit, the Chief Audit Executive (CAE) functionally reports to the Board of Directors, through the Audit Committee. The CAE has direct and free access to communicate with the Management and Audit Committee. The CAE and his entire Internal Audit Team have full and unrestricted access to all records, documents, systems, and information that are required for the effective and efficient audit process.

2. The Committee reviewed and approved the Internal Audit plan, including the scope, methodology, organization structure and staffing.
3. The Committee monitored the implementation of the Internal Audit plan and reviewed the periodic reports of the CAE, summarizing the overall assessment of the Company's control environment, significant audit findings and areas of concern as well as the corresponding management response and action plan.

External Audit

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

The External Auditor is tasked to undertake an independent audit and provide and perform an objective assurance on the preparation and presentation of the financial statements. As required by SMIC's Manual on Corporate Governance, the External Auditor or the handling partner should be rotated every five (5) years or earlier, and any non-audit work should not be in conflict with the functions of the External Auditor.

4. The Committee reviewed/discussed with the External Auditor, SGV & Co., the following:
    - The annual audit plan for 2019, including scope, approach, risk-based methods, focus areas and time table;
    - The results of its examination and action plan to address pending audit issues; and
    - The assessment of internal controls and quality of financial reporting.
5. The Committee reviewed/discussed the report of SGV & Co. on significant accounting issues, changes in accounting policies/standards and major pending tax legislations, which would impact the Company and its subsidiaries.
6. The Committee discussed with SGV & Co. the matters required to be disclosed under the prevailing applicable Auditing Standards, and obtained from said Firm a letter confirming its independence, as required by prevailing applicable Independence Standards.
7. The Committee reviewed and approved all audit and non-audit services provided by SGV & Co., to the Company, and related audit fees.

Financial Statements

8. The Committee assessed the internal control system of the Company based upon the review and evaluation done and reported by the internal and external auditors and noted that the system is generally adequate to generate reliable financial statements.
9. The Committee reviewed and endorsed to the Board for approval the unaudited consolidated financial statements of SM Investments Corporation and its subsidiaries for the first quarter ended March 31, 2019, six-month period ended June 30, 2019, and third quarter ended September 30, 2019.
10. Based on its review and discussion, and subject to the limitations on the roles and responsibilities referred to above, the Committee recommended for Board approval, and the Board approved, the consolidated audited financial statements of SM Investments Corporation and its subsidiaries for the year ended December 31, 2019.
11. The Committee reviewed and discussed the performance, independence and qualifications of the External Auditor, SGV & Co., in the conduct of their audit of the financial statements of SM Investments Corporation and its subsidiaries for the year. Based on the review of their performance and qualifications, the Committee also recommended the re-appointment of SGV & Co. as External Auditors for 2020.

28 February 2020

Tomasa H. Lipana
Chairperson

Alfredo E. Pascual
Member

Jose T. Sio
Member

Atty. Elmer B. Serrano
Corporate Secretary

Independent Auditor's Report

The Board of Directors and Stockholders
SM Investments Corporation

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted PFRS 16, *Leases,* under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases. The Group's adoption of PFRS 16 is significant to our audit because the Group has high volume of lease agreements; the recorded amounts are material to the consolidated financial statements; and adoption involves significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liabilities amounting to ₱32,020.3 million and ₱24,781.2 million, respectively, as at January 1, 2019 and the recognition of depreciation expense and interest expense of ₱3,587.9 million and ₱1,676.0 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 applied by the Group are included in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low-value assets exemption, the selection of the transition approach and any election of available practical expedients.

We tested the population of lease agreements by tracing the lease agreements to the master lease schedule of the Group.

On a test basis, we inspected lease agreements, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculations prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and Philippine Accounting Standard (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Recoverability of Goodwill

As at December 31, 2019, the Group reported ₱17,366.8 million goodwill attributable mainly to SM Prime Holdings, Inc., Supervalue, Inc., Super Shopping Market, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated and others. The Group performed an annual testing per cash generating unit (CGU) to assess whether goodwill might be impaired. Given the significant management estimates and assumptions, and the uncertainty of internal and external factors, including future market circumstances, this is considered as a key audit matter.

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

Audit Response

We involved our internal specialist in assessing the methodologies and assumptions used by the Group in calculating each CGU's recoverable amount. For the fair value less cost of disposal calculations, we evaluated the approach used by the Group and reviewed the calculations performed with reference to the observable market prices and allowable costs for disposing the asset. For the value-in-use calculations, we assessed the prospective financial information (PFI) for each CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used such as revenue. We reviewed the key assumptions used by comparing the PFI to historical operating results. We also involved our internal specialist in recalculating the discount rates used for each CGU. Recalculations involve comparison to publicly available market information, cost of debt and equity and other relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

Accounting for Investments in Associate Companies

As at December 31, 2019, the Group's investments in associate companies amounted to ₱272,671.6 million, representing 30.4% and 23.8% of the Group's total noncurrent assets and total assets, respectively. The investments in associate companies are accounted for under the equity method and considered for impairment if there are indicators that such investments may be impaired. Given the magnitude of the carrying amount and share in equity on investments in associate companies, as well as the significant management judgments and estimates applied in determining the recoverable amount of these investments, we consider this matter significant to our audit.

The details of these investments are disclosed in Note 12 to the consolidated financial statements.

Audit Response

We obtained relevant financial information of the associate companies and recomputed the Group's share in equity in net earnings. For investments with indicators of possible impairment, we obtained management's impairment analysis and gained an understanding of their impairment assessment process. We discussed the current and projected financial performance of the associate companies with management and assessed whether these were reflected in the Group's own assumptions. We also involved our internal specialist in assessing the Group's methodology and assumptions used in calculating the associate companies' recoverable amount. We reviewed the key inputs used such as growth rates, gross margins, projected earnings before interest and taxes, effective tax rates, non-cash charges, net working capital changes, capital expenditures and others. For growth rates, we have assessed the reasonableness by comparing it with the long-term average growth rate for the products, industries, or country where the entity operates. We have assessed the PFI for the CGU by understanding the Group's approach to develop the PFI and evaluating the key assumptions used. We reviewed the key assumptions used by comparing the PFI with the industry practice. We also involved our internal specialist in recalculating the discount rate used that involves comparison to publicly available market information, cost of debt and equity and other relevant risk factors. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions.

For the material associate company audited by other auditor, we sent audit instructions to the other auditor to perform an audit on the relevant financial information of the associate company for the purpose of the Group's consolidated financial statements. Our audit instructions detailed the other auditor's scope of work, audit strategy and reporting requirements. We discussed with the other auditor their key audit areas, including areas of significant judgments and estimates, and their audit findings. We focused on the other auditor's procedures on the review of the classification and measurement, expected credit loss and hedge accounting related to its financial instruments and revenue recognition.

Real Estate Revenue Recognition

The Group applies PFRS 15, *Revenue from Contracts with Customers*, in recognizing revenue from sale of real estate units. The following matters are significant to our audit because these involve application of significant judgment and estimation: (1) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (2) assessment of the probability that the entity will collect the consideration from the buyer; (3) determination of the transaction price; (4) application of the output method as the measure of progress in determining revenue from real estate sale; (5) determination of the actual costs incurred as cost of real estate sold; and (6) recognition of costs to obtain a contract.

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

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

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

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

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

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

Audit Response

We obtained an understanding of the Group's revenue recognition processes and tested relevant controls.

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

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

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

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

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

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

Existence and Completeness of Merchandise Inventories

As at December 31, 2019, the merchandise inventories of certain subsidiaries of the Group amounted to ₱33,157.6 million, representing 13.4% and 2.9% of the Group's total current assets and total assets, respectively. The Group has several warehouses and operates multiple stores across the country. Since the merchandise inventories are material to the consolidated financial statements, and various warehouses and stores are geographically dispersed across the country, we consider this a key audit matter.

The disclosures about inventories are included in Note 22 to the consolidated financial statements.

Audit Response

We obtained an understanding of the subsidiaries' inventory process and performed test of controls for selected stores and warehouses. We visited selected warehouses and stores and observed the physical inventory counts. We performed test counts and compared the results to the subsidiaries' inventory compilation reports to determine if the compilation reports reflect the results of the inventory count. We reviewed the reconciliations performed by management and tested the reconciling items. We performed testing, on a sampling basis, of the subsidiaries' rollforward or rollback procedures on inventory quantities from the date of physical inventory count to the financial reporting date.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Julie Christine O. Mateo.

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
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 AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 28)	**₱76,213,774**	₱79,313,215
Time deposits (Notes 8 and 28)	**30,488**	25,842,829
Financial assets (Notes 9 and 28)	**659,077**	639,316
Receivables and contract assets (Notes 10, 28 and 29)	**53,617,200**	33,755,192
Merchandise inventories - at cost (Note 22)	**33,157,622**	31,836,333
Other current assets (Notes 11 and 28)	**84,678,819**	70,338,577
Total Current Assets	**248,356,980**	241,725,462
Noncurrent Assets		
Financial assets - net of current portion (Notes 9 and 28)	**24,229,560**	26,702,764
Investments in associate companies and joint ventures (Note 12)	**280,971,638**	259,795,077
Time deposits - net of current portion (Notes 8, 28 and 29)	**2,412,972**	2,392,622
Property and equipment (Note 13)	**24,720,873**	23,201,667
Investment properties (Note 14)	**338,075,303**	309,264,274
Right-of-use assets (Note 27)	**37,664,176**	–
Land and development - net of current portion (Note 15)	**74,946,694**	53,928,447
Intangibles (Note 16)	**25,289,609**	25,470,696
Deferred tax assets (Note 26)	**3,121,117**	2,726,155
Other noncurrent assets (Notes 16 and 28)	**84,375,645**	115,435,107
Total Noncurrent Assets	**895,807,587**	818,916,809
	₱1,144,164,567	₱1,060,642,271
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21, 28 and 31)	**₱18,710,465**	₱18,885,465
Accounts payable and other current liabilities (Notes 18 and 28)	**141,451,764**	124,777,719
Income tax payable	**3,273,872**	3,641,379
Current portion of long-term debt (Notes 19, 21, 28 and 31)	**29,077,719**	61,480,887
Dividends payable (Note 28)	**4,204,962**	3,906,476
Total Current Liabilities	**196,718,782**	212,691,926
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28, 29 and 31)	**327,358,208**	305,555,356
Lease liabilities - net of current portion (Notes 27 and 31)	**27,600,392**	–
Deferred tax liabilities (Note 26)	**9,604,043**	8,810,862
Tenants' deposits and others (Notes 25, 27, 28 and 29)	**46,731,664**	41,294,115
Total Noncurrent Liabilities	**411,294,307**	355,660,333
Total Liabilities	**608,013,089**	568,352,259
Equity Attributable to Owners of the Parent		
Capital stock (Note 20)	**12,045,829**	12,045,829
Additional paid-in capital	**75,815,923**	75,815,520
Equity adjustments from common control transactions (Note 20)	**(5,424,455)**	(5,424,455)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)
Cumulative translation adjustment	**1,308,228**	2,014,573
Net fair value changes on cash flow hedges	**(1,406,026)**	62,444
Net unrealized gain on financial assets (Note 9)	**14,399,640**	11,748,980
Re-measurement loss on defined benefit asset/obligation (Note 25)	**(8,633,269)**	(2,063,358)
Retained earnings (Note 20):		
Appropriated	**37,000,000**	37,000,000
Unappropriated	**257,546,591**	222,213,054
Total Equity Attributable to Owners of the Parent	**382,627,075**	353,387,201
Non-controlling Interests	**153,524,403**	138,902,811
Total Equity	**536,151,478**	492,290,012
	₱1,144,164,567	₱1,060,642,271

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

(Amounts in Thousands Except Per Share Data)

	Years Ended December 31		
	2019	2018	2017
REVENUES			
Sales:			
Merchandise	**₱354,088,848**	₱323,740,170	₱288,532,163
Real estate	**44,499,529**	35,967,663	29,567,021
Rent (Notes 14, 21 and 27)	**51,573,157**	47,555,061	42,067,892
Equity in net earnings of associate companies and joint ventures (Note 12)	**26,038,426**	19,164,345	16,640,597
Cinema ticket sales, amusement and others	**7,739,761**	7,286,654	6,578,362
Management and service fees (Note 21)	**7,348,479**	6,379,831	5,820,571
Dividend income (Note 21)	**480,513**	421,914	495,582
Gain on sale of financial assets - net (Note 9)	**27,812**	1,337	110,234
Others	**9,855,370**	9,271,192	8,135,798
	501,651,895	449,788,167	397,948,220
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 22)	**262,434,661**	238,902,107	214,494,703
Real estate (Note 15)	**20,806,612**	17,852,270	15,260,313
Selling, general and administrative expenses (Note 23)	**113,257,931**	106,419,699	92,342,430
	396,499,204	363,174,076	322,097,446
OTHER INCOME (CHARGES)			
Interest expense (Notes 21 and 24)	**(19,194,311)**	(16,574,388)	(15,580,819)
Interest income (Notes 21 and 24)	**3,881,156**	3,754,141	4,003,501
Gain on disposal of investments and properties - net	**193,878**	64,034	22,702
Gain on fair value changes on derivatives - net (Note 29)	**6,379**	454,941	296,334
Impairment loss on investment (Note 12)	**(3,987,000)**	–	–
Foreign exchange gain (loss) - net (Note 28)	**561,705**	(182,483)	698,742
	(18,538,193)	(12,483,755)	(10,559,540)
INCOME BEFORE INCOME TAX	**86,614,498**	74,130,336	65,291,234
PROVISION FOR INCOME TAX (Note 26)			
Current	**16,218,229**	15,115,326	13,616,519
Deferred	**951,955**	460,442	156,198
	17,170,184	15,575,768	13,772,717
NET INCOME	**₱69,444,314**	₱58,554,568	₱51,518,517
Attributable to			
Owners of the Parent (Note 30)	**₱44,568,244**	₱37,078,325	₱32,923,455
Non-controlling interests	**24,876,070**	21,476,243	18,595,062
	₱69,444,314	₱58,554,568	₱51,518,517
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 30)	**₱37.00**	₱30.78	₱27.33

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET INCOME	**₱69,444,314**	₱58,554,568	₱51,518,517
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Net unrealized gain on financial assets	**–**	–	4,973,426
Share in unrealized gain (loss) on financial assets of associates (Note 12)	**4,505,589**	(3,502,992)	354,028
Cumulative translation adjustment	**(1,011,736)**	326,536	1,243,928
Net fair value changes on cash flow hedges	**(1,712,763)**	2,589	(1,266,333)
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**–**	–	(147,803)
	1,781,090	(3,173,867)	5,157,246
Items not to be reclassified to profit or loss in subsequent periods			
Re-measurement loss on defined benefit obligation (Note 25)	**(8,209,190)**	(2,080,805)	(416,283)
Net unrealized loss on financial assets	**(176,975)**	(520,230)	–
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	**553,736**	(84,499)	124,884
	(7,832,429)	(2,685,534)	(291,399)
TOTAL COMPREHENSIVE INCOME	**₱63,392,975**	₱52,695,167	₱56,384,364
Attributable to			
Owners of the Parent	**₱40,223,919**	₱31,112,015	₱36,916,903
Non-controlling interests	**23,169,056**	21,583,152	19,467,461
	₱63,392,975	₱52,695,167	₱56,384,364

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes In Equity

For The Years Ended December 31, 2019, 2018 And 2017
(Amounts In Thousands Except Per Share Data)

	Equity Attributable				
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment
As at January 1, 2019	**₱12,045,829**	**₱75,815,520**	**(₱5,424,455)**	**(₱25,386)**	**₱2,014,573**
Net income	**–**	**–**	**–**	**–**	**–**
Other comprehensive income	**–**	**–**	**–**	**–**	**(706,345)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(706,345)**
Realized gain on sale of financial assets at FVOCI (Note 9)	**–**	**–**	**–**	**–**	**–**
Sale of non-controlling interests	**–**	**403**	**–**	**–**	**–**
Cash dividends - ₱9.12 per share (Note 20)	**–**	**–**	**–**	**–**	**–**
Cash dividends received by non-controlling interests	**–**	**–**	**–**	**–**	**–**
Effect of business combination (Note 5)	**–**	**–**	**–**	**–**	**–**
Increase in previous year's non-controlling interests	**–**	**–**	**–**	**–**	**–**
As at December 31, 2019	**₱12,045,829**	**₱75,815,923**	**(₱5,424,455)**	**(₱25,386)**	**₱1,308,228**
As at January 1, 2018, as previously reported	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,609,600
Effect of adoption of new accounting standards	–	–	–	–	–
As adjusted	12,045,829	76,439,288	(5,424,455)	(25,386)	1,609,600
Net income	–	–	–	–	–
Other comprehensive income	–	–	–	–	404,973
Total comprehensive income	–	–	–	–	404,973
Sale of treasury shares held by a subsidiary	–	291,088	–	–	–
Acquisition of non-controlling interests	–	(914,856)	–	–	–
Cash dividends - ₱8.20 per share (Note 20)	–	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–	–
Increase in previous year's non-controlling interests	–	–	–	–	–
As at December 31, 2018	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)	₱2,014,573
As at January 1, 2017	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)	₱721,994
Net income	–	–	–	–	–
Other comprehensive income	–	–	–	–	887,606
Total comprehensive income	–	–	–	–	887,606
Reversal of appropriation (Note 20)	–	–	–	–	–
Appropriation (Note 20)	–	–	–	–	–
Sale of treasury shares held by a subsidiary	–	78,810	–	–	–
Acquisition of non-controlling interests	–	13,249	–	–	–
Cash dividends - ₱7.77 per share (Note 20)	–	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–	–
Decrease in previous year's non-controlling interests	–	–	–	–	–
As at December 31, 2017	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,609,600

See accompanying Notes to Consolidated Financial Statements.

to Owners of the Parent							
Net Fair Value Changes on Cash Flow Hedges	Net Unrealized Gain (Loss) on Financial Assets	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
₱62,444	**₱11,748,980**	**(₱2,063,358)**	**₱37,000,000**	**₱222,213,054**	**₱353,387,201**	**₱138,902,811**	**₱492,290,012**
–	**–**	**–**	**–**	**44,568,244**	**44,568,244**	**24,876,070**	**69,444,314**
(1,468,470)	**4,400,401**	**(6,569,911)**	**–**	**–**	**(4,344,325)**	**(1,707,014)**	**(6,051,339)**
(1,468,470)	**4,400,401**	**(6,569,911)**	**–**	**44,568,244**	**40,223,919**	**23,169,056**	**63,392,975**
–	**(1,749,741)**	**–**	**–**	**1,749,741**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**403**	**(81,462)**	**(81,059)**
–	**–**	**–**	**–**	**(10,984,448)**	**(10,984,448)**	**–**	**(10,984,448)**
–	**–**	**–**	**–**	**–**	**–**	**(9,824,854)**	**(9,824,854)**
–	**–**	**–**	**–**	**–**	**–**	**1,358,352**	**1,358,352**
–	**–**	**–**	**–**	**–**	**–**	**500**	**500**
(₱1,406,026)	**₱14,399,640**	**(₱8,633,269)**	**₱37,000,000**	**₱257,546,591**	**₱382,627,075**	**₱153,524,403**	**₱536,151,478**
(₱206,977)	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224
–	1,703,458	–	–	2,940,327	4,643,785	–	4,643,785
(206,977)	17,027,581	(701,255)	37,000,000	195,012,295	332,776,520	125,679,489	463,099,794
–	–	–	–	37,078,325	37,078,325	21,476,243	58,554,568
269,421	(5,278,601)	(1,362,103)	–	–	(5,966,310)	106,909	(5,859,401)
269,421	(5,278,601)	(1,362,103)	–	37,078,325	31,112,015	21,583,152	52,695,167
–	–	–	–	–	291,088	294,120	585,208
–	–	–	–	–	(914,856)	(857,160)	(1,772,016)
–	–	–	–	(9,877,566)	(9,877,566)	–	(9,877,566)
–	–	–	–	–	–	(7,844,484)	(7,844,484)
	–	–	–	–	–	47,694	47,694
₱62,444	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012
₱494,724	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262
–	–	–	–	32,923,455	32,923,455	18,595,062	51,518,517
(701,701)	4,543,693	(736,150)	–	–	3,993,448	872,399	4,865,847
(701,701)	4,543,693	(736,150)	–	32,923,455	36,916,903	19,467,461	56,384,364
–	–	–	(27,800,000)	27,800,000	–	–	–
–	–	–	28,800,000	(28,800,000)	–	–	–
–	–	–	–	–	78,810	79,506	158,316
–	–	–	–	–	13,249	(247,159)	(233,910)
–	–	–	–	(9,359,609)	(9,359,609)	–	(9,359,609)
–	–	–	–	–	–	(6,709,448)	(6,709,448)
–	–	–	–	–	–	(1,174,751)	(1,174,751)
(₱206,977)	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱86,614,498**	₱74,130,336	₱65,291,234
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 12)	**(26,038,426)**	(19,164,345)	(16,640,597)
Depreciation and amortization (Notes 13, 14, 16, 23 and 27)	**19,370,843**	15,161,207	14,020,884
Interest expense (Note 24)	**19,194,311**	16,574,388	15,580,819
Interest income (Note 24)	**(3,881,156)**	(3,754,141)	(4,003,501)
Impairment loss on investment (Note 12)	**3,987,000**	–	–
Provisions - net (Notes 10, 14 and 23)	**2,609,386**	2,207,458	1,488,855
Dividend income (Note 21)	**(480,513)**	(421,914)	(495,582)
Unrealized foreign exchange loss - net	**220,432**	1,002,006	275,731
Gain on disposal of investments and properties - net (Notes 13 and 14)	**(193,878)**	(64,034)	(22,702)
Gain on sale of financial assets - net (Note 9)	**(27,812)**	(1,337)	(110,234)
Gain on fair value changes on derivatives - net (Note 29)	**(6,379)**	(454,941)	(296,334)
Income before working capital changes	**101,368,306**	85,214,683	75,088,573
Decrease (increase) in:			
Receivables and contract assets	**(2,848,713)**	(1,437,678)	(616,938)
Merchandise inventories	**(1,321,289)**	(4,057,592)	(1,953,451)
Other current assets	**(6,103,198)**	5,535,204	1,996,544
Land and development	**(27,669,751)**	(37,802,279)	(29,891,127)
Increase (decrease) in:			
Accounts payable and other current liabilities	**21,611,185**	15,835,135	18,509,650
Tenants' deposits and others	**(2,498,565)**	10,571,079	4,354,177
Net cash generated from operations	**82,537,975**	73,858,552	67,487,428
Income tax paid	**(16,576,112)**	(13,356,939)	(14,425,107)
Net cash provided by operating activities	**65,961,863**	60,501,613	53,062,321
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Financial assets	**3,814,634**	771,361	1,983,045
Property and equipment	**343,228**	203,564	182,366
Investment properties	**117,429**	105,524	70,301
Additions to:			
Investment properties (Note 14)	**(36,902,404)**	(27,554,245)	(25,806,496)
Property and equipment (Note 13)	**(7,446,414)**	(6,452,489)	(5,067,991)
Investments in associate companies and joint ventures (Note 12)	**(5,330,780)**	(3,849,756)	(47,832,363)
Financial assets	**(3,261,682)**	(2,463,985)	(3,272,984)
Decrease (increase) in:			
Time deposits	**25,111,241**	12,913,443	26,473,746
Other noncurrent assets	**(1,543,199)**	(28,224,945)	(11,201,733)
Dividends received	**5,558,665**	4,945,350	4,175,190
Cash from acquisition of subsidiaries, net of purchase consideration	**327,140**	–	–
Interest received	**4,048,370**	3,827,116	4,182,186
Net cash used in investing activities	**(15,163,772)**	(45,779,062)	(56,114,733)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt (Note 31)	**52,895,468**	70,787,135	55,866,308
Bank loans (Note 31)	**25,266,865**	32,199,317	59,419,602
Payments of:			
Long-term debt (Note 31)	**(64,799,259)**	(40,292,241)	(31,640,120)
Interest (Note 31)	**(22,289,039)**	(18,043,821)	(16,510,177)
Bank loans (Note 31)	**(21,376,865)**	(37,256,817)	(49,234,402)
Lease liabilities (Notes 27 and 31)	**(2,854,295)**	–	–
Dividends (Note 31)	**(20,510,816)**	(17,674,115)	(16,432,295)
Proceeds from maturity of derivatives	**395,722**	–	–
Reissuance by a subsidiary of treasury shares	**–**	585,207	158,316
Net cash provided by (used in) financing activities	**(53,272,219)**	(9,695,335)	1,627,232
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,474,128)**	5,027,216	(1,425,180)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(625,313)**	(32,191)	795,639
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**79,313,215**	74,318,190	74,947,731
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱76,213,774**	₱79,313,215	₱74,318,190

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Corporate Information

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

SMIC is 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 consolidated financial statements were authorized for issue by the Board of Directors (BOD), as approved and recommended for approval by the Audit Committee on February 28, 2020.

2. Basis of Preparation and Statement of Compliance

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

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with PFRS, which include the availment of the relief granted by the SEC under Memorandum Circular No. 14, Series of 2018, Memorandum Circular No. 3, Series of 2019 and Memorandum Circular No. 4, Series of 2020.

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

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

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

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

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

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

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

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation adjustments recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

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

Company	Principal Activities	Percentage of Ownership 2019 Direct	2019 Indirect	2018 Direct	2018 Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	**50**	**–**	50	–
SM Development Corporation and Subsidiaries (SMDC)	Real estate development	**–**	**100**	–	100
Highlands Prime, Inc. (HPI)	Real estate development	**–**	**100**	–	100
Costa del Hamilo, Inc. (Costa) and Subsidiary	Real estate development	**–**	**100**	–	100
Magenta Legacy, Inc.	Real estate development	**–**	**100**	–	100
Associated Development Corporation	Real estate development	**–**	**100**	–	100
Prime Metro Estate, Inc. and Subsidiary	Real estate development	**–**	**100**	40	60
Tagaytay Resort Development Corp	Real estate development	**–**	**100**	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	**–**	**100**	–	100
MOA Esplanade Port, Inc.	Port terminal operations	**–**	**100**	–	100
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 (Affluent) *[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 (PCPMC)	Real estate development	**–**	**100**	–	100
Mindpro, Incorporated (Mindpro)	Real estate development	**–**	**70**	–	70
A. Canicosa Holdings, Inc. (ACHI)	Real estate development	**–**	**100**	–	100
AD Canicosa Properties, Inc. (ADCPI)	Real estate development	**–**	**100**	–	100
Cherry Realty Development Corporation	Real estate development	**–**	**100**	–	91
Supermalls Transport Services, Inc.	Real estate development	**–**	**100**	–	51
Mountain Bliss Resort & Development Corp. and Subsidiary	Real estate development	**100**	**–**	100	–
Intercontinental Development Corporation (ICDC)	Real estate development	**97**	**3**	97	3
Prime Central Limited and Subsidiaries *[BVI]	Investment	**100**	**–**	100	–
Bellevue Properties, Inc.	Real estate development	**62**	**–**	62	–
Neo Subsidiaries (a)	Real estate development	**95**	**–**	95	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	**100**	**–**	100	–
Philippines Urban Living Solutions, Inc. (PULSI) (see Note 5)	Real estate development	**63**	**–**	61	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	**77**	**–**	77	–
Others					
Primebridge Holdings, Inc.	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	Investment	**99**	**–**	59	40
Neo Property Management Incorporated	Investment	**100**	**–**	100	–

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

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

(b) In October 2019, the Group's equity interest in APC was reduced to 42%. Accordingly, equity accounting was used to account for the Group's investment in APC starting October 2019 (see Note 12).

Material Partly-owned Subsidiary
The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% of SM Prime as at December 31, 2019 and 2018.

The summarized financial information of SM Prime follows:

Financial Position

	December 31	
	2019	2018
	(In Thousands)	
Current assets	**₱152,327,608**	₱127,790,263
Noncurrent assets	**514,952,066**	476,344,055
Total assets	**667,279,674**	604,134,318
Current liabilities	**95,256,780**	88,279,852
Noncurrent liabilities	**269,506,620**	236,776,504
Total liabilities	**364,763,400**	325,056,356
Total equity	**₱302,516,274**	₱279,077,962
Attributable to:		
Owners of the Parent	**₱300,916,171**	₱275,302,994
Non-controlling interests	**1,600,103**	3,774,968
	₱302,516,274	₱279,077,962

Statements of Income

	Years Ended December 31		
	2019	2018	2017
		(In Thousands)	
Revenues	**₱118,311,490**	₱104,080,565	₱90,921,850
Cost and expenses	**61,619,162**	55,753,334	50,293,058
Other charges	**7,530,334**	6,361,056	4,680,931
Income before income tax	**49,161,994**	41,966,175	35,947,861
Provision for income tax	**10,373,321**	9,055,046	7,823,398
Net income	**38,788,673**	32,911,129	28,124,463
Other comprehensive income (loss)	**(30,088)**	(6,125,029)	7,330,510
Total comprehensive income	**₱38,758,585**	₱26,786,100	₱35,454,973
Attributable to:			
Owners of the Parent	**₱38,085,601**	₱32,172,886	₱27,573,866
Non-controlling interests	**703,072**	738,243	550,597
Net income	**₱38,788,673**	₱32,911,129	₱28,124,463
Attributable to:			
Owners of the Parent	**₱38,058,471**	₱26,050,908	₱34,906,622
Non-controlling interests	**700,114**	735,192	548,351
Total comprehensive income	**₱38,758,585**	₱26,786,100	₱35,454,973
Dividends paid to non-controlling interests	**(₱633,700)**	(₱576,200)	(₱580,791)

Cash Flows

	Years Ended December 31		
	2019	2018	2017
		(In Thousands)	
Net cash provided by operating activities	**₱51,727,582**	₱45,964,414	₱45,777,407
Net cash used in investing activities	**(48,615,2404)**	(64,078,056)	(41,011,985)
Net cash provided by (used in) financing activities	**(7,310,020)**	12,633,352	14,175,986
Effect of exchange rate changes on cash and cash equivalents	**31,174**	(124,777)	229,144
Net increase (decrease) in cash and cash equivalents	**(₱4,166,508)**	(₱5,605,067)	₱19,170,552

3. Summary of Significant Accounting Policies, Changes and Improvements

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

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

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

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

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data 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 consolidated financial statements based on the fair value hierarchy described below:

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

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

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

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

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

Financial Instruments (effective January 1, 2018)

Financial Assets

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

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

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

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

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

Financial Assets at Amortized Cost (Debt Instruments)
The Group measures financial assets at amortized cost when:

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

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31, 2019 and 2018, the Group does not have any debt instrument measured at FVOCI.

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

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

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

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

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

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

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

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

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

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

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

The Group considers a financial asset in default generally when contractual payments are 120 days past due or when sales are cancelled supported by a notarized cancellation letter executed by the Group and unit buyer. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

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

Financial Liabilities

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

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

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

<u>Subsequent Measurement</u>

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in the consolidated statement of income.

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

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

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

Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

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

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

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

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

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

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under "Cumulative translation adjustment" account.

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

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

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

Financial Instruments (effective before January 1, 2018)

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

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

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

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

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

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

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

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

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

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

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

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

The Group's cash and cash equivalents, time deposits, receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account), long-term notes (included under "Other noncurrent assets" account) are classified in this category.

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

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

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

Classification of Financial Instruments between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

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

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

Derivative Financial Instruments
The Group uses derivative financial instruments such as cross-currency swaps, foreign currency call options, interest rate swaps, options and non-deliverable forwards to hedge the risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments, including bifurcated embedded derivatives, are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

Financial Assets
A financial asset is derecognized when:

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

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

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

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

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

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

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

<u>Merchandise Inventories</u>
Merchandise inventories are valued at the lower of cost or net realizable value. Cost, which includes all costs directly attributable to acquisition, such as purchase price and transport costs, is primarily determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

<u>Current Portion of Land and Development and Condominium and Residential Units for Sale</u>
Current portion of land and development and condominium and residential units for sale are stated at the lower of cost or net realizable value. Cost includes those costs incurred for development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business less costs to complete and the estimated cost to make the sale. Current portion of land and development and condominium and residential units for sale include properties that are constructed for sale in the ordinary course of business, rather than for rental or capital appreciation.

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

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

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

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

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

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

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

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

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

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

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

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

Property and Equipment

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

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

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

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

Buildings and improvements	5–25 years
Store equipment and improvements	5–10 years
Data processing equipment	5–8 years
Furniture, fixtures and office equipment	3–10 years
Machinery and equipment	5–10 years
Leasehold improvements	5–10 years or term of the lease, whichever is shorter
Transportation equipment	5–15 years

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

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

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

Investment Properties

This account consists of investment properties and the noncurrent portion of land and development. Investment properties include property held to earn rentals and for capital appreciation. Investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. Land is stated at cost less any impairment in value.

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

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

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

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

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

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

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

Construction in Progress

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

Tenants' Deposits

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

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

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

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

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

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue and Cost Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria, other than those disclosed in Note 2 to the consolidated financial statements, shall be met before revenue is recognized:

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

Sale of Cinema and Amusement Tickets. Revenue is recognized upon receipt of cash from the customers which coincides with the rendering of services.

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

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

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

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

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

Effective beginning January 1, 2018

Sale of Merchandise Inventories. Revenue from sale of goods is recognized when the transfer of control has been passed to the buyer at the time when the performance obligation has been satisfied. The performance obligation is generally satisfied when the customer purchases the goods. Payment of the transaction price is due immediately at the point the customer purchases the goods.

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

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

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

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

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

The Group availed of the deferral of adoption of the above specific provisions, except for land exclusion in the determination of POC.

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

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

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as receivables from sale of real estate, under trade receivables, is accounted for as unbilled revenue from sale of real estate.

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

The Group considers contracts for the sale of its condominium and residential units including the transfer of ownership to buyers as containing only one performance obligation. The consideration indicated in the contract to sell is fixed and without any variable component. The Group does not consider the quality assurance warranty covering its sales contracts as a separate performance obligation.

Payment commences upon signing of the contract to sell and the consideration is payable in cash or under a financing scheme entered with the customer. The financing scheme would include payment of a certain percentage of the contract price spread over a certain period at a fixed monthly payment with the remaining balance payable in full at the end of the period either through cash or external financing. The amount due for collection under the amortization schedule for each of the customer does not necessarily coincide with the progress of construction.

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

Cost of Real Estate Sold. The Group recognizes costs relating to satisfied performance obligations as these are incurred, taking into consideration the contract fulfillment assets such as land and connection fees. Cost includes the cost of land, land development, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. The aggregate cost is allocated to the saleable area, with the portion allocable to the sold area recognized as costs of real estate sold while the portion allocable to the unsold area recognized as part of real estate inventories (condominium and residential units for sale and current portion of land and development). In addition, the Group recognizes as an asset those costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

Contract Balances

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

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

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

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

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

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

The Group's contract fulfillment assets mainly pertain to land acquisition costs (included under condominium and residential units for sale and current portion of land and development).

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

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

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

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

Effective before January 1, 2018

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

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

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

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

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

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2019

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

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

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

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

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

Effective before January 1, 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new standards, amendments to standards and improvements, starting January 1, 2019. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated 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 addresses the following:

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

  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.

- Amendments to PFRS 9, *Prepayment 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 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 leases on the balance sheet.

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors shall continue to classify using the same classification principle as in PAS 17 and distinguish only between two types of leases: operating and finance leases. PFRS 16 did not have any impact on leases where the Group is the lessor.

  The Group 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 follows:

	Increase (decrease) *(In Thousands)*
ROU assets	₱32,020,254
Accruals	(3,031,686)
Prepayments	(14,583)
Deferred tax assets	1,939,123
Deferred tax liabilities	1,513,956
Lease liabilities	24,781,169

  Before the adoption of PFRS 16, the Group 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 Group 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 Group 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 incremental borrowing rate 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:

	(In Thousands)
Operating lease commitments as at December 31, 2018	₱33,217,000
Weighted average incremental borrowing rate	4.9% - 10.4%
Discounted operating lease commitments	₱24,781,000
Less: Commitments relating to short-term leases	(157)
Add: Payments in optional extension periods not recognized at beginning of year	326
Lease liability as at January 1, 2019	₱24,781,169

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

The adoption of PFRS 16 did not have any impact to the January 1, 2019 equity since the Group elected to measure the ROU assets at an amount equal to the lease liability, adjusted by the amount of any related prepaid or accrued lease payments recognized in the consolidated balance sheet immediately before the date of initial adoption.

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 Group does not expect the future adoption of these new standards and amendments to have a significant impact on the consolidated financial statements. The Group 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 judgement.

  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 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 Interpretations Committee (PIC) updates on PFRS 15 implementation Issues.* On August 27, 2019, the Group together with 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 Group 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 consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as at the reporting date.

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

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

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

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

*Property Acquisitions and Business Combinations. A*t the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services are to be provided by the subsidiary.

When the acquisition of subsidiary does not constitute a business, it is accounted for as an acquisition of a group of assets and liabilities. The purchase price of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the date of acquisition. No goodwill or deferred tax is recognized.

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

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

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

Operating Lease Commitments - Group 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.

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

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

Assessing of Control or Significant Influence of Investees

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

BDO Unibank, Inc. (BDO). The Group has 45% ownership interest in BDO. Management assessed that the Group does not have control of BDO as the Group's aggregate voting rights is not sufficient to give it power to direct the relevant activities of BDO (see Note 12).

Premium Leisure Corp. (PLC). The Group has 5% ownership interest in PLC. PLC is a subsidiary of Belle Corporation (Belle). Management assessed that the Group has significant influence over PLC through its associate, Belle (see Note 12).

Estimates and Assumptions

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

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

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

Net Realizable Value of Merchandise Inventories, Condominium and Residential Units for Sale, and Land and Development. The Group recognizes an allowance for impairment of value of merchandise inventories, condominium and residential units for sale, and land and development to value these assets at net realizable value. Impairment may be due to damage, physical deterioration, obsolescence, changes in price levels or other causes. See Notes 15 and 22 for related balances.

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

The allowance account is reviewed on a regular basis. In 2019 and 2018, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development is higher than cost, hence, the Group did not recognize any impairment loss.

Estimated Useful Life of Property and Equipment and Investment Properties (except for Right-of-use Asset). The useful life of each of the Group's property and equipment and investment properties is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the asset. It is possible, however, that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. See Notes 13 and 14 for related balances.

Impairment of Investments in Associate Companies and Joint Ventures. Impairment review of investments in associate companies and joint ventures is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 12 for related balances.

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

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

The preparation of the estimated future cash flows involves judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges. See Notes 13 and 14 for related balances.

Purchase Price Allocation in Business Combinations. The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and separate recognition of trademarks and brand names. See Note 16 for related balances.

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

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

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

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

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

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

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

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

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

5. Business Combination

Acquisition

Philippines Urban Living Solutions, Inc. (PULSI). In April 2017, the Parent Company acquired 674.9 million common shares equivalent to 61.2% equity interest in PULSI, the developer and operator of *MyTown* dormitories.

Despite the Parent 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 Parent Company did not meet the requirements to obtain control over PULSI as prescribed by PFRS 10, *Consolidated Financial Statements.*

On November 11, 2019, the Parent 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 11, 2019, PULSI was considered as a subsidiary in accordance with PFRS 3, *Business Combinations.*

The transaction was accounted for as a step acquisition under PFRS 3. The fair value of the identifiable assets and liabilities as at the date of acquisition follows:

	Fair Value *(in Thousands)*
Cash and cash equivalents	₱463,967
Receivables	11,983
Other current assets	122,975
Investment properties	4,606,817
Property and equipment (Note 13)	66,051
Other noncurrent assets	139,335
Total identifiable assets	5,411,128
Accrued expenses and other current liabilities	867,545
Deferred tax liabilities	842,532
Other noncurrent liabilities	827
Total identifiable liabilities	1,710,904
Net identifiable assets	3,700,224
Non-controlling interests	(1,358,352)
Fair value of previously held interest	(2,264,985)
Goodwill arising from the acquisition	59,940
Purchase consideration transferred	₱136,827

The cash flows from this acquisition follow:

Cash acquired	₱463,967
Purchase consideration transferred	(136,827)
Net	₱327,140

PULSI's receivables comprise mainly of rent receivables from tenants carried at cost. It is expected that the full contractual amounts as presented in the balance sheet will be collected in full.

The goodwill of ₱59.9 million represents the value of synergies expected to arise from the business combination.

From the date of acquisition, PULSI contributed ₱33.0 million of revenue and ₱2.7 million to net income. If the combination had taken place at the beginning of the year, revenue would have been ₱501,757.6 million and net income for the Group would have been ₱69,451.4 million.

6. Segment Information

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

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

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

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

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

Operating Segment Financial Data

	2019				
	Property	**Retail**	**Financial Services and Others**	**Eliminations/ Adjustments**	**Consolidated**
			(In Thousands)		
Revenues:					
External customers	**₱106,442,090**	**₱366,036,864**	**₱29,172,941**	**₱–**	**₱501,651,895**
Inter-segment	**15,127,079**	**189,391**	**3,315,815**	**(18,632,285)**	**–**
	₱121,569,169	**₱366,226,255**	**₱32,488,756**	**(₱18,632,285)**	**₱501,651,895**
Segment results:					
Income before income tax	**₱49,881,226**	**₱20,463,932**	**₱16,269,340**	**₱–**	**₱86,614,498**
Provision for income tax	**(10,508,038)**	**(6,235,716)**	**(426,430)**	**–**	**(17,170,184)**
Net income	**₱39,373,188**	**₱14,228,216**	**₱15,842,910**	**₱–**	**₱69,444,314**
Net income attributable to:					
Owners of the Parent	**₱19,166,028**	**₱9,840,717**	**₱15,561,499**	**₱–**	**₱44,568,244**
Non-controlling interests	**20,207,160**	**4,387,499**	**281,411**	**–**	**24,876,070**

	2018				
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Revenues:					
External customers	₱94,076,279	₱334,958,024	₱20,753,864	₱–	₱449,788,167
Inter-segment	14,179,779	207,805	3,003,367	(17,390,951)	–
	₱108,256,058	₱335,165,829	₱23,757,231	(₱17,390,951)	₱449,788,167
Segment results:					
Income before income tax	₱42,362,040	₱18,948,538	₱12,819,758	₱–	₱74,130,336
Provision for income tax	(9,093,080)	(6,227,332)	(255,356)	–	(15,575,768)
Net income	₱33,268,960	₱12,721,206	₱12,564,402	₱–	₱58,554,568
Net income attributable to:					
Owners of the Parent	₱16,072,906	₱8,710,519	₱12,294,900	₱–	₱37,078,325
Non-controlling interests	17,196,054	4,010,687	269,502	–	21,476,243

	2017				
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Revenues:					
External customers	₱80,875,566	₱298,797,817	₱18,274,837	₱–	₱397,948,220
Inter-segment	12,905,250	5,378	2,752,992	(15,663,620)	–
	₱93,780,816	₱298,803,195	₱21,027,829	(₱15,663,620)	₱397,948,220
Segment results:					
Income before income tax	₱36,438,790	₱17,261,621	₱11,590,823	₱–	₱65,291,234
Provision for income tax	(7,894,965)	(5,623,633)	(254,119)	–	(13,772,717)
	₱28,543,825	₱11,637,988	₱11,336,704	₱–	₱51,518,517
Net income attributable to:					
Owners of the Parent	₱13,753,617	₱8,060,075	₱11,109,763	₱–	₱32,923,455
Non-controlling interests	14,790,208	3,577,913	226,941	–	18,595,062

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

7. Cash and Cash Equivalents

This account consists of:

	2019	2018
	(In Thousands)	
Cash on hand and in banks (Note 21)	**₱19,218,912**	₱13,609,347
Temporary investments (Note 21)	**56,994,862**	65,703,868
	₱76,213,774	₱79,313,215

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. These investments earn interest at prevailing rates (see Note 24).

8. Time Deposits

This account consists of time deposits as follows:

	2019	2018
	(In Thousands)	
Current	**₱30,488**	₱25,842,829
Noncurrent	**2,412,972**	2,392,622
	₱2,443,460	₱28,235,451

The time deposits bear interest ranging from 2.0% to 3.2% in 2019 and 1.0% to 4.2% in 2018.

Noncurrent time deposits amounting to ₱2,413.0 million and ₱2,382.6 million as at December 31, 2019 and 2018, respectively, are used as collateral for some credit lines.

Interest earned from time deposits is disclosed in Note 24.

9. Financial Assets

This account consists of:

	2019	2018
	(In Thousands)	
Financial assets at FVOCI:		
Shares of stock		
Listed	**₱22,240,653**	₱23,382,060
Unlisted	**2,635,484**	2,613,690
Club shares	**12,500**	31,830
Financial assets at FVPL -		
Corporate notes	**–**	1,314,500
	24,888,637	27,342,080
Less current portion	**659,077**	639,316
Noncurrent portion	**₱24,229,560**	₱26,702,764

- Financial assets at FVOCI pertain to equity investments in shares of stock and club shares which are not held for trading and which the Group has irrevocably designated at FVOCI, as the Group considers these investments to be strategic in nature.
- Financial assets at FVPL pertain to debt instruments where the contractual cash flows are not solely principal and interest.
- Investments in corporate notes bear a fixed interest of 5.0% in 2018.
- Gain on disposal of financial assets at FVOCI amounted to ₱27.8 million and ₱1.3 million in 2019 and 2018, respectively.

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

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱11,748,980**	₱–
Share in net unrealized gain (loss) on financial assets at FVOCI of associates	**4,376,205**	(3,400,398)
Gain (loss) due to changes in fair value of financial assets at FVOCI	**24,196**	(1,876,865)
Transferred to retained earnings - realized gain on sale of financial assets at FVOCI	**(1,749,741)**	–
Effect of adoption of new accounting standards	**–**	1,703,458
Transfer from net unrealized gain on AFS investments	**–**	15,324,123
Transferred to profit or loss	**–**	(1,338)
Balance at end of year	**₱14,399,640**	₱11,748,980

Interest earned from financial assets is disclosed in Note 24.

10. Receivables and Contract Assets

This account consists of:

	2019	2018
	(In Thousands)	
Trade:		
Real estate buyers*	**₱66,679,220**	₱50,878,438
Third-party tenants	**8,469,829**	7,252,071
Related-party tenants (Note 21)	**432,513**	383,424
Others	**66,747**	124,530
Due from related parties (Note 21)	**1,079,944**	953,010
Management and service fees (Note 21)	**2,212,623**	1,244,159
Dividends (Note 21)	**610,649**	185,767
	79,551,525	61,021,399
Less allowance for ECL	**1,053,549**	1,034,040
	78,497,976	59,987,359
Less noncurrent portion of receivables from real estate buyers (Note 16)	**24,880,776**	26,232,167
Current portion	**₱53,617,200**	₱33,755,192

** Includes unbilled revenue from sale of real estate amounting to ₱59,903.0 million and ₱46,501.0 million as at December 31, 2019 and 2018, respectively.*

The terms and conditions of these receivables follow:

- Receivables from real estate buyers pertain mainly to sale of condominium and residential units at various terms of payment that are noninterest-bearing. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱7,689.0 million and ₱1,664.0 million as at December 31, 2019 and 2018, respectively, and, on with recourse basis, ₱1,986.0 million and nil as at December 31, 2019 and 2018, respectively (see Note 21). The corresponding liability from the assignment of receivables on with recourse basis bears interest ranging from 4.3% to 4.5% in 2019 and 4.5% to 6.5% in 2018. The fair value of these assigned receivables and liability approximates cost.

  The transaction price allocated to the remaining performance obligations totaling ₱11,424.0 million and ₱12,929.0 million as at December 31, 2019 and 2018, respectively, are expected to be recognized over the construction period ranging from one to five years.

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

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

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

Allowance for ECL pertains to receivables from tenants which were identified to be impaired based on specific assessment. The movements in in this account follow:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱1,034,040**	₱1,054,498
Provisions (Note 23)	**22,928**	46,606
Reversal and writeoff	**(3,419)**	(67,064)
Balance at end of year	**₱1,053,549**	₱1,034,040

The aging of receivables follow:

	2019	2018
	(In Thousands)	
Neither past due nor impaired	**₱75,132,839**	₱58,110,539
Past due but not impaired:		
31-90 days	**1,571,703**	551,833
91-120 days	**376,635**	306,219
Over 120 days	**1,416,799**	1,018,768
Impaired	**1,053,549**	1,034,040
	₱79,551,525	₱61,021,399

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

11. Other Current Assets

This account consists of:

	2019	2018
	(In Thousands)	
Land and development (Note 15)	**₱37,935,968**	₱29,486,964
Prepaid taxes and other prepayments	**13,985,109**	11,730,967
Condominium and residential units for sale (Note 15)	**6,026,426**	8,110,504
Bonds and deposits	**9,519,229**	6,601,305
Receivables from banks	**5,497,587**	4,158,765
Non-trade receivables	**4,362,489**	4,605,743
Input tax	**4,261,278**	2,439,164
Accrued interest receivable (Note 21)	**192,499**	359,714
Escrow fund (Notes 16 and 21)	**117,985**	157,719
Others	**2,780,249**	2,687,732
	₱84,678,819	₱70,338,577

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial year.
- Bonds and deposits pertain to down payments made to suppliers and contractors to cover preliminary expenses of the Group's construction projects. These are noninterest-bearing and are applied to progress billings depending on the percentage of project accomplishment.
- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 24).
- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.
- Escrow fund pertains to amounts deposited with an escrow agent, a requisite for the issuance of temporary license to sell by the Housing and Land Use Regulatory Board (HLURB), pending issuance of a license to sell and certificate of registration. Amounts deposited include all amounts received from buyers including down payments, reservation and monthly amortization, among others.

12. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

	2019	2018
	(In Thousands)	
Cost:		
Balance at beginning of year	**₱164,862,652**	₱161,012,896
Additions	**5,330,780**	3,849,756
Step acquisition (Note 5)	**(1,250,000)**	–
Reclassifications	**1,579,750**	–
Balance at end of year	**170,523,182**	164,862,652
Accumulated equity in net earnings:		
Balance at beginning of year	**101,572,595**	84,014,473
Equity in net earnings	**26,038,426**	19,164,345
Dividends received and others	**(5,503,034)**	(4,423,746)
Step acquisition (Note 5)	**(22,455)**	–
Effect of adoption of new standards	**–**	2,817,523
Balance at end of year	**122,085,532**	101,572,595
Share in other comprehensive loss of associate companies	**(7,642,912)**	(6,697,742)
Translation adjustment	**(7,164)**	57,572
	284,958,638	259,795,077
Allowance for impairment loss	**3,987,000**	–
	₱280,971,638	₱259,795,077

The associate companies and joint ventures of the Group follow:

	Percentage of Ownership				
	2019		2018		
Company	**Gross**	**Effective**	Gross	Effective	Principal Activities
Associates					
BDO Unibank, Inc. (BDO)	**47**	**45**	46	45	Financial services
China Banking Corporation (China Bank)	**23**	**23**	23	20	Financial services
Belle Corporation (Belle)	**27**	**26**	27	26	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation (Atlas)	**34**	**34**	34	34	Mining
Sodexo Benefits and Rewards Services Philippines, Inc.	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**19**	25	19	Retail
CityMall Commercial Centers, Inc.	**34**	**34**	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	**5**	**5**	5	5	Gaming
OCLP Holdings, Incorporated (OHI)	**40**	**20**	40	20	Real estate development
Feihua Real Estate (Chongqing) Company Ltd (FHREC)	**50**	**25**	50	25	Real estate development
Fitness Health & Beauty Holdings Corp.	**40**	**31**	40	31	Retail
2Go Group, Inc. (2Go)	**30**	**30**	34	34	Integrated supply chain
Neo Associates (a)	**34**	**34**	34	34	Real estate development
Goldilocks Bakeshop, Inc. (GBI)	**34**	**34**	34	34	Bakery products and other food items
Asia-Pacific Computer Technology Center, Inc.	**42**	**42**	52	52	Investment
GPAY Network, PH, Inc.	**35**	**35**	–	–	Providing electronic money through electronic instruments
Joint Ventures					
Waltermart Mall (b)	**51**	**25**	51	25	Shopping mall development
Metro Rapid Transit Service, Inc.	**51**	**25**	51	25	Transportation
ST 6747 Resources Corporation	**50**	**25**	50	25	Real estate development

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

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

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

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

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

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

	2019	2018
	(In Millions)	
Total assets	**₱3,188,858**	₱3,022,247
Total liabilities	**2,818,271**	2,694,098
Total equity	**370,587**	328,149
Proportion of the Group's ownership	**45%**	46%
	166,764	150,949
Goodwill and others	**26,201**	14,554
Carrying amount of the Group's investment	**₱192,965**	₱165,503

	2019	2018	2017
		(In Millions)	
Interest income	**₱160,572**	₱129,040	₱99,795
Interest expense	**(40,681)**	(30,748)	(18,042)
Other expenses - net	**(75,723)**	(65,653)	(53,648)
Net income	**44,168**	32,639	28,105
Other comprehensive income (loss)	**515**	(4,727)	(1,868)
Total comprehensive income	**₱44,683**	₱27,912	₱26,237
Group's share in net income	**₱20,592**	₱15,101	₱12,968
Group's share in total comprehensive income (loss)	**(₱936)**	₱10,754	₱12,845

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

	2019	2018	2017
		(In Millions)	
Share in net income	**₱5,446**	₱4,063	₱3,673
Share in other comprehensive income (loss)	**(9)**	315	315
Share in total comprehensive income	**₱5,437**	₱4,378	₱3,988

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

	2019	2018
	(In Thousands)	
BDO	**₱343,893,457**	₱280,162,825
China Bank	**15,172,742**	16,414,423
Belle	**5,183,434**	6,016,951
Atlas	**3,030,506**	3,103,238
PLC	**15,082,241**	21,168,058

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

13. Property and Equipment

The movements in this account follow:

	Buildings and Improvements	Store Equipment and Improvements	Data Processing Equipment	Furniture, Fixtures and Office Equipment	Machinery and Equipment	Leasehold Improvements	Transportation Equipment	Construction in Progress	Total
					(In Thousands)				
Cost									
As at December 31, 2017	₱12,435,886	₱3,250,294	₱7,005,457	₱9,249,821	₱7,775,635	₱17,099,137	₱827,238	₱1,226,846	₱58,870,314
Additions	495,484	137,221	650,192	984,300	1,087,083	1,089,021	399,380	1,609,808	6,452,489
Reclassifications	731,140	318,803	215,101	(640,623)	595,411	943,314	14,273	(1,311,435)	865,984
Disposals/retirements	(7,238)	(43,712)	(33,983)	(29,836)	(35,489)	(319,355)	(276,580)	(10,715)	(756,908)
As at December 31, 2018	13,655,272	3,662,606	7,836,767	9,563,662	9,422,640	18,812,117	964,311	1,514,504	65,431,879
Additions	356,889	144,070	681,626	1,284,065	864,377	1,347,570	90,239	2,677,577	7,446,413
Effect of business combination (Note 5)	–	–	750	86,517	14,443	–	1,562	–	103,272
Reclassifications	544,069	237,227	98,281	(974,418)	82,394	533,433	311	(1,459,977)	(938,680)
Disposals/retirements	(229,272)	(33,454)	(28,431)	(74,845)	(46,189)	(93,669)	(8,629)	(13,183)	(527,672)
As at December 31, 2019	**₱14,326,958**	**₱4,010,449**	**₱8,588,993**	**₱9,884,981**	**₱10,337,665**	**₱20,599,451**	**₱1,047,794**	**₱2,718,921**	**₱71,515,212**
Accumulated Depreciation and Amortization									
As at December 31, 2017	₱5,045,238	₱2,205,165	₱5,552,533	₱6,117,842	₱5,335,664	₱12,638,169	₱636,296	₱–	₱37,530,907
Depreciation and amortization (Note 23)	819,177	357,057	648,782	955,861	862,892	1,373,922	74,722	–	5,092,413
Reclassifications	14,631	42,348	30,070	(92,395)	52,707	165,661	3,137	–	216,159
Disposals/retirements	(5,766)	(41,873)	(32,274)	(25,906)	(32,862)	(310,433)	(160,153)	–	(609,267)
As at December 31, 2018	5,873,280	2,562,697	6,199,111	6,955,402	6,218,401	13,867,319	554,002	–	42,230,212
Depreciation and amortization (Note 23)	773,894	380,986	695,475	554,216	1,003,150	1,467,314	59,215	–	4,934,250
Effect of business combination (Note 5)	–	–	205	33,216	2,643	–	1,157	–	37,221
Reclassifications	(31,628)	(80,706)	(6,405)	861,310	(7,303)	(840,944)	(6,294)	–	(111,970)
Disposals/retirements	(90,774)	(15,556)	(21,913)	(23,952)	(43,342)	(91,236)	(8,601)	–	(295,374)
As at December 31, 2019	**₱6,524,772**	**₱2,847,421**	**₱6,866,473**	**₱8,380,192**	**₱7,173,549**	**₱14,402,453**	**₱599,479**	**₱–**	**₱46,794,339**
Net Book Value									
As at December 31, 2019	**₱7,802,186**	**₱1,163,028**	**₱1,722,520**	**₱1,504,789**	**₱3,164,116**	**₱6,196,998**	**₱448,315**	**₱2,718,921**	**₱24,720,873**
As at December 31, 2018	7,781,992	1,099,909	1,637,656	2,608,260	3,204,239	4,944,798	410,309	1,514,504	23,201,667

14. Investment Properties

The movements in this account follow:

	Land and Improvements	Buildings and Leasehold Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
As at December 31, 2017	₱68,319,833	₱222,001,891	₱36,167,105	₱32,958,780	₱359,447,609
Additions	4,331,055	8,484,409	3,024,922	11,713,859	27,554,245
Reclassifications	(1,450,188)	9,065,328	1,112,146	(5,889,917)	2,837,369
Translation adjustment	(5,531)	(166,451)	(12,678)	(4,949)	(189,609)
Disposals	(65,250)	(63,044)	(413,313)	(24,124)	(565,731)
As at December 31, 2018	71,129,919	239,322,133	39,878,182	38,753,649	389,083,883
Additions	3,563,225	2,334,200	1,883,218	29,121,761	36,902,404
Reclassifications	(120,439)	12,621,438	1,261,397	(14,002,546)	(240,150)
Effect of common control business combination	510,586	3,771,736	–	382,207	4,664,529
Translation adjustment	(67,417)	(1,976,026)	(157,843)	(69,323)	(2,270,609)
Disposals	(5,125)	(18,639)	(159,680)	(1,153)	(184,597)
As at December 31, 2019	**₱75,010,749**	**₱256,054,842**	**₱42,705,274**	**₱54,184,595**	**₱427,955,460**
Accumulated Depreciation and Amortization					
As at December 31, 2017	₱1,988,051	₱46,650,292	₱21,791,001	₱–	₱70,429,344
Depreciation and amortization (Note 23)	226,776	6,654,052	3,067,430	–	9,948,258
Reclassifications	(26,656)	174,997	(153,171)	–	(4,830)
Translation adjustment	(9,243)	(68,853)	(14,860)	–	(92,956)
Disposals	(25,807)	(61,055)	(373,345)	–	(460,207)
As at December 31, 2018	2,153,121	53,349,433	24,317,055	–	79,819,609
Depreciation and amortization (Note 23)	244,454	7,297,151	3,064,236	–	10,605,841
Reclassifications	7,563	(11,523)	–	–	(3,960)
Effect of common control business combination	–	57,712	–	–	57,712
Translation adjustment	(35,052)	(355,546)	(88,474)	–	(479,072)
Disposals	(3,626)	(10,454)	(105,893)	–	(119,973)
As at December 31, 2019	**₱2,366,460**	**₱60,326,773**	**₱27,186,924**	**₱–**	**₱89,880,157**
Net Book Value					
As at December 31, 2019	**₱72,644,289**	**₱195,728,069**	**₱15,518,350**	**₱54,184,595**	**₱338,075,303**
As at December 31, 2018	68,976,798	185,972,700	15,561,127	38,753,649	309,264,274

Portions of investment properties located in China with carrying value of ₱1,738.0 million and ₱1,886.0 million as at December 31, 2019 and 2018, respectively, were mortgaged as collateral to secure certain domestic borrowings in China (see Note 19).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱50,138.7 million, ₱46,222.4 million and ₱40,957.3 million in 2019, 2018 and 2017, respectively. The corresponding direct operating expenses amounted to ₱35,117.7 million, ₱32,701.3 million and ₱30,486.4 million in 2019, 2018 and 2017, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱53,780.0 million and ₱38,740.0 million as at December 31, 2019 and 2018, respectively.

Construction contracts related to the construction of the above-mentioned projects amounted to ₱55,155.0 million and ₱47,100.0 million as at December 31, 2019 and 2018, respectively, inclusive of overhead, labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱24,676.0 million and ₱15,738.0 million as at December 31, 2019 and 2018, respectively.

Interest capitalized to investment properties amounted to ₱3,143.0 million and ₱2,681.0 million as at December 31, 2019 and 2018, respectively. Capitalization rates used range from 2.4% to 5.1% in 2019 and 2.4% to 5.0% in 2018.

The fair value of substantially all investment properties amounting to ₱1,350,307.2 million was determined by accredited independent appraisers with appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date.

The significant assumptions used in the valuations follow:

Discount rate	4.0%–8.0%
Capitalization rate	4.0%–8.0%
Average growth rate	1.0%–5.0%

In conducting the appraisal, the independent appraisers mainly used the Income Approach. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.

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

15. Land and Development and Condominium and Residential Units for Sale

Land and Development

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

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

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱29,486,964**	₱62,698,284
Reclassification to land and development - noncurrent, accounted as investment property	**(7,227)**	(36,484,925)
Development cost incurred	**22,277,052**	20,358,758
Transfer from land and development - noncurrent	**1,810,966**	–
Borrowing cost capitalized	**–**	4,047
Cost of real estate sold	**(14,638,083)**	(15,390,471)
Transfer to condominium and residential units for sale	**(4,089,397)**	(1,733,711)
Reclassification and others	**3,095,693**	34,982
Balance at end of year	**₱37,935,968**	₱29,486,964

Included in land and development accounted as real estate inventories are contract fulfillment assets amounting to ₱838.0 million and ₱1,232.0 million as at December 31, 2019 and 2018, respectively, representing the unamortized portion of land cost.

The movements in "Land and development - noncurrent" accounted as investment property follow:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱53,928,447**	₱–
Reclassification from land and development - noncurrent, accounted as real estate inventories	**7,227**	36,484,925
Land acquisitions	**23,254,266**	17,443,522
Reclassification to investment property	**(432,280)**	–
Transfer to land and development - current	**(1,810,966)**	–
	₱74,946,694	₱53,928,447

Not included in land and development - current and noncurrent is the estimated cost to complete the projects amounting to ₱74,238.0 million and ₱51,097.0 million as at December 31, 2019 and 2018, respectively.

Land and development is stated at cost. There is no allowance for inventory write-down as at December 31, 2019 and 2018.

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

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱8,110,504**	₱8,829,343
Transfer from land and development	**4,089,397**	1,733,711
Development cost incurred	**–**	1,644
Cost of real estate sold	**(6,168,529)**	(2,461,799)
Repossessed inventories and others	**(4,946)**	7,605
Balance at end of year (Note 11)	**₱6,026,426**	₱8,110,504

The condominium and residential units for sale are stated at cost as at December 31, 2019 and 2018.

16. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	2019	2018
	(In Thousands)	
Goodwill	**₱17,458,431**	₱17,398,491
Less accumulated impairment loss	**91,620**	91,620
Net book value	**17,366,811**	17,306,871
Trademarks and brand names	**7,922,798**	8,163,825
	₱25,289,609	₱25,470,696

Goodwill is attributable mainly to SM Prime, Supervalue, Inc., Super Shopping Market, Inc., Neo Subsidiaries, Waltermart Supermarket, Incorporated and PULSI.

Trademarks and brand names include the following:

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

b. Rights, title and interest in the trademark of Cherry Foodarama, Inc. that was acquired in 2015 and assessed to have a definite useful life of 10 years.

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

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

Revenue. Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.

Pre-tax discount rates. Discount rates reflect the current market assessment of the risks to each CGU and are estimated based on the weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 11.1% to 15.7% and 14.8% to 16.7% as at December 31, 2019 and 2018, respectively.

Fair value less cost of disposal. The fair value of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments.

Management assessed that no reasonably possible change in pre-tax discount rates, future cash inflows and fair values would cause the carrying value of goodwill in 2019 and 2018 to materially exceed its recoverable amount.

Other Noncurrent Assets
This account consists of:

	2019	2018
	(In Thousands)	
Bonds and deposits	**₱48,643,102**	₱65,893,795
Receivables from real estate buyers* (Note 10)	**24,880,776**	26,232,167
Land use rights	**377,722**	9,976,393
Long-term notes (Notes 21 and 29)	**5,942,878**	6,739,026
Derivative assets (Note 29)	**826,315**	1,566,788
Deferred input VAT	**1,410,699**	1,689,045
Defined benefit asset (Note 25)	**95,057**	73,469
Escrow fund (Note 21)	**132,460**	132,460
Others	**2,066,636**	3,131,964
	₱84,375,645	₱115,435,107

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

- Bonds and deposits include other assets used to secure certain obligations of the Group as well as deposits for its leased properties. These are not re-measured at amortized cost.
- Long-term notes pertain to a 7-year loan amounting to US$150.7 million that was extended to Carmen Copper Corporation, a wholly owned subsidiary of Atlas, in March 2017. The loan bears a fixed interest that starts at 5.0% and escalates annually up to 10.0%, payable quarterly.
- Included under "Land use rights" account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties was not part of the consideration paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying value under "Other noncurrent assets" account and a corresponding liability equivalent to the same amount, which is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets. Portions of land use rights with carrying amount of ₱295.0 million and ₱319.0 million as at December 31, 2019 and 2018, respectively, are used as collateral to secure certain domestic borrowings in China (see Note 19).
- Escrow fund pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC, in connection with the corporate restructuring in 2013.

17. Bank Loans

This account consists of:

	2019	2018
	(In Thousands)	
Peso-denominated:		
Parent Company	**₱8,829,900**	₱4,850,000
Subsidiaries	**9,880,565**	14,035,465
	₱18,710,465	₱18,885,465

These loans bear interest ranging from 3.8% to 7.9% in 2019 and 2.9% to 6.0% in 2018.

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

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2019	2018
	(In Thousands)	
Trade	**₱85,996,862**	₱70,934,888
Accrued expenses	**11,324,572**	11,697,441
Nontrade	**9,790,527**	6,230,139
Tenants and customers' deposits*	**12,868,406**	12,699,887
Payable arising from acquisition of land	**4,769,349**	7,974,792
Payables to government agencies	**6,331,940**	4,618,623
Accrued interest (Note 21)	**2,833,930**	3,058,294
Subscriptions payable	**2,021,790**	2,021,790
Due to related parties (Note 21)	**1,031,812**	1,362,505
Lease liabilities (Note 27)	**1,534,154**	–
Gift checks redeemable and others	**2,948,422**	4,179,360
	₱141,451,764	₱124,777,719

** Includes unearned revenue from sale of real estate amounting to ₱6,023.0 million and ₱4,195.0 million as at December 31, 2019 and 2018, respectively.*

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors. These are noninterest-bearing and are normally settled on 30-to 60-day terms.
- Accrued expenses pertain to selling, general and administrative expenses which are normally settled within the next financial year.
- Nontrade payables, accrued interest, subscriptions payable and others are expected to be settled within the next financial year.
- Tenants and customers' deposits pertain to the excess of collections from real estate buyers over the related revenue recognized based on the percentage of completion method, as well as non-refundable reservation fees.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payables to government agencies mainly consist of output tax which is normally settled within the next financial year.
- The terms and conditions relating to Due to related parties are discussed in Note 21.
- Gift checks are redeemable at face value.

19. Long-term Debt

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	2019	2018
					(In Thousands)	
Parent Company						
U.S. dollar-denominated	October 17, 2012 - July 16, 2019	October 17, 2019 - June 28, 2024	Fixed 4.3%-4.9%; Floating six-month and three-month LIBOR + margin; semi-annual and quarterly	Unsecured	**₱44,921,283**	₱65,097,129
Peso-denominated	July 16, 2012 - December 27, 2018	January 14, 2019 - August 8, 2025	Fixed 4.4%-6.9%; three-month PHP BVAL + margin; semi-annual and quarterly	Unsecured	**68,498,010**	78,864,170
Subsidiaries						
U.S. dollar-denominated	April 23, 2014 - April 15, 2019	April 14, 2019 - February 28, 2024	LIBOR + spread; semi-annual	Unsecured	**39,749,299**	41,975,402
China Yuan Renminbi-denominated (Note 14)	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10.0%; quarterly	Secured	**2,670,803**	3,118,514
Peso-denominated	January 12, 2012 - December 27, 2019	January 28, 2019 - August 7, 2029	Floating BVAL + margin; Fixed 3.8%-7.6%; PDST-R2 + margin	Unsecured	**202,247,332**	179,751,217
					358,086,727	368,806,432
Less debt issue cost					**1,650,800**	1,770,189
					356,435,927	367,036,243
Less current portion					**29,077,719**	61,480,887
					₱327,358,208	₱305,555,356

BVAL – Bloomberg Valuation
LIBOR – London Interbank Offered Rate
PDST-R2 – Philippine Dealing System Treasury Reference Rate – PM
CBC – Central Bank of China

Debt Issue Cost

The movements in unamortized debt issue cost follow:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱1,770,189**	₱1,658,247
Amortization	**(582,964)**	(580,114)
Additions	**463,575**	692,056
Balance at end of year	**₱1,650,800**	₱1,770,189

Repayment Schedule

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

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱29,089,674	₱11,955	₱29,077,719
Over 1 year to 5 years	298,882,114	1,606,667	297,275,447
Over 5 years	30,114,939	32,178	30,082,761
	₱358,086,727	₱1,650,800	₱356,435,927

Covenants

The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. SM Prime's loan covenants include adherence to certain financial ratios namely: (1) current ratio of not less than 1:1, (2) debt to equity ratio of not more than 75:25, and (3) interest coverage ratio of not less than 2.5x; and, certain restrictions with respect to material change in ownership or control. As at December 31, 2019 and 2018, the Group is in compliance with the terms of its debt covenants.

20. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2019	2018
Authorized - 10 par value per share	**2,790,000,000**	2,790,000,000
Issued and subscribed	**1,204,582,867**	1,204,582,867

As at December 31, 2019 and 2018, the Parent Company is compliant with the minimum public float as required by the PSE.

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

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

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

b. Redeemable preferred shares

	Number of Shares	
	2019	2018
Authorized - 10 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.

Equity Adjustments from Common Control Transactions

Equity adjustments from common control transactions include the following:

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates in 2016.
- SM Prime common control business acquisitions in 2016 and 2017.
- These acquisitions were considered as a combination of businesses under common control for which the pooling of interests method was applied in the preparation of the consolidated financial statements.

Retained Earnings

- Appropriated

Following are the appropriations approved by the BOD:

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

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
		(In Thousands)
Debt service	2020 - 2023	₱27,000,000
Investments	2020 - 2021	10,000,000
		₱37,000,000

- Unappropriated

The Parent Company's cash dividend declarations in 2019 and 2018 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 24, 2019	**May 9, 2019**	**May 23, 2019**	**₱9.12**	**₱10,985,796**
April 25, 2018	May 10, 2018	May 24, 2018	8.20	9,877,580

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱237,286.0 million and ₱202,669.4 million as at December 31, 2019 and 2018, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

The retained earnings of the Parent Company available for dividend declaration amounted to ₱16,330.0 million and ₱17,196.9 million as at December 31, 2019 and 2018, respectively.

21. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The significant transactions with related parties follow:

- Rent

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

- Management and Service Fees

The Parent Company and SM Retail receive management and service fees from retail entities under common stockholders for management, consultancy, manpower and other services.

- Dividend Income

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

- Cash Placements and Loans

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

- Notes Receivable

The Group has certain notes receivable from Carmen Copper Corporation (see Notes 16 and 28).

- Others

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

The related party transactions and outstanding balances follow:

	Transaction Amount			Outstanding Amount			
	2019	2018	2017	**2019**	2018	Terms	Conditions
			(In Thousands)				
Banking Group							
Cash placement and investment in marketable securities				**₱60,819,475**	₱89,922,969	Interest-bearing	Unsecured; no impairment
Interest receivable				**96,400**	227,606	–	–
Interest income	**₱2,738,310**	₱2,253,257	₱2,401,642			–	–
Interest-bearing debt				**25,787,720**	31,446,016	Interest-bearing	Unsecured
Interest payable				**85,185**	65,477	–	–
Interest expense	**1,885,429**	1,441,884	984,569			–	–
Rent receivable				**130,907**	126,809	Noninterest-bearing	Unsecured; no impairment
Rent income	**1,018,963**	943,474	856,149			–	–
Receivable financed	**7,689,986**	1,663,822	4,923,847			Without recourse	Unsecured
Dividends receivable				**13,462**	2,587	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits				**17,722,250**	18,403,000	Interest-bearing 4.5%	Unsecured; no impairment
Management and service fee receivable				**16,882**	14,469	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**2,799**	4,205	7,892			–	–
Escrow fund				**250,445**	290,179	Interest-bearing	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				**301,606**	256,615	Noninterest-bearing	Unsecured; no impairment
Rent income	**2,144,633**	1,926,478	1,746,184			–	–
Management and service fee receivable				**1,938,102**	937,255	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**1,713,152**	1,233,740	489,437			–	–
Due from related parties				**1,079,944**	953,010	Noninterest-bearing	Unsecured; no impairment
Due to related parties				**1,031,812**	1,362,505	Noninterest-bearing	Unsecured
Dividend receivable				**369,988**	–	Noninterest-bearing	Unsecured
Interest receivable				**9,905**	9,360	–	–
Interest income	**387,437**	345,700	366,183			–	–
Notes receivable				**5,942,878**	6,739,026	Interest-bearing 5.0% to 10.0%	Unsecured; no impairment

Terms and Conditions of Transactions with Related Parties
The Group did not make any provision for impairment loss relating to amounts owed by related parties.

Compensation of Key Management Personnel
The aggregate compensation and benefits relating to key management personnel in 2019, 2018 and 2017 consist of short-term employee benefits amounting to ₱3,270.9 million, ₱2,544.5 million and ₱2,043.7 million, respectively, and post-employment benefits amounting to ₱372.7 million, ₱338.2 million and ₱279.9 million, respectively.

22. Cost of Merchandise Sales

This account consists of:

	2019	2018	2017
		(In Thousands)	
Merchandise inventories at beginning of year	**₱31,836,333**	₱27,778,741	₱25,825,290
Purchases	**263,755,950**	242,959,699	216,448,154
Total goods available for sale	**295,592,283**	270,738,440	242,273,444
Less merchandise inventories at end of year	**33,157,622**	31,836,333	27,778,741
	₱262,434,661	₱238,902,107	₱214,494,703

23. Selling, General and Administrative Expenses

This account consists of:

	2019	2018	2017
		(In Thousands)	
Personnel cost (Note 21)	**₱29,924,102**	₱23,948,881	₱19,725,683
Depreciation and amortization (Notes 13, 14, 16 and 27)	**19,370,843**	15,161,207	14,020,884
Utilities	**18,028,601**	18,048,050	15,691,055
Taxes and licenses	**9,714,573**	9,783,825	8,816,366
Outside services	**7,048,795**	8,339,162	8,157,459
Marketing and selling	**6,803,530**	5,847,641	5,166,973
Rent (Note 27)	**4,474,401**	7,668,449	6,723,855
Repairs and maintenance	**3,067,465**	2,977,334	2,791,300
Supplies	**2,474,260**	2,584,725	2,363,417
Provisions - net (Note 10)	**2,609,386**	2,207,458	1,488,855
Transportation and travel	**1,179,285**	1,152,212	1,034,751
Pension (Note 25)	**1,145,678**	962,405	667,572
Insurance	**864,113**	807,540	734,322
Data processing	**788,316**	664,778	614,141
Professional fees	**311,659**	579,945	444,687
Entertainment, representation and amusement	**378,813**	519,664	373,296
Communications	**343,261**	353,108	333,149
Donations	**359,975**	348,486	252,540
Management fees (Note 21)	**197,555**	183,884	207,180
Others	**4,173,320**	4,280,945	2,734,945
	₱113,257,931	₱106,419,699	₱92,342,430

24. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2019	2018	2017
		(In Thousands)	
Interest income on:			
Time deposits and other noncurrent assets (Notes 8 and 16)	**₱1,221,445**	₱1,551,959	₱1,967,629
Cash in banks and temporary investments (Note 7)	**1,990,315**	1,706,201	1,137,524
Financial assets (Note 9)	**–**	65,095	340,984
Others (Note 11)	**669,396**	430,886	557,364
	₱3,881,156	₱3,754,141	₱4,003,501
Interest expense on:			
Long-term debt (Note 19)	**₱15,737,919**	₱14,857,203	₱13,217,491
Bank loans (Note 17)	**1,401,349**	1,399,546	819,017
Lease liabilities (Note 27)	**1,676,045**	–	–
Others	**378,998**	317,639	1,544,311
	₱19,194,311	₱16,574,388	₱15,580,819

25. Pension Benefits

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

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

	2019	2018	2017
		(In Thousands)	
Current service cost	**₱1,050,358**	₱959,134	₱728,182
Net interest cost (income)	**98,138**	2,681	(12,097)
Past service cost - curtailment	**(2,818)**	590	(48,513)
	₱1,145,678	₱962,405	₱667,572

Changes in the net defined benefit liability and asset follow:

- Net Defined Benefit Liability

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
		(In Thousands)		
As at December 31, 2017	₱4,154,578	₱3,538,089	₱–	₱616,489
Net benefit expense (Note 23):				
Current service cost	796,527	–	–	796,527
Net interest cost	406,544	395,213	193	11,524
	1,203,071	395,213	193	808,051
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(713,607)	–	713,607
Actuarial changes arising from:				
Changes in financial assumptions	(1,810,481)	–	–	(1,810,481)
Changes in demographic assumptions	266,954	–	–	266,954
Experience adjustment	2,055,346	–	–	2,055,346
Others	–	–	(1,644)	(1,644)
	511,819	(713,607)	(1,644)	1,223,782
Reclassifications from defined benefit assets	2,889,077	3,038,695	–	(149,618)
Actual contributions	–	981,148	–	(981,148)
Benefits paid	(393,096)	(393,096)	–	–
Transfer to related parties	6,670	6,670	–	–
Other adjustments	7,965	590	1,451	8,826
As at December 31, 2018	8,380,084	6,853,702	–	1,526,382
Net benefit expense (Note 23):				
Current service cost	**1,008,560**	**–**	**–**	**1,008,560**
Net interest cost	**743,511**	**643,614**	**108**	**100,005**
	1,752,071	**643,614**	**108**	**1,108,565**
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**(8,581)**	**–**	**8,581**
Actuarial changes arising from:				
Changes in financial assumptions	**2,436,454**	**–**	**–**	**2,436,454**
Changes in demographic assumptions	**17,266**	**–**	**–**	**17,266**
Experience adjustment	**657,913**	**–**	**–**	**657,913**
Others	**–**	**–**	**(1,689)**	**(1,689)**
	3,111,633	**(8,581)**	**(1,689)**	**3,118,525**
Reclassifications from defined benefit assets	**827,328**	**1,153,704**	**–**	**(326,376)**
Effect of common control business combination (Note 5)	**277**	**–**	**–**	**277**
Actual contributions	**–**	**1,607,666**	**–**	**(1,607,666)**
Benefits paid	**(440,647)**	**(434,477)**	**–**	**(6,170)**
Transfer to related parties	**(9,221)**	**(9,221)**	**–**	**–**
Other adjustments	**257,003**	**–**	**1,581**	**258,584**
As at December 31, 2019	**₱13,878,528**	**₱9,806,407**	**₱–**	**₱4,072,121**

Net Defined Benefit Asset

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized Due to Asset Limit	Defined Benefit Liability (Asset)
		(In Thousands)		
As at December 31, 2017	₱4,002,879	₱4,379,341	₱14	(₱376,448)
Net benefit expense (Note 23):				
Current service cost	162,607	–	–	162,607
Net interest cost (income)	72,688	83,045	1,514	(8,843)
Past service cost - curtailment	590	–	–	590
	235,885	83,045	1,514	154,354
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(162,462)	–	162,462
Actuarial changes arising from:				
Changes in financial assumptions	(293,471)	–	–	(293,471)
Changes in demographic assumptions	(1,827)	–	–	(1,827)
Experience adjustment	188,577	–	–	188,577
Others	–	–	33	33
	(106,721)	(162,462)	33	55,774
Reclassifications from defined benefit liabilities	(2,766,690)	(3,035,117)	–	268,427
Effect of common control business combination (Note 5)	23,496	16,604	–	6,892
Actual contributions	–	196,152	–	(196,152)
Benefits paid	(33,148)	(33,148)	–	–
Transfer from the plan	839	839	–	–
Amount not recognized due to asset limit	–	–	15,250	15,250
Other adjustments	–	–	(1,566)	(1,566)
As at December 31, 2018	1,356,540	1,445,254	15,245	(73,469)
Net benefit expense (Note 23):				
Current service cost	**41,798**	**–**	**–**	**41,798**
Net interest cost (income)	**20,879**	**23,813**	**1,067**	**(1,867)**
Past service cost - curtailment	**(2,818)**	**–**	**–**	**(2,818)**
	59,859	**23,813**	**1,067**	**37,113**
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**6,519**	**–**	**(6,519)**
Actuarial changes arising from:				
Changes in financial assumptions	**3,759**	**–**	**–**	**3,759**
Changes in demographic assumptions	**(120)**	**–**	**–**	**(120)**
Experience adjustment	**(9,540)**	**–**	**–**	**(9,540)**
Others	**–**	**–**	**(3,529)**	**(3,529)**
	(5,901)	**6,519**	**(3,529)**	**(15,949)**
Reclassifications from defined benefit liabilities	**(851,621)**	**(1,147,177)**	**–**	**295,556**
Actual contributions	**–**	**104,393**	**–**	**(104,393)**
Benefits paid	**(6,165)**	**(6,165)**	**–**	**–**
Transfer from the plan	**295**	**295**	**–**	**–**
Amount not recognized due to asset limit	**–**	**–**	**11,299**	**11,299**
Other adjustments	**(232,426)**	**–**	**(12,788)**	**(245,214)**
As at December 31, 2019	**₱320,581**	**₱426,932**	**₱11,294**	**(₱95,057)**

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

	2019	2018
Discount rate	**3.8%-7.7%**	5.0%-8.0%
Future salary increases	**2.0%-9.0%**	2.0%-10.0%

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

	2019	2018
	(In Thousands)	
Cash and cash equivalents	**₱485,544**	₱816,168
Investment in debt and other securities	**2,435,008**	2,214,942
Investment in common trust funds	**3,852,852**	2,720,038
Investment in equity securities	**143,261**	200,046
Investment in government securities	**3,257,911**	2,298,150
Others	**58,763**	49,612
	₱10,233,339	₱8,298,956

- Cash and cash equivalents include regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.0% to 7.5% and 4.0% to 8.8% in 2019 and 2018, respectively. These have maturities from February 2020 to October 2026 and May 2019 to October 2025 in 2019 and 2018, respectively.
- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investment in government securities consists of retail treasury bonds. These bonds bear interest ranging from 3.3% to 8.8% and 2.1% to 8.8% in 2019 and 2018, respectively. These bonds have maturities from February 2020 to May 2030 and February 2019 to May 2030 in 2019 and 2018, respectively.
- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

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

	2019	2018
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱485,544**	₱816,168
Investment in common trust funds	**3,852,852**	2,720,038
Transactions:		
Interest income from cash and cash equivalents	**183,328**	11,702
Gains (loss) from investment in common trust funds	**110,455**	(15,627)

The Group expects to contribute about ₱1,913.2 million to its Pension Plan in 2020.

The sensitivity analysis below has been determined based on reasonably possible changes in each significant assumption on the defined benefit obligation as at December 31, 2019 and 2018, with all other assumptions held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
	(In Thousands)	
2019		
Discount rates	**50**	**(₱554,688)**
	(50)	**541,759**
Future salary increases	**100**	**1,101,148**
	(100)	**(1,607,872)**
No attrition rate	**–**	**2,157,892**
2018		
Discount rates	50	(₱331,311)
	(50)	346,601
Future salary increases	100	972,807
	(100)	(815,430)
No attrition rate	–	1,921,376

The average duration of the Group's defined benefit obligation is 3 to 28 years in 2019 and 4 to 28 years in 2018.

The maturity analysis of the undiscounted benefit payments follows:

	2019	2018
	(In Thousands)	
Year 1	**₱1,614,943**	₱717,315
Year 2	**548,903**	379,992
Year 3	**379,677**	466,365
Year 4	**479,300**	372,793
Year 5	**476,010**	421,637
Year 6 -10	**3,120,444**	2,575,923

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

26. Income Tax

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

	2019	2018
	(In Thousands)	
Deferred tax assets:		
Excess of fair values over cost of investment properties	**₱1,151,366**	₱1,167,853
NOLCO	**413,026**	508,314
Lease liabilities	**7,717,920**	–
Accrued leases	**749,979**	651,103
Provision for doubtful accounts and others	**1,177,356**	807,565
Unamortized past service cost and defined benefit liability	**1,009,245**	220,270
MCIT	**17,088**	3,394
	12,235,980	3,358,499
Deferred tax liabilities:		
Appraisal increment on investment property	**3,013,880**	3,088,393
ROU assets	**7,319,668**	–
Trademarks and brand names	**1,879,000**	1,879,000
Capitalized interest	**1,768,391**	1,807,409
Unrealized gross profit on sale of real estate	**3,935,005**	2,011,975
Excess of fair values over cost of equity instruments	**125,084**	273,146
Unamortized past service cost and defined benefit asset	**186,000**	35,853
Accrued/deferred rent income	**114,875**	107,640
Others	**377,003**	239,790
	18,718,906	9,443,206
Net deferred tax liabilities	**₱6,482,926**	₱6,084,707

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

	2019	2018
	(In Thousands)	
Deferred tax assets	**₱3,121,117**	₱2,726,155
Deferred tax liabilities	**9,604,043**	8,810,862
	₱6,482,926	₱6,084,707

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱5,356.6 million and ₱4,429.6 million as at December 31, 2019 and 2018, respectively.

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

	2019	2018	2017
Statutory income tax rate	**30%**	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	**(9)**	(8)	(8)
Interest income subjected to final tax	**(1)**	(2)	(2)
Others	**–**	1	1
Effective income tax rate	**20%**	21%	21%

27. Lease Agreements

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

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

	2019	2018
	(In Millions)	
Within one year	**₱6,778**	₱6,944
After one year but not more than five years	**19,188**	18,729
More than five years	**6,520**	6,517
	₱32,486	₱32,190

As Lessee. The Group leases certain parcels of land where some of its malls are situated. The terms of the lease are for periods ranging from fifteen to fifty years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of gross rental income or a certain fixed amount, whichever is higher.

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

The rollforward analysis of ROU assets follows:

	Land Use Rights	Office/Store Space	Total
		(In Thousands)	
Cost			
As at January 1, 2019, as previously reported	₱–	₱–	₱–
Effect of adoption of PFRS 16 (Note 3)	18,293,095	13,727,159	32,020,254
As at January 1, 2019, as restated	18,293,095	13,727,159	32,020,254
Additions	3,000,000	5,531,628	8,531,628
Reclassifications	145,995	1,033,071	1,179,066
Translation adjustment	(481,794)	–	(481,794)
Disposals	(2,073)	–	(2,073)
As at December 31, 2019	₱20,955,223	₱20,291,858	₱41,247,081
Accumulated Depreciation and Amortization			
As at January 1, 2019	₱–	₱–	₱–
Depreciation and amortization (Note 23)	510,196	3,077,734	3,587,930
Translation adjustment	(4,415)	–	(4,415)
Disposals	(610)	–	(610)
As at December 31, 2019	₱505,171	₱3,077,734	₱3,582,905
Net Book Value			
As at December 31, 2019	₱20,450,052	₱17,214,124	₱37,664,176

Following are the amounts recognized in the consolidated statement of income for the year ended December 31, 2019:

	(In Thousands)
Depreciation of ROU assets	₱3,587,930
Interest expense on lease liabilities	1,676,045

The rollforward analysis of lease liabilities follows:

	(In Thousands)
As at January 1, 2019, as previously reported	₱–
Effect of adoption of PFRS 16 (Note 3)	24,781,169
As at January 1, 2019, as restated	24,781,169
Additions	5,531,627
Interest expense (Note 24)	1,676,045
Payments	(2,854,295)
As at December 31, 2019	₱29,134,546

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

The future minimum lease payables under the non-cancellable leases as at December 31 follow:

	2019	2018
	(In Millions)	
Within one year	**₱4,565**	₱2,470
After one year but not more than five years	**12,954**	4,283
More than five years	**29,350**	26,464
	₱46,869	₱33,217

Tenant's deposits amounted to 23,607.1 million and 19,774.5 million as at December 31, 2019 and 2018, respectively.

28. Financial Risk Management Objectives and Policies

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

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

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

- *Interest rate risk.* Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly done at intervals of three or six months.
- *Foreign currency risk.* The Group's exposure to foreign currency risk arises as the Parent Company and SM Prime have significant investments and debt issuances which are denominated in U.S. Dollars and China Yuan Renminbi.
- *Liquidity risk.* Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.
- *Credit risk.* Refers to the risk that a borrower will default on any type of debt by failing to make the required payments.
- *Equity price risk.* The Group's exposure to equity price risk pertains to its investments in quoted equity shares which are classified as equity investments at FVOCI in the consolidated balance sheets. Equity price risk arises from changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

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

Interest Rate Risk

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

The Group maintains a conservative financing strategy and has preference for longer tenor credit with fixed interest rate that matches the nature of its investments. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps and cross-currency swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed notional amount. The interest rate swaps economically hedge the underlying debt obligations. The cross-currency swaps were designated by the Group under cash flow hedge accounting.

As at December 31, 2019 and 2018, after taking into account the effect of the swaps, approximately 79.0% and 81.1%, respectively of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates.

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

	Increase (Decrease) in Basis Points	Effect on Income Before Tax
	(In Millions)	
2019	**100**	**(₱172.7)**
	50	**(86.4)**
	(100)	**172.7**
	(50)	**86.4**
2018	100	(236.3)
	50	(118.2)
	(100)	236.3
	(50)	118.2

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

Foreign Currency Risk

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

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

	2019		2018	
	US$	**PhP**	US$	PhP
		(In Thousands)		
Current assets:				
Cash and cash equivalents	**$10,003**	**₱506,525**	$5,825	₱306,275
Time deposits			491,275	25,831,265
Receivables and contract assets	**1,023**	**51,800**	55,025	2,893,228
Noncurrent assets:				
Time deposits	**361,896**	**18,324,621**	21,713	1,141,652
Other noncurrent assets	**136,949**	**6,934,428**	514,749	27,065,524
Total assets	**509,871**	**25,817,374**	1,088,587	57,237,944
Current liabilities:				
Current portion of long-term debt			495,680	26,062,856
Accounts payable and other current liabilities	**1,223**	**61,939**	5,607	294,821
Noncurrent liabilities:				
Long-term debt - net of current portion	**475,028**	**24,053,060**	528,424	27,784,556
Total liabilities	**476,251**	**24,114,999**	1,029,711	54,142,233
Net	**$33,620**	**₱1,702,375**	$58,876	₱3,095,711

As at December 31, 2019 and 2018, approximately 23.1% and 28.4%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The Group recognized net foreign exchange gain (loss) of ₱561.7 million gain, ₱182.5 million loss and ₱698.7 million gain in 2019, 2018 and 2017, respectively. This resulted from movements in the closing rate of U.S. dollar against the Philippine peso as follows:

	U.S. Dollar to Peso
December 31, 2019	**₱50.64**
December 31, 2018	52.58
December 31, 2017	49.93

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

	Appreciation (Depreciation) of Peso	Effect on Income Before Tax
	(In Millions)	
2019	**1.50**	**₱50.4**
	1.00	**33.6**
	(1.50)	**(50.4)**
	(1.00)	**(33.6)**
2018	1.50	₱88.3
	1.00	58.9
	(1.50)	(88.3)
	(1.00)	(58.9)

Liquidity Risk

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

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

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

	2019	2018
	(In Thousands)	
Cash and cash equivalents	**₱76,213,774**	₱79,313,215
Current portion of time deposits	**30,488**	25,842,829

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

	2019			
	Less than 1 Year	**1 to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Bank loans	**₱18,710,465**	**₱–**	**₱–**	**₱18,710,465**
Accounts payable and other current liabilities*	**122,251,417**	**–**	**–**	**122,251,417**
Long-term debt (including current portion)**	**37,745,146**	**336,519,185**	**96,164,360**	**470,428,691**
Derivative liabilities**	**–**	**1,966,090**	**–**	**1,966,090**
Dividends payable	**4,204,962**	**–**	**–**	**4,204,962**
Lease liabilities	**3,859,945**	**12,334,377**	**25,810,461**	**42,004,783**
Tenants' deposits**	**297,039**	**21,306,522**	**64,830**	**21,668,391**
Other noncurrent liabilities***	**–**	**22,775,561**	**–**	**22,775,561**
	₱187,068,974	**₱394,901,735**	**₱122,039,651**	**₱704,010,360**

**Excluding payables to government agencies of ₱6,331.9 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱5,086.4 million.*

	2018			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
		(In Thousands)		
Bank loans	₱18,885,465	₱–	₱–	₱18,885,465
Accounts payable and other current liabilities*	107,459,209	–	–	107,459,209
Long-term debt (including current portion)**	72,701,164	268,546,245	93,842,363	435,089,772
Derivative liabilities**	–	335,008	–	335,008
Dividends payable	3,906,476	–	–	3,906,476
Tenants' deposits **	299,939	21,688,833	62,911	22,051,683
Other noncurrent liabilities ***	148,772	14,251,063	–	14,399,835
	₱203,401,025	₱304,821,149	₱93,905,274	₱602,127,448

**Excluding payables to government agencies of ₱4,618.6 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱3,432.6 million.*

Credit Risk

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

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

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

As at December 31, 2019 and 2018, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets

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

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

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

	2019			2018		
	High Quality	**Standard Quality**	**Total**	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	**₱74,274,369**	**₱–**	**₱74,274,369**	₱77,583,440	₱–	₱77,583,440
Time deposits including noncurrent portion	**2,443,460**	**–**	**2,443,460**	28,235,451	–	28,235,451
Financial assets	**22,253,153**	**2,635,485**	**24,888,638**	24,728,390	2,613,690	27,342,080
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	**46,018,028**	**8,873,608**	**54,891,636**	30,230,611	7,610,927	37,841,538
Advances and other receivables - net (includes non-trade receivables, bonds and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)**	**21,431,159**	**–**	**21,431,159**	15,451,092	–	15,451,092
Escrow fund	**250,445**	**–**	**250,445**	290,179	–	290,179
Other noncurrent assets:						
Bonds and deposits	**17,722,250**	**–**	**17,722,250**	18,403,000	–	18,403,000
Long-term notes	**5,942,878**	**–**	**5,942,878**	6,739,026	–	6,739,026
Derivative assets (including noncurrent portion)	**826,315**	**–**	**826,315**	1,566,788	–	1,566,788
	₱191,162,057	**₱11,509,093**	**₱202,671,150**	₱203,227,977	₱10,224,617	₱213,452,594

**Excluding non-financial assets amounting to ₱20,268.6 million and ₱20,269.0 million as at December 31, 2019 and 2018, respectively.*
***Excluding non-financial assets amounting to ₱449.3 million and ₱274.4 million as at December 31, 2019 and 2018, respectively.*

Equity Price Risk

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

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

	Change in Equity Price	Effect on Equity
		(In Millions)
2019	**+2.86%**	**₱838.5**
	-2.86%	**(838.5)**
2018	+1.78%	621.1
	-1.78%	(621.1)

Capital Management

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

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

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

Net Gearing Ratio

	2019	2018
	(In Thousands)	
Bank loans	**₱18,710,465**	₱18,885,465
Long-term debt (current and noncurrent)	**356,435,927**	367,036,243
Less:		
Cash and cash equivalents (excluding cash on hand)	**(74,274,369)**	(77,583,440)
Time deposits (current and noncurrent)	**(2,443,460)**	(28,235,451)
Net interest-bearing debt (a)	**298,428,563**	280,102,817
Total equity	**536,151,478**	492,290,012
Net interest-bearing debt and total equity (b)	**₱834,580,041**	₱772,392,829
Gearing ratio - net (a/b)	**36%**	36%

Gross Gearing Ratio

	2019	2018
	(In Thousands)	
Bank loans	**₱18,710,465**	₱18,885,465
Long-term debt	**356,435,927**	367,036,243
Total interest-bearing debt (a)	**375,146,392**	385,921,708
Total equity	**536,151,478**	492,290,012
Total interest-bearing debt and total equity (b)	**₱911,297,870**	₱878,211,720
Gearing ratio - gross (a/b)	**41%**	44%

29. Financial Instruments

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

			2019		
	Carrying Value	**Fair Value**	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	**₱22,240,653**	**₱22,240,653**	**₱22,240,653**	**₱–**	**₱–**
Unlisted shares of stock	**2,635,484**	**2,635,484**	**–**	**–**	**2,635,484**
Club shares	**12,500**	**12,500**	**–**	**12,500**	**–**
Derivative assets	**826,315**	**826,315**	**–**	**826,315**	**–**
	25,714,952	**25,714,952**	**22,240,653**	**838,815**	**2,635,484**
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	**2,412,972**	**2,386,637**	**–**	**–**	**2,386,637**
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**
	26,078,100	**29,728,523**	**–**	**–**	**29,728,523**
	₱51,793,052	**₱55,443,475**	**₱22,240,653**	**₱838,815**	**₱32,364,007**
Liabilities Measured at Fair Value					
Derivative liabilities	**₱1,966,090**	**₱1,966,090**	**₱–**	**₱1,966,090**	**₱–**
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	**327,358,208**	**331,463,306**	**–**	**–**	**331,463,306**
Lease liabilities - noncurrent portion	**27,600,392**	**38,144,838**	**–**	**–**	**38,144,838**
Tenants' deposits and others*	**35,607,059**	**32,355,186**	**–**	**–**	**32,355,186**
	390,565,659	**401,963,330**	**–**	**–**	**401,963,330**
	₱392,531,749	**₱403,929,420**	**₱–**	**₱1,966,090**	**₱401,963,330**

**Excluding nonfinancial liabilities amounting to ₱5,086.4 million.*

	2018				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVOCI					
Listed shares of stock	₱23,382,060	₱23,382,060	₱23,382,060	₱–	₱–
Unlisted shares of stock	2,613,690	2,613,690	–	–	2,613,690
Club shares	31,830	31,830	–	31,830	–
Financial assets at FVPL	1,314,500	1,314,500	1,314,500	–	–
Derivative assets	1,566,788	1,566,788	–	1,566,788	–
	28,908,868	28,908,868	24,696,560	1,598,618	2,613,690
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,392,622	2,339,327	–	–	2,339,327
Receivables and contract asssets - net (including noncurrent portion of receivables from real estate buyers)	59,987,359	57,604,083	–	–	57,604,083
Other noncurrent assets:					
Bonds and deposits	18,403,000	19,800,272	–	–	19,800,272
Long-term notes	6,739,026	8,489,300	–	–	8,489,300
	87,522,007	88,232,982	–	–	88,232,982
	₱116,430,875	₱117,141,850	₱24,696,560	₱1,598,618	₱90,846,672
Liabilities Measured at Fair Value					
Derivative liabilities	₱335,008	₱335,008	₱–	₱335,008	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	305,555,356	288,274,800	–	–	288,274,800
Tenants' deposits and others*	36,000,150	32,026,177	–	–	32,026,177
	341,555,506	320,300,977	–	–	320,300,977
	₱341,890,514	₱320,635,985	₱–	₱335,008	₱320,300,977

**Excluding nonfinancial liabilities amounting to ₱3,432.6 million.*

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
Noncurrent portion of time deposits	**4.41% - 4.74%**	2.0% - 7.9%
Noncurrent portion of receivables from real estate buyers	**–**	7.0%
Long-term notes included under "Other noncurrent assets" account	**1.69% - 1.94%**	2.6% - 2.8%
Tenants' deposits	**3.12%-4.74%**	5.3% - 7.9%

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

Debt	Fair Value Assumptions
Fixed Rate	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.7% to 6.5% and 2.6% to 8.5% 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. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 3.0% to 7.0% and 3.8% to 9.0% as at December 31, 2019 and 2018, respectively.

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

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱1,231,780**	₱4,564,032
Net changes in fair value during the year	**(2,223,363)**	(1,280,800)
Fair value on settled derivatives	**(148,192)**	(2,051,452)
Balance at end of year	**(₱1,139,775)**	₱1,231,780

Derivative Instruments Accounted for as Cash Flow Hedges
As at December 31, 2019, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:

Cross-currency swaps:

	Notional Amount									
	(In US$)	*(In PhP)*	*(In CN¥)*	Principal	Fair Value	Receive	Pay	US$:PhP	US$: CN¥	Maturity
			(In Thousands)							
Parent:										
	$53,000	₱2,761,300		₱2,683,655	(₱138,710)	LIBOR + spread	5.3%	₱52.10		March 6, 2023
	100,000	5,210,000		5,063,500	(400,093)	LIBOR + spread	5.9%	52.10		April 16, 2023
	56,159	3,000,000		2,843,598	(338,579)	LIBOR + spread	6.1%	53.42		July 26, 2023
	100,000	5,140,000		5,063,500	(205,908)	LIBOR + spread	5.5%	51.40		June 28, 2024
	100,000	5,115,000		5,063,500	(170,640)	LIBOR + spread	5.4%	51.15		June 28, 2024
SM Prime:										
	50,000	2,666,500		2,531,750	(321,329)	LIBOR + spread	6.4%	53.33		June 14, 2023
	60,000	3,199,200		3,038,100	(390,289)	LIBOR + spread	6.4%	53.32		June 14, 2023
	25,000		¥172,100	1,265,875	(38,773)	LIBOR + spread	5.4%		¥6.884	March 27, 2022
	25,000		172,300	1,265,875	(36,253)	LIBOR + spread	5.4%		6.892	March 27, 2022
	50,000		327,315	2,531,750	77,144	LIBOR + spread	5.0%		6.546	June 30, 2022
	50,000		335,940	2,531,750	60,099	LIBOR + spread	4.0%		6.719	February 28, 2024
	50,000		335,725	2,531,750	85,546	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		335,750	2,531,750	59,395	LIBOR + spread	3.9%		6.715	February 28, 2024
	50,000		334,400	2,531,750	54,713	LIBOR + spread	3.9%		6.688	February 28, 2024
	50,000		335,750	2,531,750	62,646	LIBOR + spread	3.9%		6.715	February 28, 2024
	36,000		241,643	1,822,860	46,028	LIBOR + spread	3.9%		6.712	February 28, 2024

Principal only and interest rate swaps:

			Fair Value				
	Notional Amount	Principal	Principal Only Swap	Interest Rate Swap	Interest Rate	US$:CN¥	Maturity
		(In Thousands)					
SM Prime	US$270,000	₱13,994,148	₱387,062	₱68,709	6.2%	¥6.458-6.8899	January 29, 2021

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

Other Derivative Instruments Not Designated as Accounting Hedges
Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to 2.0 million loss in 2019 and 314.4 million gain in 2018.

30. EPS Computation

	2019	2018	2017
	(In Thousands Except Per Share Data)		
Net income attributable to owners of the Parent (a)	**₱44,568,244**	₱37,078,325	₱32,923,455
Weighted average number of common shares outstanding (b)	**1,204,583**	1,204,583	1,204,583
EPS (a/b)	**₱37.00**	₱30.78	₱27.33

31. Change in Liabilities Arising From Financing Activities

	2019			2018	
	Bank Loans (Note 17)	**Long-term Debt** (Note 19)	**Lease Liabilities** (Note 27)	Bank Loans (Note 17)	Long-term Debt (Note 19)
			(In Thousands)		
Balance at beginning of year	**₱18,885,465**	**₱367,036,243**	**₱24,781,169**	₱24,172,965	₱332,853,001
Availments	**25,266,865**	**52,895,468**	**5,531,627**	32,199,317	70,787,135
Payments	**(21,376,865)**	**(64,799,259)**	**(2,854,295)**	(37,256,817)	(40,292,241)
Cumulative translation adjustment on cash flow hedges	**–**	**(1,841,637)**	**–**	–	(50,799)
Foreign exchange movement	**–**	**(929,710)**	**–**	–	3,621,088
Loan refinancing	**–**	**–**	**–**	(230,000)	230,000
Reclassification	**(4,065,000)**	**4,065,000**	**–**	–	–
Others	**–**	**9,822**	**1,676,045**	–	(111,941)
Balance at end of year	**₱18,710,465**	**₱356,435,927**	**₱29,134,546**	₱18,885,465	₱367,036,243

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

32. Reclassification

The Group reclassified certain income accounts in 2018 to conform to the 2019 presentation and classification. The reclassification has no impact on the 2019 and 2018 profit or loss and equity of the Group.

CORPORATE INFORMATION

COMPANY HEADQUARTERS

SM INVESTMENTS CORPORATION
10th Floor, OneE-Com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300, Philippines

EXTERNAL AUDITOR

SyCip Gorres Velayo & Co.

STOCKHOLDER INQUIRIES

SM Investments Corporation's common stock is listed and traded in the Philippine Stock Exchange under the symbol "SM".

For inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters, please contact the company's transfer agent:

BDO Unibank, Inc. – Trust and Investments Group
15th Floor, South Tower, BDO Corporate Center
7899 Makati Avenue, Makati City 0726 Philippines
Telephone Nos. (632) 8878-4963; 8878-4053

INVESTOR INQUIRIES

SMIC welcomes inquiries from investors, analysts and the financial community.
For more information about SMIC, please visit www.sminvestments.com/investor-relations or contact Investor Relations Office at tel. no. (632) 8857-0100 or email: **ir@sminvestments.com**

SUSTAINABILITY INQUIRIES

For inquiries regarding SMIC's initiatives, please contact **sustainability@sminvestments.com**

CORPORATE WEBSITE

Latest news, presentations, publications and information about SMIC are available at **www.sminvestments.com**

The 2019 Annual Report and Sustainability Report are available online at
www.sminvestments.com/annual-reports;
www.sminvestments.com/sustainability/sustainability-reports

INVESTMENTS
CORPORATION

SM INVESTMENTS CORPORATION
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300, Philippines