INVESTMENTS
CORPORATION

2017 ANNUAL REPORT

We are Positioned for Sustained Growth and Value Creation

Our unwavering commitment to innovation, customer excellence, efficient operations and good corporate governance are the keys to creating long-term value for our shareholders, customers, investors and the communities we serve.

Front Cover
SM Megamall, Ortigas Center

Contents

Who we are

SM Investments Corporation is a leading Philippine conglomerate invested in market leading businesses in retail, property and banking. It also invests in ventures that capture high growth opportunities in the emerging Philippine economy.

SM's retail operations are the country's largest and most diversified with its food, non-food and specialty retail stores. SM's property arm, SM Prime Holdings, Inc., is the largest integrated property developer in the Philippines with interests in malls, residences, offices, hotels and convention centers as well as tourism-related property developments. SM's interests in banking are in BDO Unibank, Inc., the country's largest bank and China Banking Corporation, the 7th largest bank.

CORE INVESTMENTS

RETAIL

77% SM Retail, Inc.

PROPERTY

50% SM Prime Holdings, Inc.

BANKING

45% BDO Unibank, Inc.

20% China Banking Corporation

EQUITY INVESTMENTS

28% Belle Corporation

34% Atlas Consolidated Mining

90% Net Subsidiaries

34% CityMall Commercial Centers

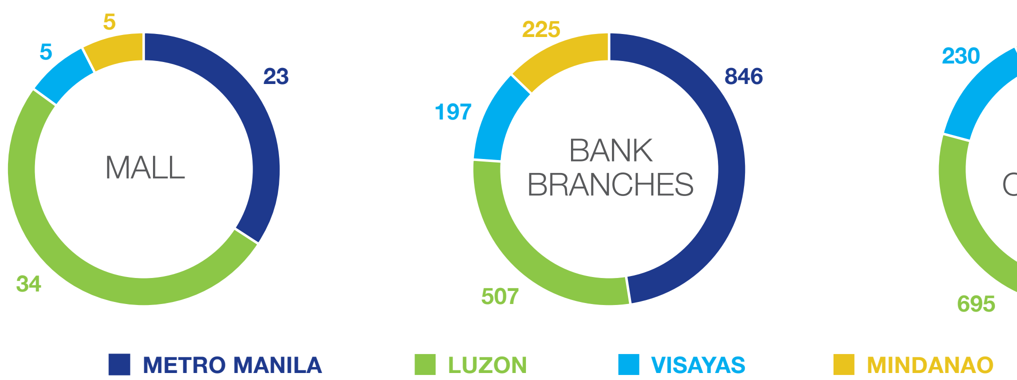
30% 2GO Group, Inc.

61% Philippines Urban Living Solutions, Inc.

Numbers are Effective Interest

PORTFOLIO BY GEOGRAPHY

Core Businesses



*Alfamart & Retail Affiliates not included

Consolidated Financial Highlights

Balance Sheet (PHP billion)	2017	2016	2015
Total Assets	960.08	861.46	785.49
Current Assets	212.51	219.09	174.15
Non-current Assets	747.57	642.37	611.34
Current Liabilities	175.86	134.83	126.80
Non-current Liabilities	330.41	311.88	274.71
Total Liabilities	506.27	446.72	401.50
Stockholders' Equity	453.81	414.75	383.99
Book Value per Share (PHP)	272.40	249.45	232.51
Income Statement (PHP billion)			
Revenues	396.15	363.39	333.58
Income from Operations	75.26	67.21	61.55
Other Income (Charges)	(9.97)	(7.90)	(7.17)
Income before Income Tax	65.29	59.32	54.37
Consolidated Net Income	32.92	31.20	28.87
Basic EPS	27.33	25.90	24.07
Financial Ratios			
Current Ratio (X)	1.2	1.6	1.4
Return on Equity	10.4%	10.7%	10.8%
Debt-equity Ratio (Gross)	52:48	52:48	50:50
Revenue Growth	9.0%	8.9%	7.4%
Net Income Growth	5.5%	8.1%	1.7%
EBITDA (PHP billion)	89.28	80.08	73.39
EBITDA Margin	22.5%	22.0%	22.0%
Net Margin	13.0%	13.1%	13.1%
Revenue Profile			
Retail	75.3%	76.4%	76.9%
Property	21.0%	19.9%	19.3%
Banking*	3.7%	3.7%	3.8%
Net Income Profile			
Retail	21.8%	23.8%	24.1%
Property	40.5%	39.1%	37.1%
Banking*	37.7%	37.1%	38.8%

**Banks are not consolidated with SMIC*

Performance Overview

KEY SM SHARE DATA

PHP1.19trillion
Market Capitalization
as of end-December 2017

PHP990.00
Share price
as of end-December 2017

PHP27.33
Earnings per Share
(in pesos)

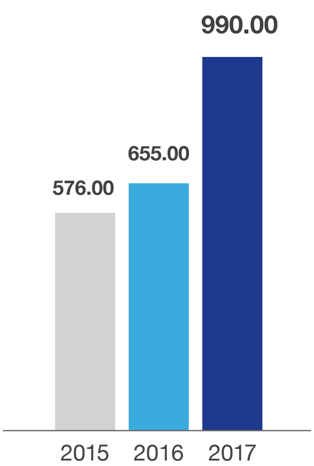
PHP960.1bn
Total Assets
(in billion pesos)

PHP89.3bn
EBITDA
(in billion pesos)

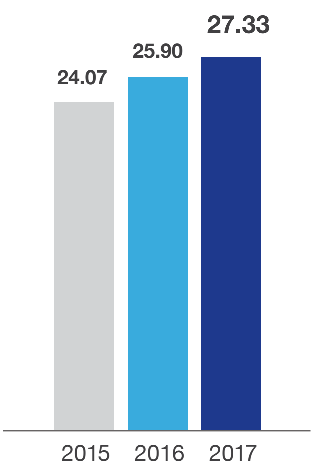
52%
Total Shareholder Return

30%
Dividend Payout Ratio

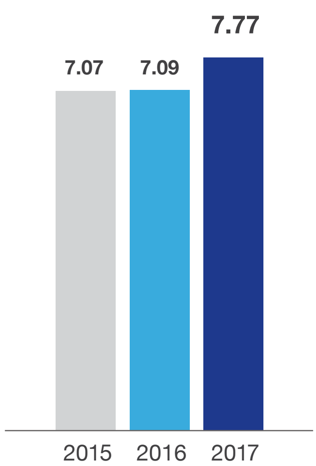
SHARE PRICE



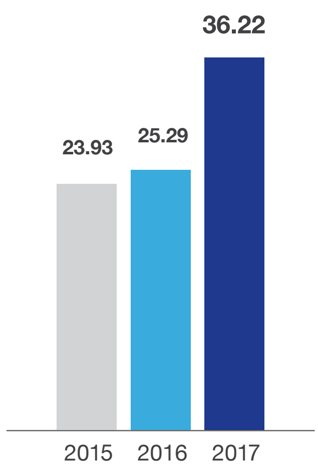
EARNINGS PER SHARE



DIVIDEND PER SHARE

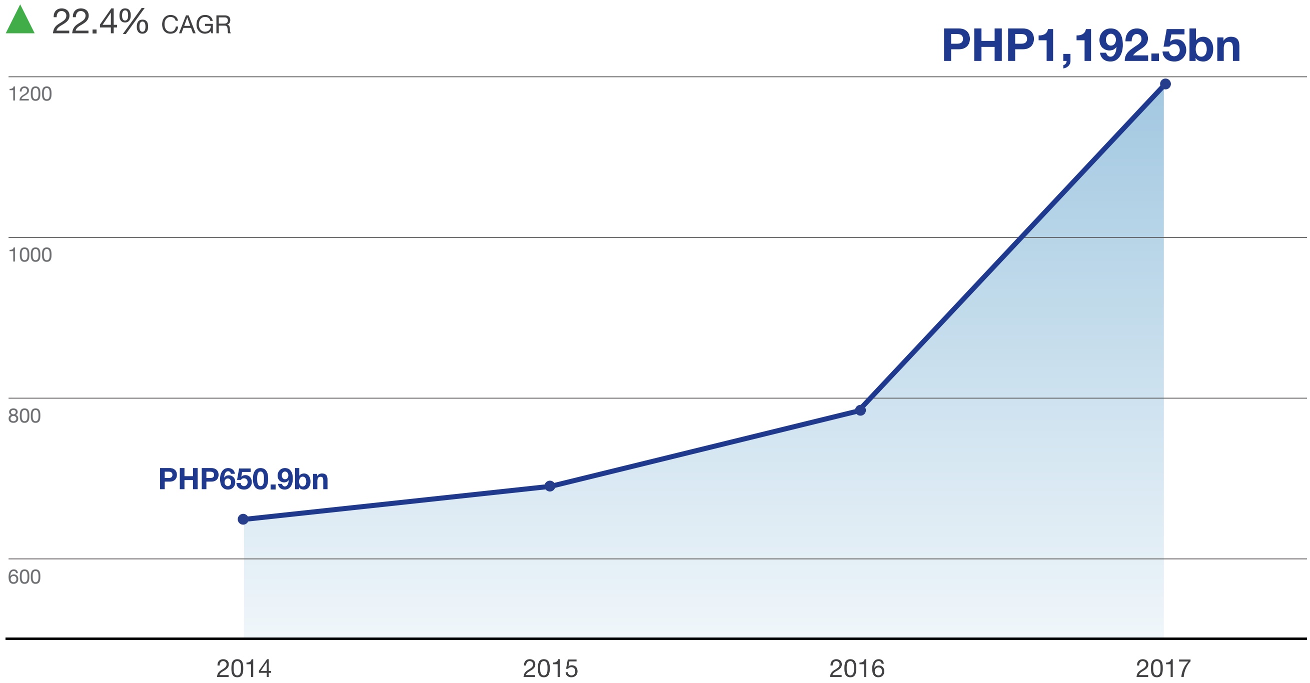


PRICE/EARNINGS RATIO



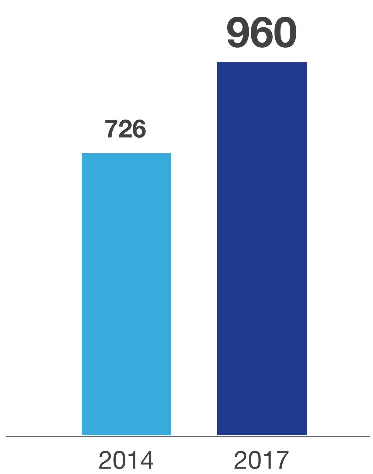
MARKET CAPITALIZATION

▲ 22.4% CAGR



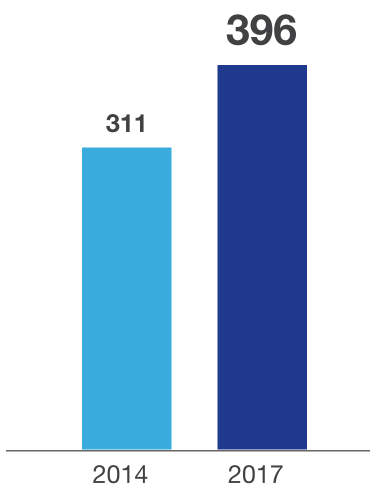
ASSET GROWTH

▲ 9.8% CAGR
(in PHP billion)



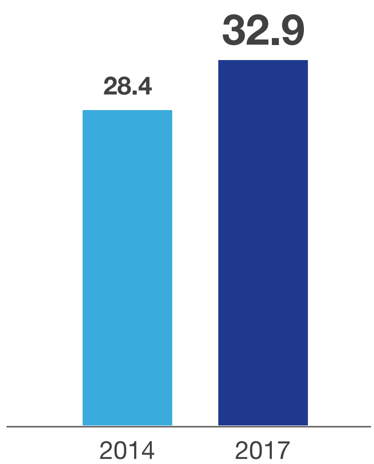
REVENUE GROWTH

▲ 8.4% CAGR
(in PHP billion)



NET INCOME

▲ 5.1% CAGR
(in PHP billion)



CAGR - compounded annual growth rate

OUR LEADERSHIP

Board of Directors

MR. HENRY SY, SR.

MR. JOSE T. SIO

MS. TERESITA T. SY-COSON

MR. HENRY T. SY, JR.

MR. HARLEY T. SY

MR. FREDERIC C. DYBUNCIO

MS. TOMASA H. LIPANA

MR. JOSEPH R. HIGDON

MR. ALFREDO E. PASCUAL

Advisers to the Board

MS. ELIZABETH T. SY

MR. HANS T. SY

MR. HERBERT T. SY

MR. GREGORY L. DOMINGO

MR. ROBERTO G. MANABAT

ATTY. SERAFIN U. SALVADOR, JR.

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

JOSE T. SIO
Chairman of the Board
Jose T. Sio is the Chairman of the Board of SMIC and Belle Corporation. He is also a Director of China Banking Corporation and Atlas Consolidated Mining and Development Corporation, and Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant, and was formerly a senior partner at Sycip Gorres Velayo & Co. Mr. Sio was voted CFO of the Year in 2009 by the Financial Executives of the Philippines (FINEX). He was also awarded as Best CFO (Philippines) in various years by several Hong Kong based business publications.

TERESITA T. SY-COSON
Vice Chairperson
Teresita T. Sy-Coson is the Co-Vice Chairperson of SMIC. She has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she is actively involved in SM Group development. At present, she is the Chairperson of the Board of Directors of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.

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

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

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

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

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

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

Message from the Chairman Emeritus

Dear Shareholders,

2017 was a year of continued progress and transition in leadership in SM Investments Corporation (SM) that defined our strategy for sustained growth.

In April, we announced significant changes in management and appointed experienced professionals to top leadership roles in SM – a move that further enhanced professionalization within the Group in preparation for the future.

I am pleased with the appointment of Jose T. Sio as Chairman and Frederic C. DyBuncio as President of SM Investments Corporation.

SM did well in 2017 sustaining our leadership in our core businesses anchored on our robust structure, well-placed strategy and reliable teams working together to achieve our targets and accelerate revenue growth. I remain optimistic about the medium- and long-term growth potential of SM through our investments in addition to our core businesses.

We will continue to deliver excellent customer experience, capture new growth opportunities complementary to our core businesses and strengthen our capabilities within the Group.

I would like to thank the Board, my colleagues and our business partners for making SM a part of our customers' everyday lives. I am truly grateful for your hard work and dedication in your continued efforts in driving success across our portfolio. To our shareholders, thank you for your trust, confidence and continued support to SM.

Sincerely,

HENRY SY, SR.
Chairman Emeritus

"SM did well in 2017 sustaining our leadership in our core businesses anchored on our robust structure, well-placed strategy and reliable teams working together to achieve our targets and accelerate revenue growth."

MESSAGE TO SHAREHOLDERS

Delivering Shareholder Value Across Our Portfolio

Dear Fellow Shareholders,

We made significant progress and achieved strong performance in 2017. SM Investments Corporation (SM) delivered good results with a net income of PHP32.9 billion on the back of the Group's nationwide expansion plans and the country's robust economic fundamentals. We benefited from a strong domestic economy buoyed by increased government spending, strong consumer spending and sustained growth in overseas Filipino remittances.

It was an eventful year for SM and its property arm, SM Prime Holdings, Inc. (SM Prime), as both companies achieved market capitalization of over PHP1 trillion. We are truly grateful to our shareholders for your unwavering support.

In 2017, we continued to focus on building long-term success by expanding our business footprint, keeping a healthy balance sheet and delivering steady growth and efficient operations across our businesses. This approach has enabled us to deliver and maintain leadership positions in retail, property and banking.

Our retail footprint delivered solid underlying growth and continued to enjoy leadership and expansion across the country, led by our growing mid-sized stores and rapidly expanding minimart format. Meanwhile, specialty retailing continued to deliver high margin growth to our retail portfolio.

For property, the mall environment remained strong as we continued to develop integrated lifestyle centers in more regional areas. A very good performance by our residential group contributed to a robust overall year for SM Prime.

In banking, we capped the year with solid underlying growth for BDO Unibank, Inc. and China Banking Corporation as both banks delivered sustained growth driven by strong economic fundamentals. To support future expansion, both banks undertook shareholder rights offerings last year, with SM participating fully in both. At the holding company level, we also continued to invest in high-potential new sectors to support our higher long-term aspirations. In 2017, we made equity investments in 2GO Group, Inc. and Philippines Urban Living Solutions, Inc. which we plan to support and build, working with our core businesses to create synergies.

Across all our businesses, we put emphasis on good corporate governance, winning strategies and creating shareholder value. Reflecting strong confidence in SM last year, the Board announced total dividends of PHP9.36 billion, comprising PHP7.77 per share paid on May 25, 2017 to shareholders as of record at May 11, 2017. This is equivalent to 30% of the 2016 consolidated net income and 77.4% of the parent company net income.

We would like to express our gratitude to Mr. Ah Doo Lim following his retirement from the Board after nine years and welcome Mr. Alfredo E. Pascual as an Independent Director of SM Investments Corporation.

We would also like to thank the Board and our colleagues for their hard work and contributions, as well as all our suppliers, business partners, host communities and shareholders for their strong support in SM.

Looking forward, SM will continue to be your partner for sustained growth and remain true to our vision of improving the lives of the millions we serve. We look ahead to 2018 with optimism as we celebrate SM's 60th anniversary and we are excited about the Group's potential for more growth opportunities and continued success.

"Across all our businesses, we put emphasis on good corporate governance, winning strategies and creating shareholder value."

JOSE T. SIO
Chairman

HENRY T. SY, JR.
Vice Chairperson

TERESITA T. SY-COSON
Vice Chairperson

PRESIDENT'S REPORT

Sustained Growth, New Opportunities

I am very pleased to report that your company delivered solid results in 2017. We generated strong cash flows with recurring revenue growth of 9.0% to PHP396.1 billion on the back of the company's nationwide expansion and the continued positive trajectory of the country's economy. These provided further momentum for the Group to deliver on our core businesses and chart new growth opportunities in 2017.

Our consolidated net income increased by 5.5% to PHP32.9 billion in 2017. Our property arm, SM Prime Holdings, Inc. (SM Prime), contributed 40.5% of total earnings while our banks, BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) contributed 37.7%. Meanwhile, our retail group, SM Retail, Inc. contributed 21.8% driven by particularly strong underlying results and high margin growth from specialty retailing.

Solid results across our core

Retail

In retail, we realized solid performance across our operations as a result of our retail merger in 2016 and the addition of Miniso variety stores.

SM Retail, Inc., which is comprised of non-food (THE SM STORE and specialty stores) and food stores (SM Markets), delivered total revenue growth of 7.3% to PHP297.4 billion. Net income stood at PHP10.4 billion boosted by strong consumption from consumers with more disposable income and increased market penetration from the aggressive expansion of our specialty and mid-size stores and minimart format.

We opened two SM STOREs, four SM Supermarkets, 28 Savemore stores, three SM Hypermarkets, seven WalterMart stores and 159 Specialty stores in 2017.

Property

SM Prime delivered robust results with consolidated revenues up by 13.9% to PHP90.9 billion. Recurring net income increased by 15.8% to PHP27.6 billion primarily driven by increased mall revenues and strong sales of residential units.

We added seven new malls in 2017, most of which were located outside Metro Manila. These new shopping malls translated to an additional gross floor area (GFA) of 377,763 sqm. Mall revenue growth was driven by new malls and expanded shopping areas in 2017.

FREDERIC C. DYBUNCIO

Meanwhile, SM Prime's residential group led by SM Development Corporation (SMDC), contributed strong financial performance for the company with revenue growth of 18.2% to PHP30.0 billion. The growth was attributable to higher construction accomplishments of projects launched from 2013 to 2016 and strong sales from ready-for-occupancy (RFO) units located in Metro Manila. Reservation sales were up by 21.0% in sales value to PHP57.8 billion in 2017.

Other core segments of SM Prime registered a revenue growth of 32.0% to PHP7.9 billion while operating income increased by 34.8% to PHP3.6 billion in 2017. Within these, SM Hotels and Conventions Centers contributed revenue growth of 49.1% while Commercial Properties Group contributed 11.8%.

Banking

In banking, BDO and China Bank delivered exceptional performance in 2017.

BDO posted an all-time high net income of PHP28.1 billion, up 7.0%, while China Bank registered a consolidated net income of PHP7.5 billion, 16.3% higher year-on-year on sustained growth across all business segments.

MARKET CAPITALIZATION

PHP1,192.5bn

▲51.1 %

CONSOLIDATED REVENUES

PHP396.1bn

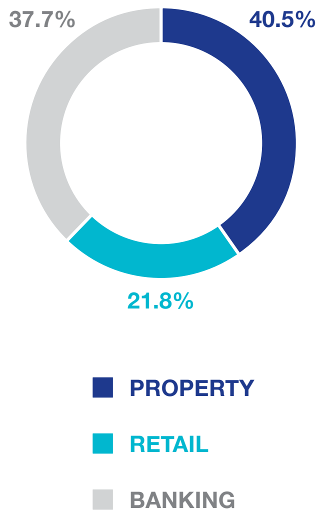
▲9.0 %

NET INCOME

PHP32.9bn

▲5.9 %

EARNINGS CONTRIBUTION



PRESIDENT'S REPORT

Net interest income for BDO rose by 24.6% to PHP81.8 billion, boosted by an 18.4% increase in gross customer loans to PHP1.8 trillion while total deposits grew by 11.3% to PHP2.1 trillion. The bank's fee-based income increased by 30.4% to PHP28.9 billion and insurance premiums grew 22.6% to PHP9.9 billion.

Meanwhile, China Bank's net interest income grew 17.6% to PHP19.6 billion while gross customer loans increased 16.7% to PHP453.9 billion due to strong demand across its business segments. Total deposits increased 17.3% to PHP635.1 billion due to network expansion.

In 2017, BDO and China Bank completed Stock Rights Offerings (SROs) which raised fresh equity of PHP60 billion in January and PHP15 billion SRO in May, respectively. Both banks completed several record-breaking achievements anchored on strong underlying growth from sustained network expansion, focused customer service and robust business strategies during the year.

Milestone Year

Our performance as a Group in 2017 was delivered according to expectation. In terms of our market share performance, we continued to outperform the average returns for companies listed on the Philippine Stock Exchange (PSE) and we have seen our share price hit an all-time high. This goes to show your continued trust and confidence to the Board, management and in our people and we are truly grateful for that.

2017 was milestone year for SM as we reached One Trillion Peso Market Capitalization on August 16, 2017. This followed SM Prime's historic feat of being the first company to record One Trillion Peso Market Capitalization at the close of trading on June 9, 2017 in the PSE.

Special Recognition from the Philippine Stock Exchange (PSE) for SM's PHP1-Trillion Market Capitalization. In the photo are (from left) PSE Director Edgardo Lacson, SM Chairman Jose Sio, PSE Chairman Jose Pardo, SM Vice Chairperson Teresita Sy-Coson, PSE President and CEO Ramon Monzon, PSE Director Vivian Yuchengco and SM President Frederic DyBuncio.

"We will continue to capitalize on our strengths and take advantage of the robust domestic economy to create growth."

Well-Positioned for Sustained Growth

We continue to invest in opportunities to create value and growth. Total assets for SM grew by 11.4% to PHP960.1 billion in 2017.

To bolster our expansion, we made investments of a 30.5% stake in leading Philippine end-to-end logistics company, 2GO Group, Inc., and 61.2% in dormitory provider to young urban professionals, Philippines Urban Living Solutions, Inc. in 2017. These companies have very high growth potential with huge and underserved customer bases as well as strong, differentiated business models, competitive advantages and strong synergies with our core businesses. We intend to help them grow and to look for more emerging sector investment opportunities like these.

We are pleased to be recognized for our efforts in Corporate Governance and Sustainability from numerous organizations as we remain committed to sharpening our focus on these areas and to supporting the United Nations Sustainable Development Goals.

Overall, 2017 was a year of very good execution for SM. We expanded our domestic footprint by investing in high-potential sectors and pursued aggressive expansion across our core businesses. We continue to improve value and maintain capital discipline to realize our long-term aspirations.

We would like to thank our employees, leaders and business partners for their hard work and dedication and to our shareholders for making us continue to deliver outstanding results in 2017 and in the coming years.

Moving forward, we will continue to capitalize on our strengths and take advantage of the robust domestic economy to create growth. Our core businesses face positive market conditions and expansive opportunities for new market development across the country while our new investments offer us additional long-term growth. We look forward to sustaining our momentum and delivering on our strategy to meet the challenges and seize opportunities ahead.

FREDERIC C. DYBUNCIO
President/CEO

Retail

2,032
Total Retail Stores

PHP10.4bn
Net Income

PHP297.4bn
Consolidated Gross Revenue
▲ 7.3%

59
THE SM STOREs

52
SM Supermarkets

47
SM Hypermarkets

181
Savemore Stores

46
WalterMart Stores

348
Alfamart Stores

1,299
Specialty Stores

SM RETAIL, INC.

A Solid Performance by Specialty Retail

SM Retail's operations in 2017 reflected good underlying results led by the higher margin specialty retailing business which was added in 2016.

SM Retail, which is comprised of market leading brands like THE SM STORE, specialty retailing and food retailing led by SM Markets, reported growth in total revenues of 7.3% to PHP297.4 billion, while net income stood at PHP10.4 billion in 2017. The underlying performance of retail remained good with strong growth in specialty retailing and the addition of variety store chain Miniso.

Rising incomes, evolving needs of consumers and changing lifestyles and aspirations of the market continue to fuel SM Retail's expansion plans across the country in multiple formats. Low store penetration in the Philippines presents huge opportunities for diversification and growth especially in the northern and southern regions of the country which have not been covered by organized retail. Through its multi-format approach, SM Retail can serve the needs of different communities nationwide. In 2017, 80% of SM Retail's store expansion was outside of Metro Manila.

At end-December 2017, SM Retail had a total of 2,032 outlets, comprising 59 THE SM STORES, 1,299 specialty retail outlets, 52 SM Supermarkets, 47 SM Hypermarkets, and 181 Savemore, 46 WalterMart and 348 Alfamart stores. A total of 341 outlets were added in 2017 across the retail business portfolio.


THE SM STORE

SM Appliance Center

ACE Hardware

THE SM STORE

THE SM STORE opened two stores in SM CDO Downtown Premier and SM City Puerto Princesa. Total gross selling areas of all 59 department stores stood at 760,000 square meters.

Growth for THE SM STORE in the past year cut across luggage, apparel, footwear and beauty products that continue to perform strongly in line with sustained consumer growth as well as the unprecedented expansion in tourism.

THE SM STORE welcomed several new brands including international shoe brands like Clark, Geoxx, Camper, Naturalizer, global brands like Herschel and Fjallraven and leading beauty products like MAC, Clinique, Estee Lauder, Bobbi Brown, Peter Thomas Roth, and Anne Curtis' BLK to meet the rising demand for unique and innovative product lines.

With the retail environment evolving to include new technologies, SM Retail introduced mobile payments in 2017 to enhance overall customer shopping experience. THE SM STORE teamed up with GCash to enable customers to pay for their items through a "scan-to-pay" feature. The SM STORE also announced a collaboration with PayMaya for purchases made using the PayMaya QR code.

SPECIALTY RETAILING

Specialty retailing includes a wide assortment of quality products offered through stores such as Ace Hardware, Baby Company, Homeworld, Kultura, Our Home, Pet Express, Sports Central, SM Appliances, Toy Kingdom, Watsons and most recently the addition of the successful assorted goods and fast fashion store chain Miniso.

The MINISO brand has over 10,000 products which include creative home necessities, fashion accessories, health and beauty products, digital accessories, office supplies, stationery gifts and seasonal products among others.

In 2017, this high margin business delivered growth of 12% in revenues.

SM City BF Parañaque

MINISO

Kultura

Toy Kingdom

Watsons


THE SM STORE

SM MARKETS

The food group, which includes SM Markets (SM Supermarket, SM Hypermarket and Savemore), WalterMart and Alfamart maintained its focus on enhancing product assortment based on market trends as well as expanding to new territories across the country. This enabled the food group led by SM Markets to keep its targets and maintain its lead despite the increasingly competitive food retail environment.

The food group added 180 new stores (with Alfamart and WalterMart) in 2017, spanning full coverage of the Philippines from its Aparri store up North to its General Santos down South. Aside from Aparri, the group's expansion included Boracay, Cotabato, Puerto Princesa and mostly stand-alone Savemore stores in provincial areas. Minimart format Alfamart for its part added 138 stores in 2017. SM Markets alone expands its stores at a rate of 30 stores per year, bringing its world-class food shopping to citites and municipalities across the Philippines.

During the past year, SM Markets continued to fine-tune its operations and facilities to ensure a consistent SM Markets shopping experience of comfort, completeness, and convenience in all its stores. Its SM Eats counter which serves best-selling ready-to-eat favorites and category expansion of fresh food, home essentials, and apparel were major factors in the group's growth. SM Markets also selectively implemented 24-hour operations and extended store hours during the Holiday season to accommodate shoppers at their most convenient time to shop.

SM Supermarket, SM Megamall

To strengthen SM's commitment to the environment and to celebrate the 10th year of the Philippines' first reusable bag, the SM Greenbag, SM Markets launched the limited edition SM Greenbag in November 2017. Like the original SM Greenbag, the new SM Greenbag's reusability makes it an Earth-saver every time it is used and reused. Reflecting strong support for the community, 19 SM Markets branches were cited as Top Tax Payers in 2017 from their respective communities.

SM Markets collaborated with the Department of Agriculture and the GoNegosyo/Kapatid Movement in 2017 and further highlighted its support to local farmers by carrying and selling their produce in the stores. SM Markets successfully placed direct orders of locally produced onions from the farmers group BONEA Multi-purpose cooperative in Nueva Ecija as well as locally grown mushrooms of Trophy farms from farms in Tacloban, Leyte. Apart from this, SM continues to help SMEs penetrate the market through its house brand, SM Bonus, and its weekend bazaars. Its close links with the Department of Agriculture through GoNegosyo and the Kapatid Agri Mentor Me initiatives also support this endeavor.

Property

PHP90.9bn
Consolidated Revenues
▲ 13.9%

PHP27.6bn
Net Income
▲ 15.8%

PHP1.1tn
Market Capitalization
▲ 32.3%

67
Philippine Malls

7
China Malls

49
Residential Projects

7
Office Buildings

6
Hotels

4
Convention Centers

3
Mega Trade Halls

SM PRIME HOLDINGS, INC.

Strong Performance

2017 has been a significant year for SM Prime Holdings, Inc. (SM Prime) as it posted double-digit growth boosted by robust mall revenues and strong sales take-up of its residential projects. The year was also eventful for SM Prime as it made history as the first publicly-listed company in the Philippines to record the PHP1 trillion market value mark on June 9, 2017.

SM Prime continues to enjoy leadership position across its key businesses that benefitted from the country's buoyant economic progress in 2017. SM Prime registered a recurring net income growth of 15.8% to PHP27.6 billion from PHP23.8 billion in 2016. Notably, consolidated revenues grew 13.9% to PHP90.9 billion from PHP79.8 billion in 2016, while the company's overall operating income improved by 15.2% to PHP40.6 billion compared to the previous year with PHP35.3 billion.

The consistent growth and strong performance were largely driven by higher mall rental revenues, increased residential unit sales complemented by the growing contribution of other business segments.

MALLS

In mall operations, SM Prime achieved revenue growth of 9.5% to PHP53.2 billion from PHP48.6 billion in 2016. The company's focused strategy of expanding in the provinces has contributed to the rise in rental revenues along with the new and expanded malls in 2016 and 2017, namely SM City San Jose Del Monte, SM City Trece Martires, SM Cherry Congressional, SM City East Ortigas, SM CDO Downtown Premier, S Maison at Conrad Manila, SM City Puerto Princesa and SM Center Tuguegarao Downtown. Across its mature malls, SM Prime delivered consistent same-mall-sales growth at 7.0%.

SM CDO Downtown Premier

SM PRIME HOLDINGS, INC.

Revenue growth from cinema and event tickets improved by 2.2% to PHP4.8 billion in 2017 from PHP4.7 billion in 2016 with the opening of additional outlets in new shopping malls. Meanwhile, mall operating income improved by 10.1% to PHP28.4 billion in 2017 from PHP25.8 billion in 2016. Operating margin was at 53.4%.

Apart from S Maison, which is located in Conrad Manila at the Mall of Asia Complex, Pasay City, SM Prime's growth track in the provinces saw the launch of six new shopping malls, SM CDO Downtown Premier, SM Cherry Antipolo, SM City Puerto Princesa, SM Center Tuguegarao Downtown, SM Center Lemery and SM Center Pulilan.

S Maison

SM City Puerto Princesa

RESIDENCES

The Residential Group led by SM Development Corporation (SMDC) enjoyed robust performance in 2017. The group delivered revenue growth of 18.2% to PHP30.0 billion from PHP25.4 billion in 2016, while operating income grew 24.4% to PHP8.9 billion from PHP7.1 billion. Sales were higher for the year due to the increase in take-up of Ready-for-Occupancy (RFO) units and faster completion of projects launched in 2013 to 2016 namely Shore Residences and Shore 2 Residences in Pasay City, Air Residences in Makati City and Fame Residences in Mandaluyong City. SMDC also launched Green 2 Residences, the company's latest high-rise portfolio of 'University Town' development in Cavite, following the successful Green Residences along Taft Avenue, Manila and other similar developments near schools in premium locations.

Gross profit margin improved by 48.5% from 47.5% and net income margin by 23.7% from 22.9%.

During the year, SMDC's reservation sales increased by 21.0% in sales to PHP57.8 billion in 2017 from PHP47.7 billion in 2016. This translates to 17,259 units sold, up by 4.0% from 16,670 units. Residential portfolio within the Mall of Asia Complex largely drove strong sales take-up that contributed to SMDC's strong performance for the year.


Charm Residences

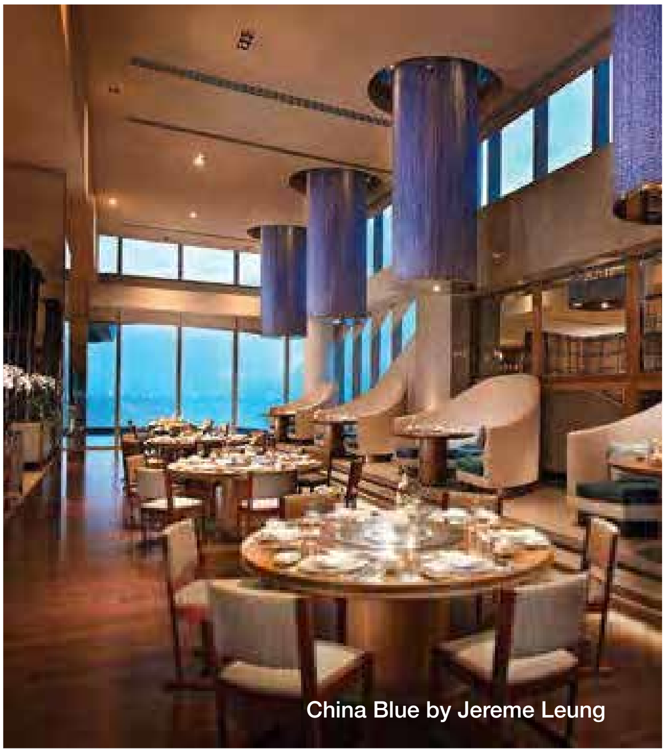

Bloom Residences Lobby


Charm Residences Amenity

OTHER BUSINESS SEGMENTS

For the company's other businesses, SM Hotels and Convention Centers posted revenue growth of 49.1%, while Commercial Properties Group delivered revenue growth of 11.8%. Combined, the group's revenue grew by 32.0% to PHP7.9 billion in 2017 from PHP6.0 billion in 2016, largely contributed by the opening of FiveE-Com Center and Conrad Manila. Operating income increased by 34.8% to PHP3.6 billion from PHP2.7 billion.

As at year end, SM Prime increased its presence in the Philippines with 67 malls, 49 residential projects, seven office buildings, six hotels with over 1,500 rooms, four convention centers and three trade halls.


China Blue by Jereme Leung


Conrad Manila Diplomatic Suite

Banking

PHP3,419.5bn
Total Resources
BDO & China Bank
▲15.6%

PHP154.7bn
Gross Operating Income
BDO & China Bank
▲19.9%

1,776
Total Number of Branches
BDO & China Bank

4,910
Total Number of ATMs
BDO & China Bank

BDO UNIBANK, INC.

Banking on Solid Growth

BDO delivered an all-time high net income of PHP28.1 billion on strong growth across all business segments. This matched the Bank's earnings guidance and marked a 7.0% increase year-on-year. Excluding consolidation effects of the life insurance business, however, this represented a strong 15.4% jump in core earnings on the back of solid growth in loans, low-cost deposits and fee income.

Customer loans rose by 18.4% to PHP1.8 trillion on the broad-based increases across all loan segments, while total deposits went up by 11.3% to PHP2.1 trillion, led by the 11.7% growth in low-cost CASA deposits (comprising 72.8% of total deposits). As a result, net interest income rose by 24.6% to PHP81.8 billion.

Meanwhile, non-interest income contributed PHP47.2 billion, higher by 13.4%, with fee-based income accounting for PHP28.9 billion for a 30.4% expansion. In addition, insurance premiums went up by 22.6% to PHP9.9 billion. These compensated for the expected 20.2% decline in trading and forex gains to PHP3.9 billion given the challenging market conditions. Overall, gross operating income advanced by 20.3% to PHP129.0 billion.

BDO's focused coverage of its target markets, sustained branch expansion, customer-centric service culture and deft execution of its business strategies strengthened the Bank's industry dominance in terms of total resources (market share: 17.9%), loans (21.5%), deposits (18.6%) and trust assets (33.5%) last year. The Bank also led across most business segments including private banking, investment banking, rural banking, remittance, credit cards, and insurance brokerage.

The Bank completed several record-breaking achievements last year. Foremost of these was the Bank's Stock Rights Offer (SRO) in January 2017 which raised PHP60 billion in fresh equity, considered as the largest equity raising in the country, to support the Bank's medium-term targets and provide ample buffer over higher capital requirements with the staggered implementation of the Domestic Systemically Important Banks (DSIBs) surcharge beginning 2017. The Bank also issued USD700 million in Fixed Rate Senior Notes (considered as the largest issuance by a Philippine bank to-date) to tap longer-term funding sources to support the Bank's lending operations as well as the PHP11.8 billion Long-Term Negotiable Certificate of Deposits (LTNCDs, second largest LTNCD issue) to diversify the maturity profile of funding sources and support business expansion plans.

Further, the Bank issued USD150 million BDO Green bonds through a private placement with the International Finance Corporation (IFC), the first of its kind issued by a commercial bank in the Philippines. This was IFC's first green bond investment in a financial institution in East Asia and the Pacific.

2018 Outlook

The Philippine economy is seen sustaining above-trend growth, driven by buoyant household consumption, bullish government infrastructure spending, and continued export recovery. Among the potential headwinds, however, are higher inflation and interest rates, weakening peso due to a growing current account deficit, and lower investments following the removal of preferential tax rates that potentially reduce the competitiveness of BPOs and multinational companies operating in the country.

Amid the generally positive backdrop setting the stage for a sustainable growth path, the Philippine banking sector, including BDO, is expected to benefit from growth opportunities in the consumer, middle-market and corporate segments on the back of the country's rising per capita income, expanding middle class, young demographics, low banking penetration, accelerating provincial growth and the government's infrastructure build-up.

TOTAL RESOURCES
PHP2,668bn
▲14.8%

GROSS LOANS
PHP1,755bn
▲18.4%

GROSS OPERATING INCOME
PHP129bn
▲20.3%

CAPITAL ADEQUACY RATIO
14.5%

NUMBER OF BRANCHES
1,180

NUMBER OF ATMS
4,022

CHINA BANKING CORPORATION

Sustaining Growth Momentum

2017 was a pivotal year in the transformation and growth of China Banking Corporation (China Bank).

China Bank posted a 16.3% growth in net income of PHP7.5 billion for the year, on the back of sustained growth in core and fee-based businesses. This translated to a return on equity (ROE) of 10.01% and return on assets (ROA) of 1.12%.

Net interest income rose 17.6% year-on-year to PHP19.6 billion, driven by the 16.7% growth in loan portfolio and stable net interest margin of 3.11%. Non-interest income improved 19.8% to PHP6.1 billion due to higher service fees and commissions, trust revenues, forex gain, and income from acquired assets.

Total assets expanded 18.7% to PHP751.4 billion. Gross loans grew by PHP64.9 billion to PHP453.9 billion with consumer loans growing 25.5% while corporate loans rose 18.6%.

Asset quality continued to improve, as non-performing loans (NPL) declined by PHP900 million or 12.3%, resulting to a lower-than-industry NPL ratio of 1.4%. Continued provisioning improved the loan loss coverage ratio to 99% from 91% (consolidated level) and to 175% from 153% (parent bank).

Total deposits rose 17.3% to PHP635.1 billion boosted by 24.1% growth in low-cost funds to PHP343.0 billion and raised CASA (checking and savings accounts) ratio

TOTAL RESOURCES
PHP751.4bn
▲18.7%

GROSS LOANS
PHP453.9bn
▲16.7%

GROSS OPERATING INCOME
PHP25.7bn
▲17.8%

CAPITAL ADEQUACY RATIO
14.2%

NUMBER OF BRANCHES
596

NUMBER OF ATMS
888

Philippine Stock Exchange (PSE) Special Citation for China Bank as among the top 5 in corporate governance from 2012-2017. In photo are (l-r) China Bank President William C. Whang, SVP Alexander C. Escucha, Chair Hans T. Sy and Advisor to the Board Ricardo R. Chua (former President & CEO).

to a healthy 54%. The loans-to-deposit ratio was steady at 71%. China Bank sustained its network expansion efforts by opening 55 new branches, growing the banking footprint to 596 branches (160 of which are savings bank) complemented by 888 ATMs.

Following a successful PHP15.0-billion stock rights offer in May 2017, total capital funds grew 32.0% to PHP83.7 billion resulting to a healthy common equity tier 1 (CET 1) and total capital adequacy ratios of 13.47% and 14.22%, respectively.

Citing the Bank's strong capital base and stable asset quality, Moody's Investors Service in June 2017 gave China Bank an investment grade credit rating of Baa2, at par with the Philippine sovereign rating and the best rated banks in the country. This investment grade rating followed a rating upgrade from Capital Intelligence to "BBB" from "BBB-", and a similar affirmation by Fitch Ratings of China Bank's "BB+" Long Term Issuer Default Ratings.

China Bank Savings, the Bank's thrift banking arm, tripled its net income to PHP520 million, sustaining the momentum of its turnaround to full profitability in 2016. A capital infusion of PHP2.5 billion in 2016 has bolstered its capability to accelerate its business growth and profitability.

On the capital market front, China Bank Capital Corporation (CBCC) sustained its role as a major player in the industry and its leadership in retail bond issues. The increase in CBCC's authorized capital from PHP500 million to PHP2 billion enhanced CBCC's capacity to handle bigger deals. China Bank Securities Corporation, formerly ATC Securities, in its first year of operations as a stock brokerage house, participated in the listing of the PHP8.6-billion Initial Public Offering of Eagle Cement Corporation.

At the Philippine Stock Exchange Bell Awards, China Bank was given a special citation as the only listed company to have won the Bell Award for five consecutive years from 2012 to 2016, and continued to be among the top five in corporate governance in 2017. China Bank was also hailed by the Global Banking & Finance Review as the Best Bank for Corporate Governance Philippines 2017 and Best Investor Relations Bank Philippines 2017.

China Bank marked another milestone as it celebrated the 90th anniversary of the listing of its shares in 1927 at the Manila Stock Exchange (a forerunner of the Philippine Stock Exchange).

With another great year to build on, and with a new management team at the helm, China Bank has sharpened its strategic focus towards four important goals – business growth, operational excellence, customer centricity and employee engagement. As it looks forward to celebrating its 100th anniversary by 2020, China Bank is poised to meet the opportunities and challenges as it faces the next century of its existence by focusing on sustaining its relevance to its customers in an increasingly disruptive environment. China Bank will continue to pursue its digital banking transformation, which complemented with a full agenda of innovative improvements, defines the roadmap to becoming the best Bank for its customers and stakeholders.

2GO GROUP, INC.

The Largest Shipping and Logistics Provider in the Philippines

2GO Group, Inc. (2GO) is the Philippines' largest end-to-end logistics solutions provider.

The group provides shipping, logistics, and distribution services to small and medium enterprises, large corporations and government agencies throughout the Philippines. The Shipping group operates ocean-going freighters, roll-on/roll-off freight and passenger vessels, and fast-ferry passenger vessels. The Logistics group offers transportation, warehousing and distribution, cold chain solutions domestic and international ocean and air forwarding services, customs brokerage, project logistics, and express and last mile package and ecommerce delivery. The Distribution group leverages on 2GO's shipping and logistics services to provide value-added distribution service to principals and customers.

In 2017, consolidated revenues increased to PHP21.6 billion, 13.1% higher than the previous year. Of this, Shipping accounted for 39.1%, Logistics 34.2% and Distribution 26.7%. Top line growth was primarily driven by the non-shipping businesses; Logistics and Distribution, which grew by a combined 29.9% as service offerings, were increased to existing customers and new customers were actively targeted. In the Shipping business, freight volumes remained relatively stable compared to the prior year, but an intense competitive environment resulted in a 5.9% contraction in revenues.

As at end-December 2017, 2GO and its subsidiaries had a total fleet of 26 vessels, of which 21 were company-owned ships. The fleet consists of 10 fast crafts, eight RoRo/Pax vessels and eight freighters. The company's operating vessel fleet has a combined Gross Registered Tonnage of approximately 128,690 metric tons, translating to a total passenger capacity of approximately 14,161 passengers per day and an aggregate cargo capacity of approximately 3,724 twenty-foot equivalent units (TEUs) per day.

M/V St. Leo The Great

To expand its service area, two fast craft vessels were constructed and deployed to the Ormoc-Cebu route during the year.

In Logistics, changes in management were implemented and the group focused on addressing key organizational areas to improve its service capacity. In addition, the group addressed internal audit issues by cleaning up contracts and claims, recovering clients through service efficiency, process standardization, controls and compliance.

At present, the 2GO Logistics group has 67 warehouses across the country, totaling 58,846 pallet positions, covering 164,264 square meters. Its fleet stands at 2,014 company-owned and subcontracted trucks, 599 riders and 647 special containers. It has 1,071 retail stores across the country.

In Distribution, ScanAsia serves six multinational FMCG companies and makes deliveries to 1,100 retail outlets, 473 food service establishments and 1,069 pharmacies nationwide.

In 2017, the incoming ScanAsia management team introduced new policies and processes to effect tighter controls in its operations. New policies on inventory management were implemented while product returns were managed more actively. More controls on store promotions were deployed, making sure that adequate approvals and evaluations were performed prior to execution. Proactive measures to decrease receivables were executed raising sales team collection efficiency. Finally, contract terms were rationalized to benefit both ScanAsia and its clients. These measures and the growth of its client base increased revenues by 65.6% compared to the previous year.

CONSOLIDATED REVENUES

PHP21.6bn
▲13.1%

REVENUE BREAKDOWN

Shipping
PHP8.4bn
▲5.9%

Logistics
PHP7.4bn
▲11.2%

Distribution
PHP5.8bn
▲65.6%

PHILIPPINES URBAN LIVING SOLUTIONS

Upgrading the Dorm Concept with MyTown

In 2017, SM invested in a 61% stake in Philippines Urban Living Solutions, Inc. (PULS), a developer and operator of modern dormitories. PULS operates under the MyTown brand and provides lifestyle-oriented living solutions to young urban professionals working in a variety of sectors.

Operating since 2013, MyTown manages uniquely-designed dormitories near Bonifacio Global City in Metro Manila with units of around 12 square meters, providing for single, double and quad occupancy at affordable prices. In addition to a large young urban professional market, MyTown has also drawn corporate clients who seek to provide convenient accommodation for their staff or to house out-of-city employees while in Manila for training courses.

MyTown's facilities have distinct advantages in their purpose-built amenities, which include a fully equipped gym, 20-meter lap pool, lounge and study room spaces


MyTown

and a mini movie theater, creating an attractive alternative to long daily commuting times for the many millions of people in its target market.

MyTown is set to roll out over 2,500 beds in 2018. This is more than triple its current capacity through the addition of 13 new buildings.

With SM's "think big, start small and move fast" approach to growth and full support for the company's expansion, MyTown is well-positioned to capture the high growth prospects of the urban housing sector in the Philippines as it aims to become a nationwide lifestyle dormitory brand.

BELLE CORPORATION

Focusing on Leisure Tourism

Belle Corporation continued to benefit from its strategic investment in City of Dreams Manila (City of Dreams) and its marquee destination at the Tagaytay Highlands and Tagaytay Midlands resort complexes with another banner year in 2017.

Belle posted record revenues of PHP8.0 billion in 2017, a 26.7% increase from the previous year. At the same time, recurring net income hit PHP3.3 billion, a 58.4% jump as compared to recurring net income in 2016.

Driving this growth was Belle's unique exposure to the gaming sector through its subsidiary, Premium Leisure Corp. (PLC), which saw its share in gaming revenues at City of Dreams rise 58.8% to PHP2.6 billion from PHP1.6 billion the year before.

It has been three years since the opening of the integrated gaming and entertainment complex of City of Dreams in December 2014. Since then, City of Dreams has been recognized as one of the premier luxury entertainment destinations in Metro Manila. This is due in no small part to our partner, Melco Resorts and Entertainment Philippines, which has successfully leveraged its international operating experience in creating a unique position for City of Dreams through a broad mix of both local and foreign clientele.

While its foray into upscale urban integrated resort development is fairly recent, Belle Corporation has long established its credentials as a luxury resort operator in its Tagaytay Highlands and Tagaytay Midlands complexes overlooking scenic Taal Lake and Mount Makiling, with Tagaytay Highlands celebrating its 23rd year in 2017. Belle's real estate and property management revenues hit PHP823 million in 2017, a strong 37.9% increase from PHP596 million in 2016. Continued innovation in Belle's themed residential community offerings and a constant refresh program in its amenities has allowed both Tagaytay Highlands and Tagaytay Midlands to maintain their standing as the premier mountain resort hideaway south of Metro Manila.

In keeping with its commitment to sustainability, the company's corporate social responsibility arm, Belle Kaagapay, leads its efforts in uplifting the quality of life of the communities surrounding its development. Belle Kaagapay supports various livelihood, scholarship and feeding program initiatives while encouraging the self-sufficiency projects of the barangays. This goes hand-in-hand with company efforts to minimize its impact on the environment through water recycling systems, energy conservation initiatives, tree planting activities and partnerships with conservation organizations.

With these noteworthy results, Belle Corporation will continue to build on its track record of growth and deliver value for its shareholders in the years to come.

Tagaytay Midlands

GROSS REVENUES
PHP8.0bn
▲26.7%

NET INCOME
PHP3.5bn
▲13.4%

RECURRING NET INCOME
PHP3.3bn
▲58.4%

EBITDA
PHP5.0bn
▲36.8%

City of Dreams

Pinecrest Village, Tagaytay Highlands

Sustainability Highlights

SM Investments Corporation 2017 Sustainability Report has been prepared in accordance with the GRI Standards: Core option and has successfully completed the GRI Materiality Disclosures Service.

Read the complete Sustainability Report online or download at www.sminvestments.com

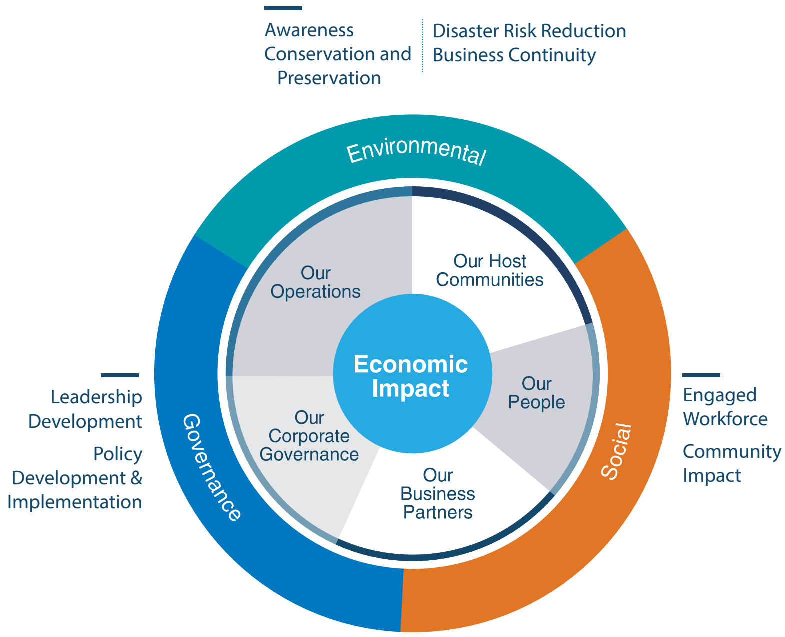
Steering the Path to Sustainable Growth

The Company's sustainability framework highlights its economic impact while adhering to environmental, social and governance best practices. A group-wide steering committee chaired by the president of SM Investments Corporation is tasked to oversee the group's sustainability roadmap and progress, while a technical working group is tasked to implement, monitor and report the Company's sustainability impact.

In accordance with global standards, the SM Board of Directors approved guiding principles aligned to the United Nations Global Compact. The Company supports:

- Corporate Governance
- Climate-friendly solutions and opportunities for business
- Access to clean, renewable and reliable energy sources and services
- The adoption of instruments that help quantify, manage and report on the carbon footprints of its businesses
- The responsibility to protect the dignity of every person and uphold human rights
- The recognition of the role of women in achieving economic growth and poverty reduction
- The elimination of all forms of forced and compulsory labor and child labor

Our Sustainability Framework



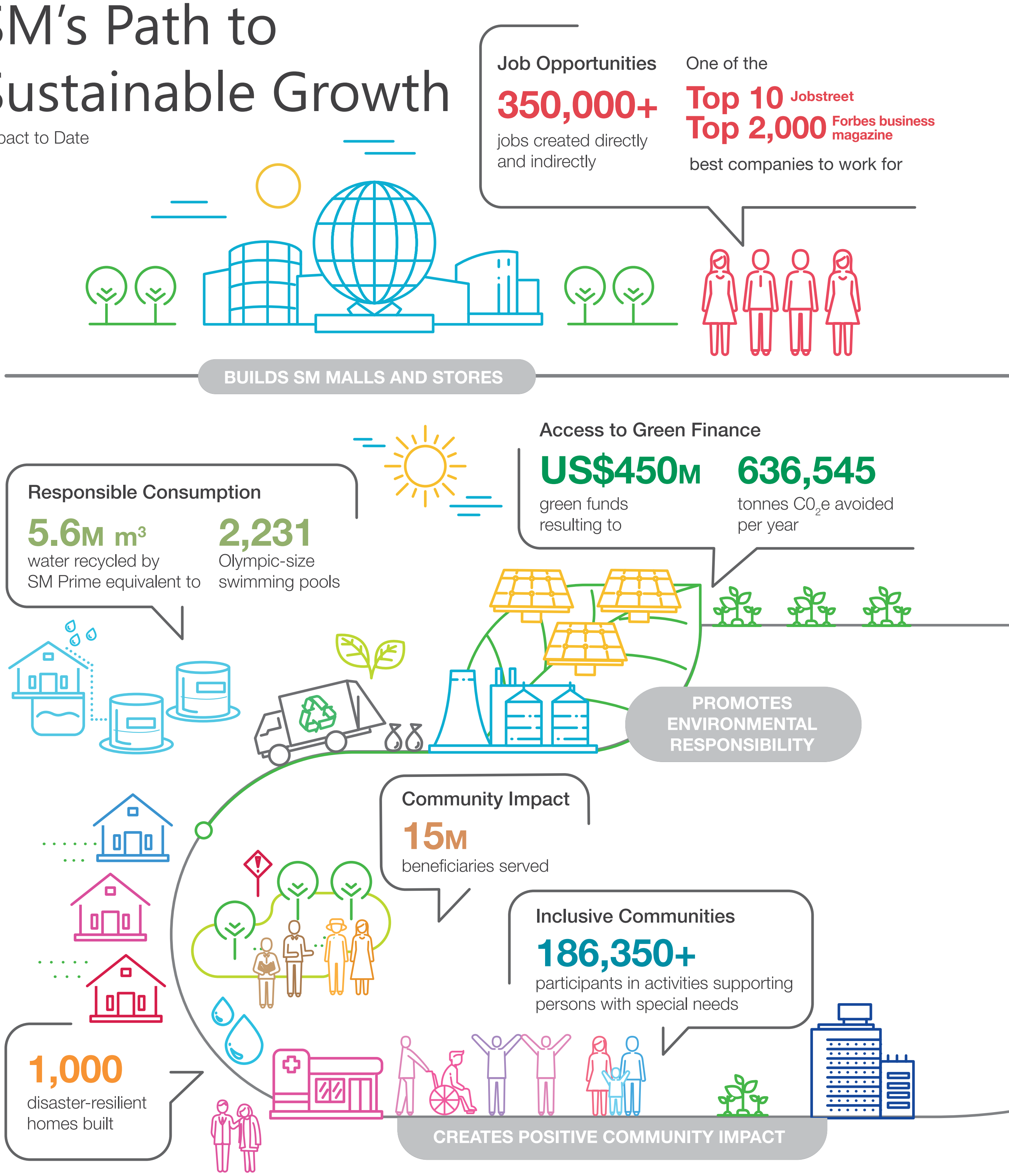
SM also anchors its sustainable development strategy to the UN SDGs. It has five focus areas, namely education, health and wellness, zero hunger through farmers' training, environmental sustainability and financial services. These serve as the Company's drivers in delivering results and creating impact to the rest of the SDGs.

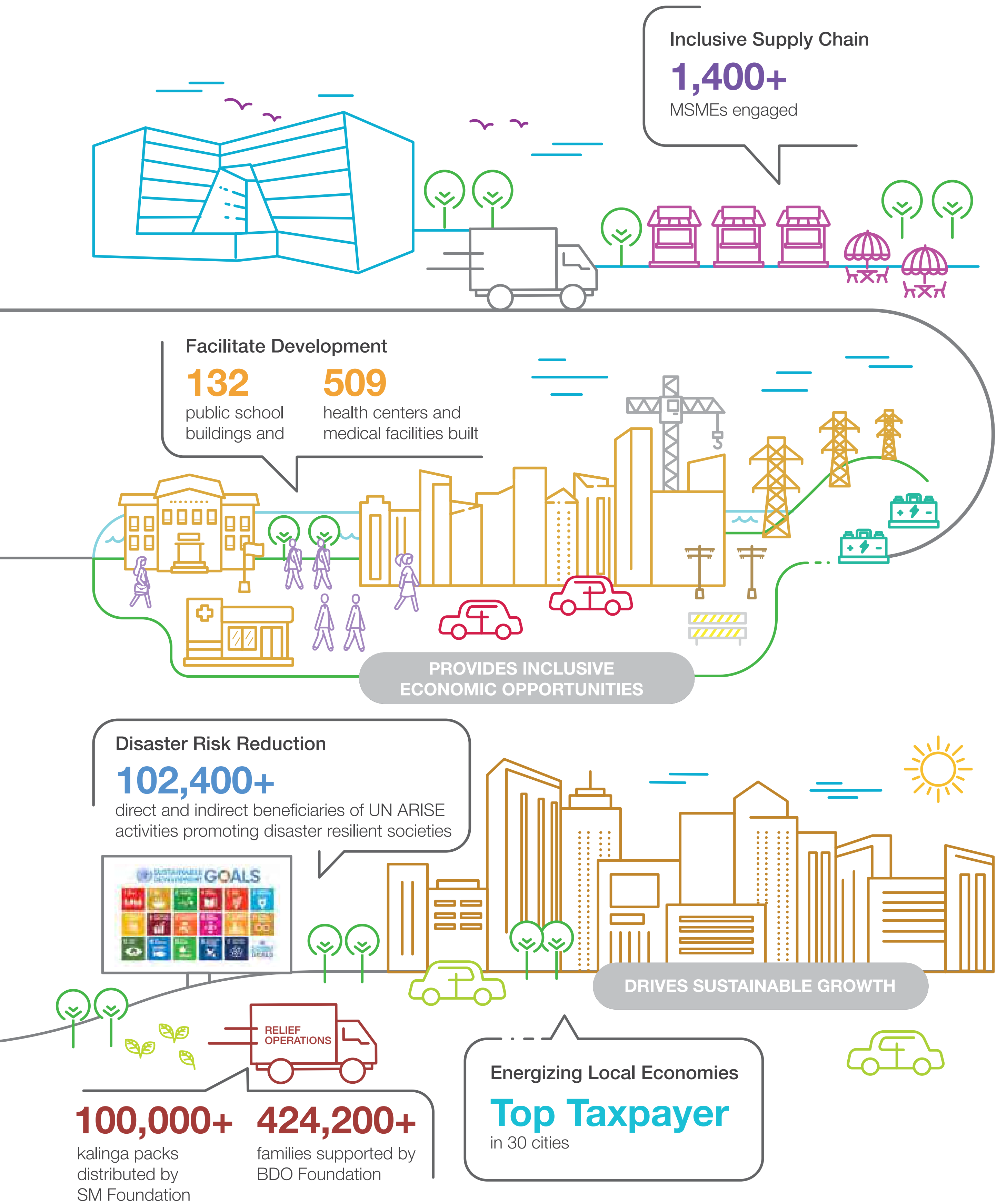
Our Reporting Process

	1	2	3	4
Steps Taken	**Capacity Building** Training and Workshop on the GRI Standards	**Materiality Assessment** Review of operations and management approaches Identification of key impacts across the value chain and performance indicators	**Data Gathering** Collection of stories and data based on identified material topics	**Management Review** Validation and acceptance of material topics and reported information
GRI Reporting Principles Applied	Stakeholder Inclusiveness and Sustainability Context	Materiality, Sustainability Context, Stakeholder Inclusiveness, and Completeness	Stakeholder Inclusiveness and Completeness	Stakeholder Inclusiveness and Completeness

SM's Path to Sustainable Growth

Impact to Date




Inclusive Supply Chain
1,400+
MSMEs engaged
Facilitate Development
132
public school buildings and
509
health centers and medical facilities built
PROVIDES INCLUSIVE ECONOMIC OPPORTUNITIES
Disaster Risk Reduction
102,400+
direct and indirect beneficiaries of UN ARISE activities promoting disaster resilient societies
GOALS
RELIEF OPERATIONS
DRIVES SUSTAINABLE GROWTH
100,000+
kalinga packs distributed by SM Foundation
424,200+
families supported by BDO Foundation
Energizing Local Economies
Top Taxpayer
in 30 cities

We align with the United Nations Sustainable Development Goals

Impact to Date

1 NO POVERTY

20M+

beneficiaries served

2 ZERO HUNGER

19,722

farmers trained from 2,761 barangays in 708 municipalities and 144 provinces

3 GOOD HEALTH AND WELL-BEING

194

public health centers renovated by SM Foundation & BDO Foundation

6.2M

patients served

4 QUALITY EDUCATION

5,779

college and technical-vocational scholars

396

classrooms built for 40,000 students by SM Foundation & BDO Foundation

5 GENDER EQUALITY

69%

women in workforce

22%

women in leadership roles

6 CLEAN WATER AND SANITATION

100,000+

students in 94 public elementary schools with access to clean water through Drink for 2 in partnership with UNICEF

5.6M m^3

water recycled by SM Prime equivalent to 2,231 Olympic-size swimming pools

7 AFFORDABLE AND CLEAN ENERGY

US$450M

green funds for renewable energy and energy efficiency projects generating 485.62 MW of renewable energy

33,000

solar panels in SM Malls

8 DECENT WORK AND ECONOMIC GROWTH

350,000+

jobs created directly and indirectly

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

641

public school buildings, health centers and medical facilities built

10 REDUCED INEQUALITIES

186,350+

participants in raising awareness for the rights of persons with special needs

job opportunities through AutiSM@Work Program

11 SUSTAINABLE CITIES AND COMMUNITIES

1,000

disaster-resilient homes

300,000+

families served during disaster relief operations

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

274,000+

units of THE SM STORE lighting fixtures converted to LED

13 CLIMATE ACTION

636,545

tonnes CO_2e avoided per year through the BDO Green Financing

14 LIFE BELOW WATER

3

marine protected areas within our areas of operations

10

hectares of mangroves protected

468

unique individuals out of the 1,000 Philippine whale sharks protected through BDO Partnership with WWF

15 LIFE ON LAND

82

bird species recorded and protected in Pico de Loro

80+

Oliver Ridley turtle hatchlings released

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

received multiple awards for best practices in corporate governance awards and adheres to ASEAN Corporate Governance Scorecard

17 PARTNERSHIPS FOR THE GOALS

10,000

young adults who joined the Global Youth Summit to raise awareness and identify projects to support the UN SDGs

Leader in UNISDR UN ARISE – Private Sector Alliance for Disaster Resilient Societies

Good Governance Equates to Good Business

SM Investments Corporation recognizes the vital role that a strong corporate governance culture plays in the operations of its business. Through its Board of Directors and Management, the Company has established good governance practices that deliver financial sustainability in a manner that upholds the principles of fairness, accountability and transparency. These practices permeate throughout the organization and ensure that the long-term success of the Company remains balanced with the long-term best interests of its shareholders and other stakeholders.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

In accordance with the Company's Manual on Corporate Governance, the Board of Directors is composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances. The Board ensures that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, which enables it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction. In line with this and SMIC's board diversity policy, Mr. Alfredo E. Pascual, a former President of the University of the Philippines (UP) was elected to the Board of Directors during SMIC's last Annual Stockholders' Meeting. He joins Mr. Joseph R. Higdon, an American with a lifetime of experience in investments and fund management, and Ms. Tomasa H. Lipana, a former Chairperson and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers, to form a diverse and well-rounded collection of independent directors on the Company's Board.

Per SMIC's Manual on Corporate Governance, the Company shall have at least three (3) independent directors, who must be free from management responsibilities, substantial shareholdings and material relations, whether it be business or otherwise, which could be perceived to impede the performance of independent judgment. Independent directors are tasked to encourage impartial discussions at board meetings, monitor and provide feedback on Management's performance, and safeguard the interests of the Company's various stakeholders.

SM Investments Corporation's Board of Directors

Director	Directorship	Age	Year First Elected	No. of years served as director
Jose T. Sio *Chairman of the Board*	Non-Executive Director	78	May 2005	13
Teresita T. Sy-Coson *Vice Chairperson*	Non-Executive Director	67	May 1979	39
Henry T. Sy, Jr. *Vice Chairman*	Non-Executive Director	64	May 1979	39
Frederic C. DyBuncio *President / CEO*	Executive Director	58	April 2017	1
Harley T. Sy *Executive Director*	Executive Director	58	May 1993	25
Joseph R. Higdon *Lead Independent Director*	Independent Director	76	April 2019	8
Tomasa H. Lipana *Independent Director*	Independent Director	69	April 2016	2
Alfredo E. Pascual *Independent Director*	Independent Director	69	April 2017	1

CORPORATE GOVERNANCE

SMIC's culture of corporate governance emanates from its Board of Directors. The Board sets the "tone at the top" and upholds the highest standard of excellence and integrity for the Company. Specifically, the Board is tasked to:

- Install a process of selection to ensure a mix of competent directors and officers;
- Determine the Company's purpose, vision, mission and strategies to carry out its objectives and review it annually, or sooner should the need arise;
- Oversee the development of and approve the Company's business objectives and strategy, and monitor Management's implementation of such;
- Ensure that the Company complies with all relevant laws, regulations and codes of best business practices;
- Identify the Company's major and other stakeholders and formulate a clear policy on communicating or relation with them through an effective investor relations program;
- Adopt a system of internal checks and balances;
- Identify and monitor key risk areas and key performance indicators, and ensure that a sound Enterprise Risk Management framework is in place;
- Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulation;
- Ensure that an effective succession planning program for directors, key officers and management is in place, and setting the retirement age for directors and key officers at eighty (80) years of age;
- Ensure that each elected director, shall before assumption of office, be required to attend a seminar on corporate governance conducted by a duly recognized private or governance institution;
- Ensure that each director shall annually attend relevant continuing education programs conducted by a regulatory body and/or an accredited training provider;
- Ensure that directors with material interest in any transaction affecting the Company should abstain from taking part in the deliberations for the same;
- Formulate and implement group-wide policies to ensure the integrity of related party transactions, particularly those which pass certain thresholds of materiality, between and among the Company and its related companies, business associates, major shareholders, officers, directors and their spouses, children, dependent siblings and parents, and of interlocking director relationships;
- Ensure that the Company's Code of Ethics, which provides the standards for professional and ethical behavior, as well as articulates acceptable and unacceptable conduct and practices in internal and external dealings, is properly disseminated to the Board, Management and employees, and is available to the public via the Company's website; and
- Establish and maintain an alternative dispute resolution system to settle conflicts between the Company and its shareholders or other third parties, including regulatory authorities.

Board Performance and Attendance

In accordance with the Manual on Corporate Governance, the Board meets at least six (6) times annually. Board meetings are scheduled a year in advance to encourage higher participation. Special board meetings may be called by the Chairman, the President or Corporate Secretary at the request of any two (2) directors. A director's absence or non-participation for whatever reason in more than 50% of all meetings, both regular and special, in a year may be a ground for temporary disqualification in the succeeding election. Furthermore, non-executive directors meet at least once a year, without any executive directors or representatives of Management present. Board papers and other materials used during Board meetings are distributed to the relevant parties at least one (1) week before the actual meeting.

Director	Special 1/25/17	Regular 3/1/17	Regular 4/26/17	Organizational 4/26/17	Special 5/10/17	Regular 8/9/17	Regular 11/8/17	Special 1/24/18	%
Jose T. Sio	•	•	•	•	•	•	•	•	100
Teresita T. Sy-Coson	•	•	•	•	•	•	•	•	100
Henry T. Sy, Jr.	•	•	•	•	•	•	•	•	100
Frederic C. DyBuncio	N/A	N/A	N/A	•	•	•	•	•	100
Harley T. Sy	•	•	•	•	•	•	•	•	100
Ah Doo Lim*	•	•	•	N/A	N/A	N/A	N/A	N/A	100
Joseph R. Higdon	•	•	•	•	•	•	•	•	100
Tomasa H. Lipana	•	•	•	•	•	•	•	•	100
Alfredo E. Pascual*	N/A	N/A	N/A	•	•	•	•	•	100

*Mr. Alfredo E. Pascual was elected independent director to replace Mr. Ah Doo Lim on April 26, 2017.

Evaluation of the Board and President

Through the Corporate Governance Committee, the Board conducts an annual performance evaluation of the Board, the Board Committees, individual directors and the Company's President. The evaluation criteria is based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors and the President as provided for by SMIC's By-Laws, Manual on Corporate Governance and respective Board Committee Charters. Directors are asked to rate the performance of the collective Board, the Board Committees, themselves as directors and the Company's President.

Directors are also asked to identify areas for improvement, such as the quality and timeliness of information provided to them, the frequency and conduct of regular, special or committee meetings, their accessibility to Management, the Corporate Secretary and Board Advisors as well as training/continuing education programs or any other forms of assistance that they may need in the performance of their duties. The Board then reviews the results of the evaluation and agree on action plans to address the issues raised.

The forms used for the evaluation may be viewed via the Company's website.

BOARD COMMITTEES

To address specific tasks and responsibilities, the Board adopted six (6) board committees, namely the Audit Commitee, the Executive Committee, the Related Party Transactions Committee, the Compensation Committee, the Risk Management Committee, and the Corporate Governance Committee. Each committee has a Charter which defines its composition, roles and responsibilities based on the provisions found in the Manual on Corporate Governance. The Charters include administrative provisions on the conduct of meetings and proceedings, reportorial responsibilities and provide the standards for evaluation of the respective committee performance. The Charters are disclosed in the Company's website and may be viewed and downloaded.

The Audit Committee

The Audit Committee exercises the Board's oversight of the Company's financial reporting, internal control

CORPORATE GOVERNANCE

system, internal and external audit processes and compliance with applicable laws, rules and regulation. The Committee is composed of three (3) non-executive directors, majority of whom, including the Chairperson, are independent directors. The Committee members each possess relevant background, knowledge, skill and/or experience in areas of accounting, auditing and finance. The Chairperson of the Audit Committee, Ms. Tomasa H. Lipana, is a certified public accountant and does not serve as the chairperson of any of the other board committees. (Please see the Audit Committee Report for more information on the Committee's roles and activities.)

The Executive Committee
The Executive Committee is composed of both executive and non-executive directors and acts on behalf of the Board during the interim periods between Board meetings. The Committee is tasked to assist the Board in overseeing the implementation of strategies, set and monitor the Company's performance goals and foster the sharing and dissemination of best practices in all areas of the business group. The Executive Committee also defines the group-wide policies and actions, relating to sustainable development, including environment, health and safety, internal communications, innovation and research and technology and purchasing.

The Related Party Transactions Committee
The Related Party Transactions Committee reviews all material related party transactions of the Company and ensures that said transactions are conducted at arms' length. The Committee is composed of three (3) non-executive directors, majority of whom, including the Chairman, are independent directors.

Office	Director	11/8/17
Chairman (ID)	Joseph R. Higdon	•
Member (ID)	Alfredo E. Pascual	•
Member (NED)	Jose T. Sio	•

The Compensation Committee
The Compensation Committee is tasked with the oversight of policies on salaries and benefits, as well as promotions and other forms of career advancement. The Committee is composed of three (3) non-executive directors, one (1) of whom is an independent director.

Office	Director	4/26/17	11/8/17
Chairperson (NED)	Teresita T. Sy-Coson	•	•
Member (ID)	Joseph R. Higdon	•	•
Member (NED)	Jose T. Sio	•	•

Board Remuneration
Members of the Board of Directors receive a per diem of P100,000 for each regular or special Board meeting attended and P20,000 per diem per Board Committee meeting attended. The amount of the per diem is proposed at the Annual Stockholders' Meeting and approved by SMIC shareholders. Total compensation paid to directors is disclosed annually in the Definitive Information Statement sent to shareholders, together with the Notice of the Annual Stockholders' Meeting.

The Risk Management Committee
The Risk Management Committee is responsible for the oversight of the Company's Enterprise Risk Management (ERM) system. The Committee is composed of three (3) non-executive directors, majority of whom, including the Chairman, are independent directors. Per the Committee's charter, at least one (1) of its members must have relevant knowledge and experience on risk and risk management. The Committee Chairman, Mr. Alfredo E. Pascual does not serve as the chairman of any of the other board committees.

Office	Director	8/9/17	11/8/17
Chairman (ID)	Alfredo E. Pascual	•	•
Member (ID)	Joseph R. Higdon	•	•
Member (NED)	Jose T. Sio	•	•

Enterprise Risk Management (ERM)
SMIC's ERM approach begins with the identification and prioritization of risks, followed by the assessment of risk interrelationships and analysis of risk sources. This is followed by the development of risk management strategies and action plans, and ultimately, the monitoring and continuous improvement of the risk management process.

SMIC's business unit heads are responsible for managing operational risks by implementing internal controls within their respective units. The Risk Management Committee is regularly updated on the Company's risk management systems, as well as on improvement plans of SMIC, while the Executive Committee provides oversight on the assessment of the impact of risks on the strategic and long-term goals of the Company.

Actions adopted to mitigate the Company's risks include investment in technology, the provision of continuous training to personnel, the performance of regular audits, the establishment and implementation of policies for strong information technology (IT) governance, and continued partnerships with the Company's various stakeholders. Technological risks are addressed via continuos risk assessments, wherein potential threats to assets, vulnerabilities and likelihood of occurence are evaluated and possible impacts are estimated in the areas of networks, operating systems, applications and databases in production. Specifically, system vulnerability assessments are regularly conducted to proactively detect and address threats.

The Corporate Governance Committee
The Corporate Governance Committee is tasked to assist the Board in its corporate governance related responsibilities, while also performing the review and evaluation of the qualifications of all candidates nominated to the Board of Directors, and those nominated to positions that require Board approval under the Company's By-Laws. The Committee is composed entirely of independent directors.

Office	Director	3/1/17	4/26/17
Chairman (ID)	Joseph R. Higdon	•	•
Member (ID)	Alfredo E. Pascual*	N/A	•
Member (ID)	Tomasa H. Lipana	•	•

*Mr. Alfredo E. Pascual was elected independent director on April 26, 2017.

Nomination and Election of Directors
SMIC sets a reasonable period of time for the submission of nominations of candidates for election to its Board of Directors. All nominations for directors submitted in writing to the Corporate Secretary within the said nomination period are considered valid. A shareholder of record, including a minority shareholder, entitled to notice of and to vote at the Annual Stockholders' Meeting for the election of directors shall be qualified to be nominated as a director. When searching for candidates to the Board of Directors, the Company engages the services of professional search firms and/or other external sources, such as director databases set up by director or shareholder bodies.

The Corporate Governance Committee meets to pre-screen and check the qualifications of all persons nominated to be elected to the Board from the pool of candidates submitted by the nominating shareholders. The Manual on Corporate Governance prescribes the following qualifications to be a director of the Company:

- Holder of at least one (1) share of stock of the Company;
- Shall be at least a college graduate or have sufficient experience in managing the business to substitute for such formal education;
- Shall be at least twenty-one (21) years old;
- Shall be proven to possess integrity and probity;
- Shall be diligent, hardworking and reputable;
- Shall be proven to possess the appropriate level of skill and experience in line with the strategic plans and goals of the Company; and
- In addition to the qualifications for membership in the Board required in relevant laws, the Board may provide for additional qualifications, which may include practical understanding of the Company's business, membership in good standing in relevant industry, business or professional organizations, and previous business experience.

In addition to the aforementioned qualifications, the Corporate Governance Committee also identifies qualities of directors that are aligned with the Company's strategic direction. Likewise, the Committee ensures that those nominated to the Board possess none of the disqualifications enumerated in the Manual on Corporate Governance. Further to this, the Committee ensures that nominees have attended an orientation or training related to corporate governance before taking office. The Committee also facilitates training for Board members and key officers provided by training providers duly accredited by the Securities and Exchange Commission (SEC).

CORPORATE GOVERNANCE

Notable Continuing Education/Training of the Board of Directors			
Director	**Date of Training**	**Program**	**Name of Training Institution**
Jose T. Sio	12/6/17	Annual Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Teresita T. Sy-Coson	5/10 - 5/12/17	World Economic Forum on ASEAN 2017	World Economic Forum
Henry T. Sy, Jr.	11/8/17	Annual Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Frederic C. DyBuncio	5/24/17	5th Annual Forum on Governance, Ethics and Compliance	Good Governance Advocates & Practitioners of the Philippines (GGAPP)
Harley T. Sy	12/6/17	Annual Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Joseph R. Higdon	4/25/17	Seminar on Corporate Governance	Sycip, Gorres, Velayo & Co. (SGV)
Tomasa H. Lipana	11/8/17	Annual Corporate Governance Training Program	Institute of Corporate Directors (ICD)
	5/24/17	5th Annual Forum on Governance, Ethics and Compliance	Good Governance Advocates & Practitioners of the Philippines (GGAPP)
Alfredo E. Pascual	5/24/17	5th Annual Forum on Governance, Ethics and Compliance	Good Governance Advocates & Practitioners of the Philippines (GGAPP)
	6/14, 15, 16, 21, 22/17	Professional Directors Program (PDP)	Institute of Corporate Directors (ICD)

The Corporate Governance Committee also determines the number of directorships which a member of the Board may hold simultaneous to their SMIC board seat.

Directorships in Other Reporting Companies		
Director	**Name of Reporting Company**	**Nature of Directorship**
Henry Sy, Sr.	SM Prime Holdings, Inc.	Chairman Emeritus
	BDO Unibank, Inc.	Chairman Emeritus
	China Banking Corp.	Honorary Chairman
Jose T. Sio	Belle Corp.	Chairman of the Board
	China Banking Corp.	Non-Executive Director
	Atlas Consolidated Mining and Development Corp.	Non-Executive Director
Teresita T. Sy-Coson	BDO Unibank, Inc.	Chairperson of the Board
Henry T. Sy, Jr.	SM Prime Holdings, Inc.	Chairman of the Board
Frederic C. DyBuncio	2GO Group, Inc.	President/CEO/Director
	Phoenix Petroleum Philippines, Inc.	Director
	Atlas Consolidated Mining and Development Corp.	Vice Chairman
Harley T. Sy	China Banking Corp.	Non-Executive Director
Joseph R. Higdon	International Container Terminal Services, Inc.	Independent Director
	Security Bank Corp.	Independent Director
	Philippine Equity Partners, Inc.	Independent Director

CORPORATE GOVERNANCE RELATED POLICIES

SMIC regularly reviews and enhances its Manual on Corporate Governance, Code of Ethics, and other corporate governance related policies and programs to ensure continued development of its governance related practices.Corporate governance related policies may be viewed and downloaded via the Company's website at www.sminvestments.com.

The Manual on Corporate Governance

The Manual on Corporate Governance institutionalizes the principles and best practices of good corporate governance in the organization and remains a testament to the belief that good corporate governance is a critical component of sound strategic business management. In addition to the provisions relating to the Board of Directors and Management, the Manual also contains the Company's policies on disclosure and transparency, and mandates the conduct of communication, and training programs on corporate governance. It also outlines the rights of stakeholders, and the protection of the interests of minority stockholders.

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

The Code of Ethics

SMIC's Code of Ethics provides the Company with the backbone for its culture of corporate governance. All directors, officers and employees are required to adhere to the Code in the performance of their duties and responsibilities. The Code highlights the importance of integrity in dealings with investors, creditors, customers, contractors, suppliers, regulators, co-employees, and the Company's other various stakeholders. It also highlights the Company's duties to its employees, shareholders and the importance of corporate social responsibility.

Other CG Related Policies

Insider Trading Policy

Directors, officers and employees are prohibited from trading in the Company's shares, five (5) trading days before and two (2) trading days after the disclosure of any material, stock price-sensitive information. SMIC issues reminders of the "trading ban", before the release of financial reports or the disclosure of other material information to ensure compliance with the policy. All directors, officers and employees are required to report their dealings in company shares within three (3) business days of the transaction. Reports should indicate the date of the trade/s and number of shares traded, at least, and should be submitted to the Company's Compliance Officer.

Related Party Transactions Policy

SMIC discloses in detail the nature, extent and other material information on transactions with related parties in the Company's financial statements and quarterly and annual reports to regulators. Management regularly presents the details of transactions entered into by SMIC with related parties at the meetings of the Related Party Transactions Committee. This is to ensure that SMIC conducts all related-party transactions at an arms' length basis.

Conflict of Interest Policy

SMIC's Conflict of Interest Policy defines a conflict of interest as a situation wherein a director, officer or employee has or appears to have a direct or indirect personal interest in any transaction, which may deter or influence him/her from acting in the best interests of the Company. Any director, officer or employee involved in an actual or potential conflict of interest is required to immediately disclose said conflict to the Company.

Guidelines on Gifts/Hospitality/Entertainment (Anti-Corruption)

Based on the provisions of the Code of Ethics, SMIC's directors, officers and employees are prohibited from soliciting or accepting gifts, hospitality, and/or entertainment in any form from any business partner. The term gift covers anything of value, such as but not limited to cash or cash equivalent. The guidelines provide exceptions such as corporate giveaways, tokens or promotional items of nominal value. In the same manner, travel sponsored by any current or prospective business partner is prohibited.

Guidelines on Placement of Advertisements

SMIC issued a policy to prohibit the placement of advertisements in publications that solicit for such ad placement prior to the release of the official results of an awarding process conducted by the publication and where an SM company or director, officer or employee is one of the nominees vying for the award. SMIC may consider placing advertisements in such publications as part of its over-all marketing strategy, but only after the release of the results of the awarding process and where it will not create reasonable doubt that such ad placement influenced in any way an award given to an SM company or director, officer or employee.

Policy on Accountability, Integrity and Vigilance (Whistleblowing Policy)

SMIC's whistleblowing policy, referred to as the Policy on Accountability, Integrity and Vigilance (PAIV), was adopted to create an environment where concerns and issues, made in good faith, may be raised freely within the organization. Under the policy, any SMIC director, officer or employee may accomplish an incident report on suspected or actual violations of the Code of Ethics, the Company's Code of Conduct or any other applicable law or regulation. Upon receipt of an incident report, Management conducts an investigation on its merit, subject to due process and applicable penalties and sanctions thereafter. Furthermore, the policy invokes a "No Retaliation" section for those that have reported in good faith.

Policy for Vendor Selection and Purchase of Goods and Services

Existing and potential vendors and suppliers are required to conform to the Company's Code of Ethics as a pre-requisite for the accreditation process.

DISCLOSURE AND TRANSPARENCY

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

SMIC regularly discloses its top shareholders and its beneficial owners who own more than 5% of its shares. Shareholdings of directors and senior management are disclosed in the Definitive Information Statement sent to shareholders prior to the Annual Stockholders' Meeting.

The Investor Relations Department

The Investor Relations Department (IR Department) of SMIC is the main avenue of communication between the Company and its various stakeholders. The IR Department arranges regular teleconferences and site visits for investors, and conducts annual roadshows with stops in various locations throughout the world. They also coordinate with the investor relations departments of the Company's subsidiaries and affiliates, as well as participate in various investor fora and conduct regular briefings with analysts and members of the press. Should SMIC's shareholders or other various stakeholders require further information or details on the Company, its operations, directors and/or officers, or would like to provide feedback and/or make other relevant suggestions/recommendations to the Company, they may contact the following:

Investor Relations Department
10/F OneE-Com Center
Harbor Drive, Mall of Asia Complex
Pasay City, 1300 Philippines
ir@sminvestments.com

The Annual Stockholders' Meeting

The Annual Stockholders' Meeting (ASM) provides SMIC shareholders with the opportunity to raise concerns, give suggestions, and vote on relevant issues. Voting methods are clearly defined and explained to shareholders before the ASM to ensure the observance of their voting rights and continued participation in the voting process.

Under the Company's By-Laws and Manual on Corporate Governance and in accordance with certain laws, rules and regulation, shareholders may cumulatively vote for the election or replacement of members of the Board of Directors. Prior to the ASM, shareholders are furnished a copy of the annual report, including financial statements, and relevant information about the current and nominated directors and key officers. Elected directors hold office for one (1) year until their successors are elected following the procedures set forth in SMIC's By-Laws. SMIC also includes rationales and explanations for each agenda item which requires shareholder approval in the Notice of the Annual Stockholders' Meeting. Furthermore, the Company appoints an independent party to count and validate votes made during the ASM.

Proxy voting is permitted and facilitated through proxy forms which are distributed to shareholders prior to the ASM. Proxy forms may also be downloaded from the Company's website. To encourage shareholders to apply their right to vote through the proxy forms, notarization of such is not required. Shareholders are also given the opportunity to vote on certain corporate acts in accordance with law. These resolutions, along with shareholder questions and the corresponding responses are recorded in the minutes of the ASM, which are posted on the Company's website within five (5) days from the ASM. To ensure that all shareholders' concerns are properly addressed, the Chairman of the Board, Board Directors, the President, Board Committee Chairpersons and Members, Management, the Corporate Secretary, Compliance Officer, Internal Auditor and the External Auditors are always present during the ASM.

RIGHTS, ROLES AND PROTECTION OF STAKEHOLDERS

Based on its Manual on Corporate Governance, Code of Ethics and other relevant rules, laws and regulations, SMIC is required to recognize and protect the rights and interests of its key stakeholders, namely its shareholders, employees, customers, business partners, creditors, as well as the communities it operates in and the environment.

Rights of Shareholders
The Manual on Corporate Governance protects the shareholders' appraisal right as well as their rights to vote, inspect corporate books and records, gain access to material information and receive an equitable share of the Company's profits.

The exercise of a shareholder's voting right is encouraged by SMIC to ensure meaningful participation in all shareholders' meetings. Voting methods and vote counting systems employed by the Company are clearly explained to ensure the effective exercise of shareholders' right to vote. SMIC follows the system of cumulative voting for the election of directors to allow shareholders an opportunity to elect each member of the Board of Directors individually.

Shareholders have the right to receive dividends subject to the discretion of the Board. They may exercise their appraisal right or the right to dissent and demand payment of the fair value of their shares in accordance with the Corporate Code.

Minority shareholders are given the right to propose the holding of a meeting as well as the right to propose items in the agenda of the meeting, provided that the items are for legitimate business purposes and in accordance with law, jurisprudence and best practice. Minority shareholders are also given access to information relating to matters for which Management is accountable.

Dividend Policy
The policy of the Company is to provide a sustainable dividend stream to its shareholders. The Board determines the dividend payout taking into consideration the Company's operating results, cash flows, capital investment needs and debt servicing requirements. Since its listing in 2005 the Company has been able to declare annual cash dividends equivalent to 30% of prior year earnings and will endeavor to continue doing so while ensuring financial flexibility. Dividends shall be paid within thirty (30) days from the date of declaration.

Employee Welfare
SMIC strives to be an employer of choice and provides for the health, safety and welfare of its employees. Through the efforts of its Human Resources Department (HRD), the Company has established policies and programs that promote a safe and healthy work environment that caters to all cultures and creeds and encourages employee development and growth.

SMIC encourages good health and wellness through its various sports and fitness programs. Employees may use the courts and fitness facilities in the workplace and are encouraged to participate in HRD supported aerobic and dance activities. The Company also conducts orientations and learning sessions on health related matters, such as breast and cervical cancer awareness and detection; influenza and hepatitis B prevention and drug abuse awareness, to name a few. Furthermore, SMIC facilitates the distribution and administration of essential vaccines, has a fully functioning clinic and employs the services of a 24-hour roving ambulance service.

Emergency Preparedness Program
As part of its Enterprise Risk Management, SMIC implements an emergency preparedness program that aims to safeguard its workforce, operations, and customers against emergencies, and natural and manmade disasters. Led by its Emergency Preparedness Committee, and in coordination with fire and security agents, the Company conducts regular safety drills throughout the SMIC workplace. These drills, along with emergency management related orientations and training are conducted to ensure a competent, composed and efficient response from SMIC's workforce in the event of an emergency.

Training and Employee Development
Awareness and understanding of the principles of good corporate governance are essential to the continued development of SMIC's corporate governance culture. Through the Orientation for New Employees of SM (ONE SM), new employees are given an overview of SMIC's corporate governance framework, policies and its various components. A substantial portion of the orientation is devoted to the discussion of SM's core values and the Code of Ethics, and highlights the roles that each individual plays in the overall development of the corporate governance culture. Skills and Leadership development courses are also conducted regularly, covering topics such as Seven Habits of Effective People, Coaching for Performance and Work Attitude and Values Enhancement.

For issues or concerns, stakeholders may refer to:

Mr. Reginald H. Tiu
Senior Assistant Vice President for Corporate Governance
10/F OneE-Com Center
Ocean Drive, Mall of Asia Complex
Pasay City, 1300 Philippines
+63 2 8570100 local 0323
reginald.tiu@sminvestments.com

Awards & Citations

SM INVESTMENTS CORPORATION

Pinnacle Group International
Global CSR and Good Governance Awards
Platinum Award, Best Corporate Communications and Investor Relations
Platinum Award, Best Governed and Most Transparent Company

The Asset Corporate Awards
Platinum Award, 9th Year
Excellence in Governance, Corporate Social Responsibility and Investor Relations
Best Initiatives on Diversity and Social Inclusion
Best Investor Relations Team

Corporate Governance
The Best of Asia Awards
Asia's Icon on Corporate Governance, 12th year (SMIC)
Asian Corporate Director
Jose T. Sio

7th Asian Excellence Recognition Awards
Asia's Best CEO (Investor Relations)
Mr. Harley T. Sy
Asia's Best CFO (Investor Relations)
Mr. Jose T. Sio
Best Investor Relations Company
Best Corporate Communications
Best Investor Relations Professional
Ms. Corazon P. Guidote

Fortune Times
Asia Top Entrepreneur Awards Lifetime Achievement Award
Mr. Henry Sy, Sr.

Philippine Stock Exchange
Special Award for breaching the PHP1 Trillion level market capitalization in the stock market

Public Relations Society of the Philippines
53rd Anvil Awards
Silver Award, PR Tools, Publications
2016 SM Unified Annual Reports

Silver Award, PR Tools, Publications
2016 SM Investments Sustainability Report

SM PRIME HOLDINGS, INC.

PSE Bell Awards Excellence in Corporate Governance
Best Investor Relations Program

Corporate Governance Asia
7th Asian Excellence Awards
Best Investor Relations Company
Best Environmental Responsibility
Asia's Best CEO
Jeffrey C. Lim, President

The Asset Corporate Awards
Platinum Award
Excellence in Governance, Corporate Social Responsibility and Investor Relations

China-ASEAN Business Council (CABC)
One of the Top Ten Successful ASEAN Enterprises Entering China

SM RETAIL, INC.

Retail Asia Pacific Top 500 Awards
Gold Award
SM Retail, Inc.

Public Relations Society of the Philippines
53rd Anvil Awards
Silver Award, PR Tools, Multimedia/Digital Intranet
SM Retail Employees' Portal

Dangal ng Pasig Gawad Parangal
Top business establishments for supporting the employment program of the City of Pasig
3rd -SM Supermarket East Ortigas
7th -Savemore Market Amang Rodriguez

Top Taxpayer Awards by the LGUs
SM Supermarket Olongapo
SM Hypermarket Baliwag
SM Hypermarket Rosales
Savemore Lipa Batangas
Savemore Talavera
Savemore Solano 1
Savemore Solano 2
Savemore Kalibo
Savemore Santiago 1
Savemore Santiago 2
Savemore Bayombong
Savemore Zapote
Savemore Los Baños
Savemore Dinalupihan
Savemore ARCC
Savemore GMA Portal
Savemore Jaro 1
Savemore Jaro 2
Savemore Parola

DTI Gold Bagwis Awards
SM Supermarket Cauayan Isabela
SM Supermarket Cabanatuan
SM Supermarket Sangandaan
SM Hypermarket Iloilo
SM Hypermarket Cherry Congressional
Savemore Cotabato
Savemore My Place
Savemore Baclaran
Savemore CM Anabu
Savemore San Ildefonso

SM RETAIL, INC.

DTI Gold Bagwis Awards (cont.)
Savemore Sta. Ana, Manila
Savemore Binangonan
Savemore Roxas, Isabela
Savemore Salawag
Savemore Echague
Savemore Pedro Gil
Savemore Cartimar
Savemore Guagua, Pampanga
Savemore Angono 2
Savemore Tumauini 2
Savemore GMA Protal
Savemore Taft
Savemore Jaen
Savemore DDC Paliparan
Savemore CW Tarlac
Savemore Talisay
Savemore Silay

Philippine Retailers Association Award
Best Supermarket
SM Supermarket

Department of Education
Certificate of Appreciation
For Supporting DepEd's Feeding Programs
Savemore Market

Supporting DepEd's Adopt-a-School Program
Savemore Market

SM FOUNDATION, INC.

The Asset Corporate Awards
Best Initiatives in Social Responsibility
(Technical Vocational Education Initiative)

Public Relations Society of the Philippines
53rd Anvil Awards
Gold Award, PR Programs
Tech-Voc Scholarship Grants for Gainful
Employment

BDO UNIBANK, INC.

Alpha Southeast Asia
11th Annual Best FI Awards
Best Bond House (2007-2010, 2012-2013, 2016-2017)
Best Equity House (2008, 2013, 2016-2017)
Best Cash Management Bank (2015 - 2017)
Best Private Wealth Management Bank
BDO Private Bank (2008-2017; 10 con. yrs)

Asiamoney
Best Brand in Finance
Best Banking Brand in the Philippines
Best Domestic Bank in the Philippines
Best Bank for Corporate Social Responsibility in the Philippines

Cash Management Satisfaction Awards
Best Bank in the Philippines

Asian Banking & Finance
Wholesale Banking
Philippine Domestic Trade Finance Bank of the Year
Retail Banking
Silver Award, Corporate Social Responsibility Program of the Year
Onlline Banking Initiative of the Year in the Philippines (2014 -2017)
Mobile Banking Initiative of the Year in the Philippines
Social Media Initiative of the Year in the Philippines

Asian Investor Asset Management Awards
Fund House of the Year in the Philippines (2016 - 2017)

Asian Private Banker Awards
Best Private Bank - Philippines Domestic (2015-2017)

Corporate Governance Asia
13th Best of Asia Recognition Awards (2005 - 2017)
Asian Corporate Director of the Year
Teresita T. Sy-Coson, Chairperson (2010 - 2017)

7th Asian Excellence Recognition Awards
Best Corporate Communications
Best IR Company (Philippines)

Asia's Best CEO (Investor Relations)
Teresita T. Sy-Coson, Chairperson
Asia's Best CEO (Investor Relations)
Nestor V. Tan, Pres. & CEO
Asia's Best CFO (Investor Relations)
Pedro M. Florescio III, Executive Vice President and Treasurer
Best Investor Relations Professional (Philippines)
Luis S. Reyes, Jr., SVP and Head of IR and Corp. Planning

Euromoney Awards for Excellence
Best Bank in the Philippines (2007 - 2008, 2013-2015, 2017)

Finance Asia
Finance Asia's Best Companies Poll
BDO ranked 6th in Best Investor Relations

AWARDS & CITATIONS

BDO UNIBANK, INC.

Finance Asia Country Awards
Best Bank in the Philippines (2010 - 2017)
Best DCM (Debt Capital Markets) House in the Philippines
Best ECM (Equity Capital Markets) House in the Philippines
Best Private Bank in the Philippines (2008 - 2017)

Global Finance
Best Bank in the Philippines (2014 - 2017)

Reader's Digest
Bank Category
One of the Philippines' Most Trusted Brands

The Asian Banker
International Excellence in Retail FS Awards
Best Retail Bank in the Philippines (2012-2013, 2016-2017)

Philippine Country Awards
Mortgage Business of the Year

The Asset
The Asset Corporate Awards
Platinum Award (2010-2017)

The Asset Triple A Country Awards
Best Domestic Bank, Philippines (2013-2017)

Best Corporate Institutional Bank in the Philippines (2015-2017)

The Banker Awards
Bank of the Year, Philippines (2013, 2017)

World Finance
Best Investment Management Company, Philippines (2016 - 2017)

Enterprise Asia
Asia Responsible Entrepreneurship Awards - (AREA)
BDO Foundation

CHINA BANKING CORPORATION

The Asset
The Asset Triple A Awards
Best Bond Adviser (China Bank Capital)
- Domestic Category
Best Local Currency Bond
- P4.3B Ayala Land Inc. Short Dated Note
Best Bond Deal for Retail Investors in Southeast Asia
- P181B Republic of the Philippines, Bureau of Treasury's Retail Treasury Bond
Best Corporate Bond (Philippines)
- Ayala Corporation US$400 Million Fixed-For-Life Bonds
Best Follow-On (Philippines)
- Del Monte Pacific US$200 Million Preferred Shares
Power Deal of the Year – Philippines
GNPower Dinginin Limited Company US$670million/ 7.5billion pesos project financing

Philippine Stock Exchange
Bell Awards for Corporate Governance
Top 5 Listed Companies, 2012- 2017

Corporate Governance Asia
7th Asian Excellence Recognition Awards
Best Investor Relations CEO
Mr. Ricardo R. Chua, President and CEO
Best Investor Relations Professional
Mr. Alexander C. Escucha, SVP

Chartered Financial Analyst Society Philippines (CFA)
Best Managed Fund of the Year Award - Dollar Long-Term Bond Category

Philippine Dealing System Group
Top Corporate Issue Manager/Arranger - Investment House Category 2017

The Asian Banker Technology Innovation Awards
Best Core Banking Implementation (Mid-size banks)

Global Banking and Finance
Best Bank Governance 2017

Public Relations Society of the Phils.
53rd Anvil Awards
Silver Award, PR Tools, Publications
2016 China Bank Annual Report

Financial Statements

Management's Discussion and Analysis or Plan of Operation

Calendar Years Ended December 31, 2017 and 2016

Results of Operation
(amounts in billion pesos)

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

SM Investments Corporation and Subsidiaries (the Group) reported ₱32.9 billion *Net Income Attributable to Owners of the Parent*, 5.5% higher than 2016, and ₱396.1 billion *Revenues*, 9.0% higher than 2016.

Income from Operations increased by 12.0% to ₱75.2 billion from ₱67.2 billion in 2016. *Operating Margin* and *Net Margin* is at 19.0% and 13.0%, respectively.

Merchandise Sales, which grew by 7.2% to ₱288.5 billion from ₱269.3 billion in 2016, accounts for 72.8% of total revenues in 2017. The increase is attributable to the opening of 2 *SM Stores*, 4 *SM Supermarkets*, 28 *Savemore* stores, 3 *SM Hypermarkets*, 7 *WalterMart* stores, and 159 Specialty stores.

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

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

Real Estate Sales increased by 17.6% to ₱29.6 billion from ₱25.1 billion in 2016 due primarily to higher construction accomplishments of projects launched from 2013 to 2016 namely, *Shore, Shore 2 and S Residences* in Pasay City, *Air Residences* in Makati, *Fame Residences* in Mandaluyong and *Silk Residences* in China and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects due to strong demand fueled by OFW remittances, sustained growth of the BPO sector, government spending and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 12.9% to ₱42.4 billion from ₱37.5 billion in 2016. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2016 and 2017, namely, *SM City San Jose Del Monte*, *SM City Trece Martires, SM City East Ortigas, SM CDO Downtown Premier, SM City Puerto Princesa, SM Center Tuguegarao Downtown* and *S Maison* at the Conrad Manila as well as the expansion of shopping spaces in *SM City San Pablo*, *SM City Sucat* and *SM Center Molino*. Excluding the new malls and expansions, same-store rental growth is at 7%. Rentals from hotels and convention centers also contributed to the increase due to the opening of Conrad Manila in June 2016 and the improvement in average room and occupancy rates of the hotels and convention centers.

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

*Equity in Net Earnings of Associate Companies and Joint Venture*s increased by 11.1% to ₱16.6 billion from ₱15.0 billion in 2016 due mainly to the increase in net income of bank and property associates.

Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading (HFT) - net increased by 1591.5% to a gain of ₱110.2 million from ₱6.5 million in 2016 resulting primarily from the disposal of a portion of AFS investments in 2017.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 17.7% to ₱7.9 billion in 2017 from ₱6.8 billion in 2016.

Operating Expenses increased by 13.2% to ₱92.9 billion from ₱82.1 billion in 2016 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 26.2% to ₱9.9 billion from ₱7.8 billion in 2016. *Interest Expense* increased by 24.6% to ₱15.0 billion from ₱12.0 billion in 2016 due mainly to new debt availments for working capital and capital expenditure requirements net of capitalized interest. *Interest Income* increased by 7.5% to ₱4.0 billion from ₱3.7 billion in 2016 due to higher average daily balance of temporary investments in 2017. *Gain on Disposal of Investments and Properties - net* decreased by 95.9% to ₱22.7 million from ₱559.0 million in 2016 due mainly to the sale of a certain investment property in 2016. *Gain (Loss) on Fair Value Changes on Derivatives - net* increased by 1845.5% to a gain of ₱296.3 million from ₱15.2 million in 2016 due mainly to certain non-deliverable forward transactions in 2017. *Foreign Exchange Gain (Loss) - net* increased by 510.7% to a gain of ₱698.7 million from a loss of ₱170.1 million in 2016. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP49.72 : USD1.00 in 2016 to PHP49.93 : USD1.00 in 2017.

Provision for Income Tax increased by 19.2% to ₱13.8 billion from ₱11.6 billion in 2016 due mainly to increase in taxable income. The effective income tax rate is 21.1% in 2017 and 19.5% in 2016.

Non-controlling interests increased by 12.3% to ₱18.6 billion from ₱16.6 billion in 2016 due to the increase in net income of certain partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

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

Total *Assets* increased by 11.4% to ₱960.1 billion from ₱861.5 billion in 2016. Likewise, total *Liabilities* increased by 13.3% to ₱506.3 billion from ₱446.7 billion in 2016.

Current Assets

Current Assets decreased by 3.0% to ₱212.5 billion from ₱219.1 billion in 2016.

Cash and Cash Equivalents decreased by 0.8% to ₱74.3 billion from ₱74.9 billion in 2016 due mainly to new investments in associate companies partly offset by remaining proceeds from debt drawn by SM Prime in 2017.

Investments Held for Trading and Sale decreased by 61.0% to ₱1.3 billion from ₱3.5 billion in 2016 due mainly to maturity of investments held for trading.

Merchandise Inventories increased by 7.6% to ₱27.8 billion from ₱25.8 billion in 2016. Bulk of the increase came from the Non Food Group.

Management's Discussion and Analysis or Plan of Operation

Other Current Assets increased by 7.5% to ₱63.5 billion from ₱59.0 billion in 2016 due mainly to the increase in current portion of Land and development arising from land acquisitions and development costs, higher prepaid taxes and other prepayments, and current derivative assets in 2017.

Noncurrent Assets

Noncurrent Assets increased by 16.4% to ₱747.6 billion from ₱642.4 billion in 2016.

AFS Investments increased by 37.0% to ₱25.6 billion from ₱18.7 billion in 2016 due mainly to new investments and increase in the market value of certain AFS investments.

Investments in Associate Companies and Joint Ventures increased by 33.6% to ₱242.1 billion from ₱181.2 billion in 2016. The increase mainly represents equity in net earnings of associates in 2017, investments in new associates, additional investments in bank associates partly offset by dividends received from associate companies.

Time Deposits decreased by 36.5% to ₱26.7 billion from ₱42.0 billion in 2016 due mainly to reclassification and maturing time deposits. On the other hand, the current portion of *Time Deposits* decreased by 45.9% to ₱13.2 billion from ₱24.5 billion in 2016 due mainly to settlement of certain long-term debts and new investments in associate companies.

Investment Properties increased by 7.0% to ₱289.0 billion from ₱270.1 billion in 2016 due mainly to ongoing new mall projects located in Pangasinan, Pampanga, Zambales and Albay in the Philippines; expansions and renovations of *SM Mall of Asia*; costs incurred for landbanking; and ongoing projects of the commercial group namely *Three E-Com Center* and *Four E-Com Center*.

Land and Development increased by 68.6% to ₱40.2 billion from ₱23.8 billion in 2016 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets increased by 30.2% to ₱74.6 billion from ₱57.3 billion in 2016. The increase mainly represents higher receivable from real estate buyers and deposits and advance rentals.

Current Liabilities
Current Liabilities increased by 30.4% to ₱175.9 billion from ₱134.8 billion in 2016.

Bank Loans increased by 72.8% to ₱24.2 billion from ₱14.0 billion in 2016 resulting from new loan availments, net of payments during the period.

Current Portion of Long-term Debt increased by 57.4% to ₱40.3 billion from ₱25.6 billion in 2016 due mainly to reclassification of maturing loans.

Accounts Payable and Other Current Liabilities increased by 19.4% to ₱106.6 billion from ₱89.3 billion in 2016 mainly from higher business volume.

Dividends Payable decreased by 11.0% to ₱2.9 billion from ₱3.3 billion in 2016. This represents dividends due to minority stockholders of certain subsidiaries.

Income Tax Payable decreased by 29.8% to ₱1.9 billion in 2017 from ₱2.7 billion in 2016 due mainly to net tax payments.

Noncurrent Liabilities

Noncurrent Liabilities increased by 5.9% to ₱330.4 billion from ₱311.9 billion in 2016.

Long-term Debt - Net of Current Portion increased by 4.4% to ₱292.6 billion from ₱280.3 billion in 2016 due mainly to new debt availments.

Tenants' Deposits and Others increased by 25.7% to ₱29.8 billion from ₱23.7 billion in 2016 due mainly to new malls and expansions.

Equity

Total *Equity* increased by 9.4% to ₱453.8 billion from ₱414.8 billion in 2016.

Equity Attributable to Owners of the Parent increased by 9.2% to ₱328.1 billion from ₱300.5 billion in 2016. This increase resulted mainly from (a) *Cumulative Translation Adjustment* which increased by 15.3% to ₱1.4 billion from ₱1.2 billion in 2016. This is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso. (b) *Net Unrealized Gain on AFS Investments* which increased by 42.1% to ₱15.3 billion from ₱10.8 billion in 2016 due mainly to the appreciation in market value of certain AFS investments of the Group. These were partially offset by (c) *Re-measurement gain on defined benefit asset/obligation* which decreased by ₱0.8 billion as a result of the valuation of the Group's retirement plan.

Non-controlling Interests increased by 10.0% to ₱125.7 billion from ₱114.3 billion in 2016 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

Key Performance Indicators

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

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

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

Asset to equity ratio remained at 2.1 in both periods.

Gross debt-equity ratio remained at 52:48 in 2017 and 2016 but Net debt-equity ratio slid to 43:57 from 37:63 in 2016 due to mainly to higher increase in net debt of 39.4% from ₱174.8 billion to ₱243.7 billion in 2017.

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

EBITDA increased by 11.5% to ₱89.3 billion from ₱80.1 billion in 2016 due mainly to the 12.0% increase in income from operations.

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

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

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

Expansion Plans / Prospects for the Future

Property Group

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

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

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

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

Retail Group

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

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

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, 2017 and 2016, in accordance with Philippine Financial Reporting Standards 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.

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	**FREDERIC C. DYBUNCIO**	**GRACE F. ROQUE**
Chairman of the Board	President	Treasurer

Signed this 28th day of February 2018

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

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. The Committee oversees special investigations as 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 areas of accounting, auditing and finance. The profiles and qualifications of the Committee members are as follows:

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

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

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

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

Audit Committee						
Committee Designation	**Name**	**3/1/17**	**4/26/17**	**5/10/17**	**8/9/17**	**11/8/17**
Chairperson (ID)	Tomasa H. Lipana	√	√	√	√	√
Member (ID)	Alfredo E. Pascual*	N/A	√	√	√	√
Member (ID)	Ah Doo Lim*	√	N/A	N/A	N/A	N/A
Member (NED)	Jose T. Sio**	N/A	√	√	√	√
Member (NED)	Teresita T. Sy-Coson**	√	√	N/A	N/A	N/A

**Mr. Alfredo E. Pascual replaced Mr. Ah Doo Lim as a Committee Member on April 26, 2017.*
***Mr. Jose T. Sio replaced Ms. Teresita T. Sy-Coson as a Committee Member on April 26, 2017.*

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 do the following:

   - Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, and submit such plan as well as periodic update thereof, 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 findings 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.

To maintain the independence of the Internal Audit, the Chief Audit Executive functionally reports to the Board of Directors, through the Audit Committee. He is authorized to have unrestricted access to all functions, records, property, and personnel in the conduct of his duties, and free access to communicate with the Audit Committee and Management.

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

3. The Committee monitored the implementation of the Internal Audit plan and reviewed the periodic reports of the Chief Audit Executive 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 reasonable assurance on the fairness of the presentation of the consolidated financial statements in accordance with Philippine Financial Reporting Standards. 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 audit functions of the External Auditor.

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

- The annual audit plan for 2017, including scope of work and deliverables, audit approach, focus areas, potential key audit matters and time table;
- The results of its examination, areas of audit emphasis and resolution of 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 and changes in financial reporting standards 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 services provided by SGV & Co, and related audit fees (there was no non-audit service during the year).

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, 2017, six- month period ended June 30, 2017, and third quarter ended September 30, 2017.

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, 2017.

11. The Committee reviewed and discussed the performance, independence and qualifications of the External Auditor, SGV & Co., in the conduct of their audit of the consolidated financial statements of SM Investments Corporation and its subsidiaries for the year. Based on the review of their performance and qualifications, the Committee also recommended the re-appointment of SGV & Co. as External Auditors for 2018.

28 February 2018

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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Goodwill

As at December 31, 2017, the Group reported ₱17,306.9 million goodwill attributable to SM Prime Holdings, Inc., Supervalue, Inc., Super Shopping Market, Inc., Net Subsidiaries, Waltermart Supermarket, Inc. and others. The Group performed an annual testing per cash generating unit (CGU) to assess whether goodwill might be impaired. Given the significant management estimates and assumptions, and the uncertainty of internal and external factors, including future market circumstances, this is considered as a key audit matter.

The assumptions, sensitivities and results of the annual impairment testing are disclosed in Note 17 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's impairment assessment process and evaluated the design of relevant controls. 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 involved 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, 2017, the Group's investments in associate companies amounted to ₱235,028.2 million, representing 31.4% and 24.5% 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 13 to the consolidated financial statements.

Audit Response

We obtained an understanding of management's process for accounting for investments in associate companies. 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. 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 impairment of loans and receivables. We reviewed the working papers of the other auditor on key inputs and assumptions underlying the impairment assessment of loans and receivables.

Revenue Recognition on Sale of Real Estate Units

The Group has certain subsidiaries that derive significant portion of their revenues and costs from the sale of condominium and residential units under pre-completed construction contracts. The subsidiaries apply the percentage of completion (POC) method in determining real estate revenue and costs. The POC is based on physical completion of the real estate project. The cost of real estate sales is determined on the basis of the total estimated costs applied with the POC of the project. The assessment of the physical stage of completion and the total estimated costs requires technical determination by project engineers. In addition, the subsidiaries require a certain percentage of buyer's payments of total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. Reaching this level of collection is an indication of buyer's continuing commitment and the probability that economic benefits will flow to the subsidiaries. This matter is significant to our audit because the assessment of the stage of completion, total estimated costs and level of buyer's equity involves significant management judgment.

Refer to Note 4 to the consolidated financial statements for the disclosures on revenue recognition on sale of real estate units.

Audit Response

We obtained an understanding of the processes for determining the POC, and for determining and updating of total estimated costs, and performed tests of the relevant controls of these processes. 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 selected projects, we obtained the approved total estimated costs and any revisions thereto and the supporting details such as project authorization order for the total estimated costs and budget supplement, change orders and budget transfer for the revisions. We likewise performed inquiries with the project engineers for the revisions. 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.

Existence and Completeness of Merchandise Inventories

As at December 31, 2017, the merchandise inventories of certain subsidiaries of the Group amounted to ₱27,778.7 million, representing 13.1% 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 23 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 the 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, 2017, 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, 2017 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
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May 1, 2015, valid until April 30, 2018
Tax Identification No. 198-819-116
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February 26, 2018, valid until February 25, 2021
PTR No. 6621309, January 9, 2018, Makati City

February 28, 2018

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 29)	**₱74,318,190**	₱74,947,731
Time deposits (Notes 8 and 29)	**13,237,886**	24,473,541
Investments held for trading and sale (Notes 9, 12 and 29)	**1,347,926**	3,456,752
Receivables (Notes 10, 29 and 30)	**32,352,574**	31,346,702
Merchandise inventories - at cost (Note 23)	**27,778,741**	25,825,290
Other current assets (Notes 11 and 29)	**63,478,186**	59,044,139
Total Current Assets	**212,513,503**	219,094,155
Noncurrent Assets		
Available-for-sale investments (Notes 12 and 29)	**25,590,162**	18,675,233
Investments in associate companies and joint ventures (Note 13)	**242,114,427**	181,228,512
Time deposits (Notes 8 and 29)	**26,688,721**	42,041,227
Property and equipment (Note 14)	**21,339,407**	20,950,217
Investment properties (Note 15)	**289,018,265**	270,146,508
Land and development (Note 16)	**40,180,145**	23,825,558
Intangibles (Note 17)	**25,591,232**	25,711,767
Deferred tax assets (Note 27)	**2,489,814**	2,527,745
Other noncurrent assets (Notes 17 and 29)	**74,555,033**	57,261,459
Total Noncurrent Assets	**747,567,206**	642,368,226
	₱960,080,709	₱861,462,381
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 18, 22 and 29)	**₱24,172,965**	₱13,987,765
Accounts payable and other current liabilities (Notes 19 and 29)	**106,561,455**	89,259,033
Income tax payable	**1,883,871**	2,683,715
Current portion of long-term debt (Notes 20, 22, 29 and 30)	**40,297,133**	25,601,582
Dividends payable (Note 29)	**2,939,590**	3,302,828
Total Current Liabilities	**175,855,014**	134,834,923
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 22, 29 and 30)	**292,555,868**	280,254,227
Deferred tax liabilities (Note 27)	**8,029,579**	7,888,395
Tenants' deposits and others (Notes 26, 28, 29 and 30)	**29,828,024**	23,737,574
Total Noncurrent Liabilities	**330,413,471**	311,880,196
Total Liabilities	**506,268,485**	446,715,119
Equity Attributable to Owners of the Parent		
Capital stock (Note 21)	**12,045,829**	12,045,829
Additional paid-in capital	**76,439,288**	76,347,229
Equity adjustments from common control transactions (Note 21)	**(5,424,455)**	(5,424,455)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)
Cumulative translation adjustment	**1,402,623**	1,216,718
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**15,324,123**	10,780,430
Re-measurement gain (loss) on defined benefit asset/obligation (Note 26)	**(701,255)**	34,895
Retained earnings (Note 21):		
Appropriated	**37,000,000**	36,000,000
Unappropriated	**192,071,968**	169,508,122
Total Equity Attributable to Owners of the Parent	**328,132,735**	300,483,382
Non-controlling Interests	**125,679,489**	114,263,880
Total Equity	**453,812,224**	414,747,262
	₱960,080,709	₱861,462,381

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		
	2017	2016	2015
REVENUE			
Sales:			
Merchandise	**₱288,532,163**	₱269,272,716	₱248,072,800
Real estate	**29,567,021**	25,131,499	22,529,384
Rent (Notes 15, 22 and 28)	**42,396,728**	37,537,947	33,456,963
Equity in net earnings of associate companies and joint ventures (Note 13)	**16,640,597**	14,979,645	14,305,879
Cinema ticket sales, amusement and others	**6,578,362**	6,528,516	6,427,592
Management and service fees (Note 22)	**3,880,299**	3,016,409	3,008,412
Dividend income (Note 22)	**495,582**	167,884	274,977
Gain (loss) on sale of available-for-sale investments and fair value changes on investments held for trading - net (Notes 9 and 12)	**110,234**	6,517	(5,417)
Others	**7,948,035**	6,751,046	5,512,551
	396,149,021	363,392,179	333,583,141
COST AND EXPENSES			
Cost of sales:			
Merchandise (Note 23)	**212,695,503**	200,852,579	185,436,953
Real estate (Note 16)	**15,260,313**	13,196,518	12,238,872
Selling, general and administrative expenses (Note 24)	**92,935,170**	82,127,271	74,360,015
	320,890,986	296,176,368	272,035,840
OTHER INCOME (CHARGES)			
Interest expense (Notes 22 and 25)	**(14,988,080)**	(12,028,879)	(10,474,954)
Interest income (Notes 22 and 25)	**4,003,501**	3,725,517	3,215,016
Gain (loss) on disposal of investment and properties - net	**22,702**	559,041	(51,147)
Gain (loss) on fair value changes on derivatives - net (Note 30)	**296,334**	15,232	(103,991)
Foreign exchange gain (loss) - net (Note 29)	**698,742**	(170,130)	240,777
	(9,966,801)	(7,899,219)	(7,174,299)
INCOME BEFORE INCOME TAX	**65,291,234**	59,316,592	54,373,002
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**13,616,519**	11,636,884	10,645,158
Deferred	**156,198**	(78,620)	70,926
	13,772,717	11,558,264	10,716,084
NET INCOME	**₱51,518,517**	₱47,758,328	₱43,656,918
Attributable to			
Owners of the Parent (Note 31)	**₱32,923,455**	₱31,204,304	₱28,865,157
Non-controlling interests	**18,595,062**	16,554,024	14,791,761
	₱51,518,517	₱47,758,328	₱43,656,918
Basic/Diluted Earnings Per Common Share Attributable to Owners of the Parent (Note 31)	**₱27.33**	₱25.90	₱24.07

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱51,518,517**	₱47,758,328	₱43,656,918
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Net unrealized gain (loss) on available-for-sale investments	**4,973,426**	(1,021,689)	851,446
Share in unrealized gain (loss) on available-for-sale investments of associates - net (Note 13)	**354,028**	(1,396,835)	(1,773,250)
Cumulative translation adjustment	**(22,405)**	549,896	364,928
Income tax relating to items to be reclassified to profit or loss in subsequent periods	**(147,803)**	373,597	(170,469)
	5,157,246	(1,495,031)	(727,345)
Items not to be reclassified to profit or loss in subsequent periods			
Re-measurement gain (loss) on defined benefit obligation (Note 26)	**(416,284)**	(417,238)	365,586
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	**124,885**	125,171	(109,675)
	(291,399)	(292,067)	255,911
TOTAL COMPREHENSIVE INCOME	**₱56,384,364**	₱45,971,230	₱43,185,484
Attributable to			
Owners of the Parent	**₱36,916,903**	₱29,205,704	₱31,846,572
Non-controlling interests	**19,467,461**	16,765,526	11,338,912
	₱56,384,364	₱45,971,230	₱43,185,484

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017, 2016 and 2015
(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
As at January 1, 2017	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)
Net income	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Reversal of appropriation (Note 21)	–	–	–	–
Appropriation (Note 21)	–	–	–	–
Sale of treasury shares held by subsidiary	–	78,810	–	–
Acquisition of non-controlling interests	–	13,249	–	–
Cash dividends - ₱7.77 per share (Note 21)	–	–	–	–
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)
As at January 1, 2016	₱8,030,554	₱76,399,625	(₱5,338,948)	(₱25,386)
Effect of common control business combination (Note 5)	–	–	120,078	–
As adjusted	8,030,554	76,399,625	(5,218,870)	(25,386)
Net income	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Common control transactions	–	–	(205,585)	–
Stock dividends - 50% (Note 21)	4,015,275	(52,396)	–	–
Cash dividends - ₱10.63 per share (Note 21)	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Decrease in previous year's non-controlling interests	–	–	–	–
As at December 31, 2016	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)
As at January 1, 2015	₱7,963,406	₱71,952,082	(₱5,367,433)	(₱25,386)
Net income	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Common control transactions	–	–	28,485	–
Acquisition of non-controlling interests	–	(385,538)	–	–
Reversal of appropriation (Note 21)	–	–	–	–
Appropriation (Note 21)	–	–	–	–
Conversion of convertible bonds (Note 21)	67,148	4,833,081	–	–
Cash dividends - ₱10.61 per share (Note 21)	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Decrease in previous year's non-controlling interests	–	–	–	–
As at December 31, 2015	₱8,030,554	₱76,399,625	(₱5,338,948)	(₱25,386)

See accompanying Notes to Consolidated Financial Statements.

to Owners of the Parent							
Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
₱1,216,718	₱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
185,905	4,543,693	(736,150)	–	–	3,993,448	872,399	4,865,847
185,905	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)
₱1,402,623	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224
₱1,057,751	₱12,724,360	₱242,740	₱36,000,000	150,940,847	₱280,031,543	₱103,956,317	₱383,987,860
–	–	5,792	–	(85,287)	40,583	79,451	120,034
1,057,751	12,724,360	248,532	36,000,000	150,855,560	280,072,126	104,035,768	384,107,894
–	–	–	–	31,204,304	31,204,304	16,554,024	47,758,328
158,967	(1,943,930)	(213,637)	–	–	(1,998,600)	211,502	(1,787,098)
158,967	(1,943,930)	(213,637)	–	31,204,304	29,205,704	16,765,526	45,971,230
–	–	–	–	–	(205,585)	–	(205,585)
–	–	–	–	(4,015,275)	(52,396)	–	(52,396)
–	–	–	–	(8,536,467)	(8,536,467)	–	(8,536,467)
–	–	–	–	–	–	(6,358,868)	(6,358,868)
–	–	–	–	–	–	(178,546)	(178,546)
₱1,216,718	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262
₱866,360	₱10,207,259	(₱30,183)	₱27,000,000	₱139,596,096	₱252,162,201	₱99,098,035	₱351,260,236
–	–	–	–	28,865,157	28,865,157	14,791,761	43,656,918
191,391	2,517,101	272,923	–	–	2,981,415	(3,452,849)	(471,434)
191,391	2,517,101	272,923	–	28,865,157	31,846,572	11,338,912	43,185,484
–	–	–	–	–	28,485	–	28,485
–	–	–	–	–	(385,538)	–	(385,538)
–	–	–	(18,000,000)	18,000,000	–	–	–
–	–	–	27,000,000	(27,000,000)	–	–	–
–	–	–	–	–	4,900,229	–	4,900,229
–	–	–	–	(8,520,406)	(8,520,406)	–	(8,520,406)
–	–	–	–	–	–	(3,377,213)	(3,377,213)
–	–	–	–	–	–	(3,103,417)	(3,103,417)
₱1,057,751	₱12,724,360	₱242,740	₱36,000,000	₱150,940,847	₱280,031,543	₱103,956,317	₱383,987,860

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱65,291,234	₱59,316,592	₱54,373,002
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 13)	(16,640,597)	(14,979,645)	(14,305,879)
Interest expense (Note 25)	14,988,080	12,028,879	10,474,954
Depreciation and amortization (Notes 14, 15, 17 and 24)	14,020,884	12,861,154	11,846,356
Interest income (Note 25)	(4,003,501)	(3,725,517)	(3,215,016)
Provision for impairment loss (Notes 10, 15 and 24)	1,488,855	1,335,461	478,869
Dividend income (Note 22)	(495,582)	(167,884)	(274,977)
Loss (gain) on fair value changes on derivatives - net (Note 30)	(296,334)	(15,232)	103,991
Unrealized foreign exchange loss - net	275,731	586,360	196,389
Loss (gain) on available-for-sale investments and fair value changes on investments held for trading (Notes 9 and 12)	(110,234)	(6,517)	5,417
Loss (gain) on disposal of investments and properties - net (Notes 13, 14 and 15)	(22,702)	(559,041)	51,147
Income before working capital changes	74,495,834	66,674,610	59,734,253
Decrease (increase) in:			
Receivables	(616,938)	445,821	1,761,576
Merchandise inventories	(1,953,451)	(4,235,589)	(2,144,740)
Other current assets	1,996,544	3,955,218	11,337,738
Land and development	(29,891,127)	(13,946,006)	(13,361,520)
Increase in:			
Accounts payable and other current liabilities	19,102,389	1,901,637	8,428,920
Tenants' deposits and others	4,354,177	2,704,729	2,254,274
Net cash generated from operations	67,487,428	57,500,420	68,010,501
Income tax paid	(14,425,107)	(11,415,920)	(10,109,982)
Net cash provided by operating activities	53,062,321	46,084,500	57,900,519
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale and held for trading investments	1,983,045	1,875,091	86,350
Property and equipment	182,366	310,534	23,324
Investment properties	70,301	243,644	4,964
Additions to:			
Investment properties (Note 15)	(25,806,496)	(26,769,270)	(44,402,988)
Property and equipment (Note 14)	(5,067,991)	(5,249,198)	(5,051,999)
Available-for-sale and held for trading investments	(3,272,984)	(2,159,111)	(1,242,195)
Investments in associate companies and joint ventures (Note 13)	(47,832,363)	(468,050)	(15,546,154)
Trademarks (Note 17)	–	–	(2,404,018)
Decrease (increase) in:			
Time deposits	26,473,746	(480,639)	(3,264,204)
Other noncurrent assets	(11,201,733)	(8,285,737)	307,618
Dividends received	4,175,190	3,973,577	6,150,529
Interest received	4,182,186	3,660,063	3,152,413
Acquisition of non-controlling interests in a subsidiary	–	–	(442,500)
Net cash used in investing activities	(56,114,733)	(33,349,096)	(62,628,860)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt (Note 32)	55,866,308	62,564,105	32,888,435
Bank loans (Note 32)	59,419,602	20,841,800	19,450,894
Payments of:			
Bank loans (Note 32)	(49,234,402)	(17,385,450)	(23,385,210)
Long-term debt (Note 32)	(31,640,120)	(34,560,516)	(14,241,354)
Dividends (Note 32)	(16,432,295)	(14,417,931)	(12,999,334)
Interest (Note 32)	(16,510,177)	(13,561,377)	(11,998,012)
Reissuance by a subsidiary of treasury shares	158,316	–	–
Net cash provided by (used in) financing activities	1,627,232	3,480,631	(10,284,581)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,425,180)	16,216,035	(15,012,922)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	795,639	448,965	(73,984)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	74,947,731	58,282,731	73,369,637
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱74,318,190	₱74,947,731	₱58,282,731

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information

SM Investments Corporation (SMIC or Parent Company) was incorporated in the Philippines on January 15, 1960. On June 3, 2009, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's articles of incorporation for the extension of its corporate life for another 50 years from January 15, 2010. Its registered office address is 10th Floor, One E-Com Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City 1300.

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

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD), as approved and recommended for approval by the Audit Committee on February 28, 2018.

2. Basis of Preparation and Statement of Compliance

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

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

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

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

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

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

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

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

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

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

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

		Percentage of Ownership			
		2017		2016	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	**50**	**–**	50	–
SM Development Corporation and Subsidiaries (SMDC)	Real estate development	**–**	**100**	–	100
Highlands Prime, Inc. (HPI)	Real estate development	**–**	**100**	–	100
Costa del Hamilo, Inc. (Costa) and Subsidiary	Real estate development	**–**	**100**	–	100
Magenta Legacy, Inc.	Real estate development	**–**	**100**	–	100
Associated Development Corporation	Real estate development	**–**	**100**	–	100
Prime Metro Estate, Inc. and Subsidiary	Real estate development	**40**	**60**	40	60
Tagaytay Resort Development Corporation	Real estate development	**–**	**100**	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	**–**	**100**	–	100
MOA Esplanade Port, Inc.	Port terminal operations	**–**	**100**	–	100
SM Hotels and Conventions Corp. and Subsidiaries	Hotel and conventions	**–**	**100**	–	100
First Asia Realty Development Corporation	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 Corporation 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**	–	70
AD Canicosa Properties, Inc. (ADCPI)	Real estate development	**–**	**100**	–	70
Cherry Realty Development Corporation	Real estate development	**–**	**65**	–	–
Rappel Holdings, Inc. and Subsidiaries	Real estate development	**–**	**100**	–	100
Mountain Bliss Resort & Development Corporation and Subsidiary	Real estate development	**100**	**–**	100	–
Intercontinental Development Corporation (ICDC)	Real estate development	**97**	**3**	97	3
Prime Central Limited and Subsidiaries *[BVI]	Investment	**100**	**–**	100	–
Bellevue Properties, Inc.	Real estate development	**62**	**–**	62	–
Net Subsidiaries	Real estate development	**90**	**–**	90	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	**100**	**–**	100	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	**77**	**–**	77	–
Others					
Primebridge Holdings, Inc.	Investment	**80**	**20**	80	20
Asia-Pacific Computer Technology Center, Inc.	Education	**52**	**–**	52	–
Multi-Realty Development Corporation (MRDC)	Investment	**91**	**–**	91	–
Henfels Investments Corp.	Investment	**99**	**–**	99	–
Belleshares Holdings, Inc. and Subsidiaries	Investment	**59**	**40**	59	40
Sto. Roberto Marketing Corp.	Investment	**100**	**–**	100	–

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

(a) *Net Subsidiaries consists of N-Plaza BGC Land, Inc., N-Plaza BGC Properties, Inc., N-Quad BGC Land, Inc., N-Quad BGC Properties, Inc., N-Square BGC Land, Inc., N-Square BGC Properties, Inc., N-Cube BGC Land, Inc., N-Cube BGC Properties, Inc., N-One BGC Land, Inc. and N-One BGC Properties, Inc.*

Material Partly-owned Subsidiary
The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% of SM Prime as at December 31, 2017 and 2016.

The summarized financial information of SM Prime follows:

Financial Position

	December 31	
	2017	2016
	(In Thousands)	
Current assets	₱125,576,040	₱103,950,556
Noncurrent assets	412,841,558	361,609,576
Total assets	538,417,598	465,560,132
Current liabilities	78,207,732	49,421,276
Noncurrent liabilities	197,335,952	180,775,312
Total liabilities	275,543,684	230,196,588
Total equity	₱262,873,914	₱235,363,544
Attributable to:		
Owners of the Parent	₱258,957,221	₱231,481,032
Non-controlling interests	3,916,693	3,882,512
	₱262,873,914	₱235,363,544

Statements of Income

	Years Ended December 31		
	2017	2016	2015
		(In Thousands)	
Revenue	₱90,921,850	₱79,816,231	₱71,511,287
Cost and expenses	50,293,058	44,551,175	40,072,460
Other income (charges)	(4,680,931)	(4,276,379)	3,472,012
Income before income tax	35,947,861	30,988,677	34,910,839
Provision for income tax	7,823,398	6,621,053	6,018,246
Net income	28,124,463	24,367,624	28,892,593
Other comprehensive income (loss)	7,330,510	1,740,286	(8,847,601)
Total comprehensive income	₱35,454,973	₱26,107,910	₱20,044,992
Attributable to:			
Owners of the Parent	₱27,573,866	₱23,805,713	₱28,302,092
Non-controlling interests	550,597	561,911	590,501
Net income	₱28,124,463	₱24,367,624	₱28,892,593
Attributable to:			
Owners of the Parent	₱34,906,622	₱25,542,289	₱19,454,280
Non-controlling interests	548,351	565,621	590,712
Total comprehensive income	₱35,454,973	₱26,107,910	₱20,044,992
Dividends paid to non-controlling interests	(₱580,791)	(₱505,291)	(₱387,200)

Cash Flows

	Years Ended December 31		
	2017	2016	2015
		(In Thousands)	
Net cash provided by operating activities	₱35,085,132	₱37,410,023	₱31,938,138
Net cash used in investing activities	(30,319,710)	(32,999,007)	(55,230,236)
Net cash provided by (used in) financing activities	14,175,986	(5,603,997)	14,015,494
Effect of exchange rate changes on cash and cash equivalents	229,144	524,055	(98,694)
Net increase (decrease) in cash and cash equivalents	₱19,170,552	(₱668,926)	(₱9,375,298)

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

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

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

Assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized based on the fair value hierarchy described below:

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

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

Financial Instruments

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 de-recognition, 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, which is the fair value of 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 fair value through profit or loss (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 they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

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

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

Financial assets and liabilities are classified as held for trading if they 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 available-for-sale investments and fair value changes on investments held for trading - 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. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

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

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

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

The Group's investments in shares of stock, bonds and corporate notes, redeemable preferred shares and club shares are classified in this category. The current portion is included under "Investments held for trading and sale" account in the consolidated balance sheet.

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

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

The Group's bank loans, accounts payable and other current liabilities, dividends payable, longterm 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 nondeliverable 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 immediately 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.

De-recognition 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

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

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

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

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

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

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

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

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

Land and development includes properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held 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,
- Cost of borrowing, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

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

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

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

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

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

a. 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,

b. any excess of the Group's share in the net fair value of the associate's and joint venture's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired.

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

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

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

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

Property and Equipment

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

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

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

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

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

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

Fully depreciated assets are retained in the accounts until they 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
Investment properties include property that are held to earn rentals and for capital appreciation and property under construction or re-development. Investment properties, except land, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value. Land is stated at cost less any impairment in value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement* either in profit or loss or as a charge to OCI. If the contingent consideration is classified as equity, it should not be re-measured and subsequent settlement is accounted for within equity.

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

Goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage-of-completion (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.

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

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

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

Dividend. 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.

Pension Benefits

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

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

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and,
- Re-measurements of net defined benefit liability or asset.

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

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 they 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 they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Foreign Currency-denominated Transactions

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

Foreign Currency Translation

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

Leases

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

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

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

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

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

Provisions

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

Borrowing Cost

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

Taxes

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

Deferred Tax. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess Minimum Corporate Income Tax (MCIT) 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 and NOLCO can be utilized, except:

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

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

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

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

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

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

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

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

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

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

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed 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 when an inflow of economic benefits is probable.

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

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous year except for the adoption of the following amendments to standards and improvements, starting January 1, 2017. Unless otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 – 2016)

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 32 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

<u>Future Changes in Accounting Policies</u>
The following are the new standards, amendments and improvements to PFRS that were issued but are not yet effective as at December 31, 2017. Unless otherwise indicated, the Group does not expect the future adoption of the said new standards, amendments and improvements to have a significant impact on the consolidated financial statements. The Group intends to adopt the applicable standards, interpretations, amendments and improvements when these become effective.

Effective beginning on or after January 1, 2018

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The amendments are not expected to have impact on the Group.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if the entity restates comparative information when applying PFRS 9.

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

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses.

  The Group is assessing the impact of adopting PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Group is assessing the impact of PFRS 15.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at FVPL. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

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

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  The Group is assessing the impact of these amendments to PAS 40.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  The Group is assessing the impact of adopting IFRIC 22.

Effective beginning on or after January 1, 2019

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

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

  The Group is assessing the impact of adopting PFRS 16.

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

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

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

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

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

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

  The Group is assessing the impact of adopting this interpretation.

Deferred effectivity

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

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Revenue Recognition on Real Estate. The revenue recognition method for real estate sales requires some judgment in terms of the buyer's commitment to commensurate the sales transaction as well as the percentage of completion (POC) of the real estate project.

The buyer's commitment is assessed based on initial and continuous investments in accordance to the sales agreement and credit standing. The POC, on the other hand, is determined based on the engineer's judgment and estimate of the physical portion of contract work done.

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

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

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

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

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

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

Assessing Joint Control of an Arrangement and the Type of Arrangement. The Group has 51% ownership in Waltermart Mall. Management assessed that the Group has joint control of Waltermart Mall by virtue of a contractual agreement with other shareholders. Waltermart Mall is a joint venture arrangement as it is a separate legal entity and its stockholders have rights to its net assets.

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

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 44% ownership interest in BDO. Management assessed that the Group does not have control of BDO as the Group's aggregate voting rights is not sufficient to give it power to direct the relevant activities of BDO (see Note 13).

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

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

Revenue and Cost Recognition. The Group's revenues from real estate and construction contracts recognized based on POC is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Impairment of Receivables. The Group maintains an allowance for impairment loss considered adequate to provide for potential uncollectible receivables. The allowance is evaluated on the basis of factors that affect the collectibility of the accounts including the length of the Group's relationship with the customers and counterparties, average age of accounts and collection experience. The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and to provide the appropriate allowance for doubtful accounts. The review is accomplished using a combination of specific and collective assessment. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. See Note 10 for related balances.

Impairment of AFS Investments - Calculation of Impairment Losses. The assessment for impairment of AFS debt instruments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. In the case of AFS equity instruments, the Group considers changes in the investee's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Group's investments. See Note 12 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 16 and 23 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 2017 and 2016, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development is higher than cost, hence, the Group did not recognize any impairment loss.

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

Impairment of Investments in Associate Companies and Joint Ventures. Impairment review of investments in associate companies and joint ventures is performed when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the investments and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 13 for related balances.

Impairment of Goodwill and Trademarks 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 17 for related balances.

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

The preparation of the estimated future cash flows involves judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Group's assessment of recoverable values and may lead to future additional impairment charges. See Notes 14 and 15 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 17 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 27 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 26 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 30 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

SM Retail Merger

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

- ACE Hardware Philippines, Inc.
- Homeworld Shopping Corporation
- International Toy World, Inc.
- Nursery Care Corporation
- Kultura Store, Inc.
- Star Appliance Center, Inc.
- CK Fashion Collection Corp.
- Signature Lines, Inc.
- Supplies Station, Inc.
- Sports Central (Manila), Inc.
- H & B, Inc.
- Fitness Health & Beauty Holdings, Corp.

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

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

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

Under the pooling of interests method:

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

SM Prime Common Control Business Acquisitions
In December 2016, SM Prime through a subsidiary, acquired 90% each of the outstanding common stock of Shopping Center Management Corporation (SCMC) and SM Lifestyle Entertainment Inc. (SMLEI). The companies involved are under the common control of the Sy Family. Thus, the acquisitions were considered as a combination of businesses under common control for which pooling of interests method was applied in the preparation of the consolidated financial statements. Prior period financial statements were not restated due to immateriality.

6. Segment Information

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

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

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

The financial services and others segment primarily includes the operations of the Parent Company which engages in asset management and capital investments as well as its associate companies which are involved in financial services.

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

Operating Segment Financial Data

	2017				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱83,956,933	₱296,998,618	₱15,193,470	₱–	₱396,149,021
Inter-segment	12,207,193	5,378	4,339,794	(16,552,365)	–
	₱96,164,126	₱297,003,996	₱19,533,264	(₱16,552,365)	₱396,149,021
Segment results:					
Income before income tax	₱37,977,872	₱17,261,620	₱11,198,650	(₱1,146,908)	₱65,291,234
Provision for income tax	(8,056,781)	(5,623,633)	(130,927)	38,624	(13,772,717)
Net income	₱29,921,091	₱11,637,987	₱11,067,723	(₱1,108,284)	₱51,518,517
Net income attributable to:					
Owners of the Parent	₱29,370,537	₱10,431,256	₱11,067,723	(₱17,946,061)	₱32,923,455
Non-controlling interests	550,554	1,206,731	–	16,837,777	18,595,062

	2016				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱73,203,364	₱276,687,500	₱13,501,315	₱–	₱363,392,179
Inter-segment	11,253,256	3,123	5,520,056	(16,776,435)	–
	₱84,456,620	₱276,690,623	₱19,021,371	(₱16,776,435)	₱363,392,179
Segment results:					
Income before income tax	₱33,080,956	₱16,627,376	₱12,139,109	(₱2,530,849)	₱59,316,592
Provision for income tax	(6,777,132)	(4,906,396)	(88,242)	213,506	(11,558,264)
Net income	₱26,303,824	₱11,720,980	₱12,050,867	(₱2,317,343)	₱47,758,328
Net income attributable to:					
Owners of the Parent	₱25,742,249	₱10,615,139	₱12,050,867	(₱17,203,951)	₱31,204,304
Non-controlling interests	561,575	1,105,841	–	14,886,608	16,554,024

	2015				
	Property	Retail	Financial Services and Others	Eliminations	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱65,083,773	₱255,574,999	₱12,924,369	₱–	₱333,583,141
Inter-segment	17,764,479	1,507	13,582,317	(31,348,303)	–
	₱82,848,252	₱255,576,506	₱26,506,686	(₱31,348,303)	₱333,583,141
Segment results:					
Income before income tax	₱36,806,850	₱15,330,012	₱20,296,620	(₱18,060,480)	₱54,373,002
Provision for income tax	(6,228,772)	(4,403,917)	(83,395)	–	(10,716,084)
Net income	₱30,578,078	₱10,926,095	₱20,213,225	(₱18,060,480)	₱43,656,918
Net income attributable to:					
Owners of the Parent	₱29,989,697	₱9,885,285	₱20,213,225	(₱31,223,050)	₱28,865,157
Non-controlling interests	588,381	1,040,810	–	13,162,570	14,791,761

7. Cash and Cash Equivalents

This account consists of:

	2017	2016
	(In Thousands)	
Cash on hand and in banks (Note 22)	**₱9,643,938**	₱8,260,508
Temporary investments (Note 22)	**64,674,252**	66,687,223
	₱74,318,190	₱74,947,731

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 25).

Temporary investments amounting to ₱50.0 million as at December 31, 2017 and 2016 is used as collateral for certain loans (see Note 18).

8. Time Deposits

This account consists of:

	2017	2016
	(In Thousands)	
Current	**₱13,237,886**	₱24,473,541
Noncurrent	**26,688,721**	42,041,227
	₱39,926,607	₱66,514,768

The time deposits as at December 31, 2017 and 2016 bear annual interest ranging from 0.5% to 4.9%.

Certain noncurrent time deposits amounting to ₱3,800.8 million and ₱3,995.7 million as at December 31, 2017 and 2016, respectively, are used as collateral for use of credit lines.

Interest earned from time deposits is disclosed in Note 25.

9. Investments Held for Trading and Sale

This account consists of:

	2017	2016
	(In Thousands)	
Investments held for trading -		
Bonds	₱–	₱296,596
AFS investments (Note 12):		
Bonds and corporate notes	706,626	2,495,550
Shares of stock -		
Listed	641,300	664,606
	1,347,926	3,160,156
	₱1,347,926	₱3,456,752

Net change in fair value of investments held for trading recognized in the consolidated statements of income amounted to gain (loss) of nil, ₱3.2 million, and (₱5.3 million) in 2017, 2016 and 2015, respectively.

Interest earned on investments held for trading and sale is disclosed in Note 25.

10. Receivables

This account consists of:

	2017	2016
	(In Thousands)	
Trade:		
Real estate buyers	₱40,400,047	₱34,702,526
Third-party tenants	6,804,584	6,390,291
Related-party tenants (Note 22)	619,948	582,146
Others	136,580	143,754
Due from related parties (Note 22)	655,580	631,342
Management and service fees (Note 22)	373,619	303,340
Dividends (Nowte 22)	270,784	87,273
Total	49,261,142	42,840,672
Less allowance for impairment loss	1,054,498	967,343
	48,206,644	41,873,329
Less noncurrent portion of receivables from real estate buyers (Note 17)	15,854,070	10,526,627
Current portion	₱32,352,574	₱31,346,702

The terms and conditions of these receivables follow:

- Receivables from real estate buyers pertain mainly to sale of condominiums and residential units at various terms of payment. Portions of these receivables have been assigned to local banks: on without recourse basis, ₱4,924.0 million and ₱3,297.2 million for the years ended December 31, 2017 and 2016, respectively, and, on with recourse basis, ₱515.0 million and nil for the years ended December 31, 2017 and 2016, respectively (see Note 22). The corresponding liability from assignment of receivables on with recourse basis bears interest at 3.5% in 2017. The fair value of these assigned receivables and liability approximates cost.

- 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 22.

The movements in allowance for impairment loss follow:

	2017	2016
	(In Thousands)	
Balance at beginning of year	₱967,343	₱978,091
Provisions (Note 24)	93,080	568
Reversal and write off	(5,925)	(11,316)
Balance at end of year	₱1,054,498	₱967,343

The aging analysis of receivables follow:

	2017	2016
	(In Thousands)	
Neither past due nor impaired	₱44,969,317	₱38,313,504
Past due but not impaired:		
31-90 days	903,808	959,262
91-120 days	418,379	384,720
Over 120 days	1,915,140	2,215,843
Impaired	1,054,498	967,343
	₱49,261,142	₱42,840,672

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

11. Other Current Assets

This account consists of:

	2017	2016
	(In Thousands)	
Land and development (Note 16)	₱24,672,972	₱27,228,525
Prepaid taxes and other prepayments	9,658,898	7,881,610
Advances and deposits	7,231,756	6,797,245
Condominium and residential units for sale (Note 16)	6,674,510	5,241,346
Non-trade receivables	4,230,014	2,482,881
Receivable from banks	3,314,087	4,488,746
Input tax	2,743,731	2,281,727
Derivative asset (Notes 29 and 30)	1,794,745	–
Accrued interest receivable (Note 22)	432,690	611,375
Escrow fund (Notes 17 and 22)	50,881	209,974
Notes receivable (Note 22)	–	981,435
Others	2,673,902	839,275
	₱63,478,186	₱59,044,139

- Prepaid taxes and other prepayments consist of creditable tax certificates received by the Group and prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.
- Advances and deposits pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of project accomplishment.
- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 25).
- Notes receivable pertains to the loan extended by the Parent Company to Atlas Consolidated Mining and Development Corporation (Atlas) on September 17, 2015 amounting to ₱981.4 million. The loan bears interest at 5.0%, payable quarterly, and is renewable for 90-day periods for a maximum of five years at the option of the Parent Company (see Note 25). This note was settled in March 2017.
- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.
- Escrow fund pertains to amounts deposited with an escrow agent, a requisite for the issuance of temporary license to sell by the Housing and Land Use Regulatory Board (HLURB), pending issuance of a license to sell and certificate of registration. Amounts deposited include all amounts received from buyers including down payments, reservation and monthly amortization, among others (see Note 25).

12. Available-for-sale Investments

This account consists of:

	2017	2016
	(In Thousands)	
Shares of stock:		
Listed	₱23,611,916	₱16,864,874
Unlisted	61,405	61,405
Bonds and corporate notes	3,243,297	4,893,300
Club shares	21,470	15,810
	26,938,088	21,835,389
Less current portion (Note 9)	1,347,926	3,160,156
Noncurrent portion	₱25,590,162	₱18,675,233

- Unlisted shares of stock pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is no market for these investments and the Group intends to hold these for the long-term.

- Investments in bonds and corporate notes as at December 31, 2017 and 2016 bear fixed interest rates ranging from 5.0% to 7.5%. These investments will mature on various dates beginning April 2016 to October 2023. The fair value of these investments amounted to US$15.0 million (₱746.8 million) and ₱2,496.5 million as at December 31, 2017 and US$98.4 million (₱4,893.3 million) as at December 31, 2016.

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

	2017	2016
	(In Thousands)	
Balance at beginning of year	₱10,780,430	₱12,724,360
Share in net unrealized gain (loss) on AFS investments of associates (Note 13)	371,647	(1,399,590)
Gain (loss) due to changes in fair value of AFS investments	4,285,398	(541,395)
Transferred to profit or loss	(113,352)	(2,945)
Balance at end of year	₱15,324,123	₱10,780,430

Gain (loss) on disposal of AFS investments recognized in the consolidated statements of income amounted to ₱118.0 million, ₱3.3 million and (₱0.6 million) for the years ended December 31, 2017, 2016 and 2015, respectively.

Interest earned from AFS investments is disclosed in Note 25.

13. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

	2017	2016
	(In Thousands)	
Cost:		
Balance at beginning of year	₱113,180,533	₱112,712,483
Additions	47,832,363	468,050
Balance at end of year	161,012,896	113,180,533
Accumulated equity in net earnings:		
Balance at beginning of year	71,236,994	59,683,548
Equity in net earnings	16,640,597	14,979,645
Dividends received	(3,863,118)	(3,426,199)
Balance at end of year	84,014,473	71,236,994
Share in other comprehensive income of associate companies	(2,978,434)	(3,170,085)
Translation adjustment	65,492	(18,930)
	₱242,114,427	₱181,228,512

There is no impairment loss for any of these investments in 2017 and 2016.

The associate companies and joint ventures of the Group follow:

	Percentage of Ownership				
	2017		2016		
Company	**Gross**	**Effective**	Gross	Effective	Principal Activities
Associates					
BDO Unibank, Inc. (BDO)	**46**	**45**	46	44	Financial services
China Banking Corporation (China Bank)	**23**	**20**	23	20	Financial services
Belle Corporation (Belle)	**32**	**28**	32	28	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation	**34**	**34**	29	29	Mining
Sodexo Benefits and Rewards Services Phils., Inc. (formerly Sodexo Motivation Solutions 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**	4	4	Gaming
OCLP Holdings, Inc. (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
Philippines Urban Living Solutions, Inc. (PULSI)	**61**	**61**	–	–	Real estate development
Negros Navigation Co., Inc. (NENACO)	**35**	**35**	–	–	Integrated supply chain
Net Associates [(a)]	**34**	**34**	–	–	Real estate development
Joint Ventures					
Waltermart Mall [(b)]	**51**	**25**	51	25	Shopping mall development
Metro Rapid Transit Services, Inc.	**51**	**25**	51	25	Transportation
ST 6747 Resources Corporation	**50**	**25**	50	25	Real estate development

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

(a) Net Associates consists of 20-34 Property Holdings, Inc., 20-12 Property Holdings, Inc. and TheNetGroup Property Development Corporation

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

<u>China Bank</u>
In May 2017, China Bank completed its stock rights offering and issued ₱15.0 billlion worth of new common shares. Consequently, the common shares held by the Group increased by 109.2 million shares. The shares were issued on May 4, 2017.

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

In May 2016, China Bank declared stock dividends equivalent to 8% of its outstanding capital stock. Consequently, the common shares held by the Group increased by 33.5 million shares. The shares were issued on June 3, 2016.

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

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

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

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

PLC
At various dates in 2017 and 2016, the Group acquired 269.8 million and 243.6 million shares equivalent to 0.85% and 0.78% equity interest, respectively.

Net Associates
Between September to October 2017, the Group acquired 34.0% equity interest each in 20-34 Property Holdings, Inc., 20-12 Property Holdings, Inc., and TheNetGroup Property Development Corporation.

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

	2017	2016
	(In Millions)	
Total assets	₱2,668,104	₱2,324,999
Total liabilities	2,369,764	2,107,440
Total equity	298,340	217,559
Proportion of the Group's ownership	46%	46%
	137,813	100,077
Goodwill and others	20,475	19,942
Carrying amount of the Group's investment	₱158,288	₱120,019

	2017	2016	2015
		(In Millions)	
Interest income	₱99,795	₱82,037	₱72,127
Interest expense	(18,042)	(16,413)	(15,166)
Other expenses - net	(53,648)	(39,378)	(32,005)
Net income	28,105	26,246	24,956
Other comprehensive loss	(1,868)	(4,171)	(3,692)
Total comprehensive income	₱26,237	₱22,075	₱21,264
Group's share in net income	₱12,968	₱11,945	₱11,553
Group's share in total comprehensive income	₱12,845	₱10,394	₱9,867

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

	2017	2016	2015
		(In Millions)	
Share in net income	₱3,673	₱3,034	₱2,517
Share in other comprehensive income (loss)	315	154	(87)
Share in total comprehensive income	₱3,988	₱3,188	₱2,430

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

	2017	2016
	(In Thousands)	
BDO	₱350,960,765	₱201,065,053
China Bank	20,169,752	17,163,361
Belle	12,960,341	10,688,941
Atlas	6,061,012	3,055,705
PLC	35,721,098	1,503,927

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

14. 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, 2015	₱11,523,237	₱3,477,000	₱5,735,601	₱7,966,207	₱6,120,244	₱12,720,533	₱953,383	₱1,124,617	₱49,620,822
Additions	574,036	242,290	571,425	897,467	672,358	1,271,631	142,893	877,098	5,249,198
Reclassifications	(54,298)	(643,406)	80,542	(450,675)	199,312	1,717,990	4,596	(599,319)	254,742
Disposals/retirements	(65,578)	(30,104)	(78,386)	(49,937)	(49,534)	(176,053)	(5,301)	(193,598)	(648,491)
As at December 31, 2016	11,977,397	3,045,780	6,309,182	8,363,062	6,942,380	15,534,101	1,095,571	1,208,798	54,476,271
Additions	437,660	193,512	532,493	681,080	691,625	1,583,663	25,411	922,547	5,067,991
Reclassifications	84,503	233,269	197,498	260,202	156,851	171,663	(286,072)	(778,239)	39,675
Disposals/retirements	(63,674)	(222,267)	(33,716)	(54,523)	(15,221)	(190,290)	(7,672)	(126,260)	(713,623)
As at December 31, 2017	**₱12,435,886**	**₱3,250,294**	**₱7,005,457**	**₱9,249,821**	**₱7,775,635**	**₱17,099,137**	**₱827,238**	**₱1,226,846**	**₱58,870,314**
Accumulated Depreciation and Amortization									
As at December 31, 2015	₱3,464,366	₱2,410,102	₱4,361,593	₱4,995,562	₱3,899,309	₱9,252,128	₱600,281	₱–	₱28,983,341
Depreciation and amortization (Note 24)	840,169	288,269	617,703	770,536	699,670	1,380,577	95,238	–	4,692,162
Reclassifications	5,529	(628,201)	2,484	(429,953)	47,459	1,197,925	996	–	196,239
Disposals/retirements	(50,823)	(26,474)	(35,370)	(24,320)	(28,914)	(174,486)	(5,301)	–	(345,688)
As at December 31, 2016	4,259,241	2,043,696	4,946,410	5,311,825	4,617,524	11,656,144	691,214	–	33,526,054
Depreciation and amortization (Note 24)	850,733	359,189	598,657	867,742	724,850	1,245,592	58,162	–	4,704,925
Reclassifications	(6,370)	10,391	35,354	(15,741)	6,573	(90,344)	(105,408)	–	(165,545)
Disposals/retirements	(58,366)	(208,111)	(27,888)	(45,984)	(13,283)	(173,223)	(7,672)	–	(534,527)
As at December 31, 2017	**₱5,045,238**	**₱2,205,165**	**₱5,552,533**	**₱6,117,842**	**₱5,335,664**	**₱12,638,169**	**₱636,296**	**₱–**	**₱37,530,907**
Net Book Value									
As at December 31, 2017	**₱7,390,648**	**₱1,045,129**	**₱1,452,924**	**₱3,131,979**	**₱2,439,971**	**₱4,460,968**	**₱190,942**	**₱1,226,846**	**₱21,339,407**
As at December 31, 2016	7,718,156	1,002,084	1,362,772	3,051,237	2,324,856	3,877,957	404,357	1,208,798	20,950,217

As at December 31, 2017 and 2016, fully depreciated property and equipment still in use amounted to ₱16,648.7 million and ₱18,273.5 million, respectively. There is no temporarily idle property and equipment as at December 31, 2017 and 2016.

15. Investment Properties

The movements in this account follow:

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
As at December 31, 2015	₱65,246,048	₱175,926,710	₱29,094,102	₱32,295,808	₱302,562,668
Effect of common control business combination (Note 5)	34,819	–	102,634	–	137,453
Additions	5,860,299	7,008,421	3,584,292	10,316,258	26,769,270
Reclassifications	(1,521,882)	21,479,585	354,248	(17,633,329)	2,678,622
Translation adjustment	(18,575)	(271,994)	(30,711)	(162,890)	(484,170)
Disposals	(199,387)	(10,535)	(29,063)	(354,798)	(593,783)
As at December 31, 2016	69,401,322	204,132,187	33,075,502	24,461,049	331,070,060
Effect of common control business combination (Note 5)	–	1,047	929	–	1,976
Additions	3,766,662	4,279,223	1,776,554	15,984,057	25,806,496
Reclassifications	(4,912,312)	11,291,893	1,166,605	(7,702,271)	(156,085)
Translation adjustment	75,699	2,459,685	193,841	215,945	2,945,170
Disposals	(11,538)	(162,144)	(46,326)	–	(220,008)
As at December 31, 2017	₱68,319,833	₱222,001,891	₱36,167,105	₱32,958,780	₱359,447,609

(Forward)

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Accumulated Depreciation, Amortization and Impairment Loss					
As at December 31, 2015	₱1,666,642	₱34,608,274	₱16,704,250	₱–	₱52,979,166
Effect of common control business combination (Note 5)	20,972	89,402	–	–	110,374
Depreciation and amortization (Note 24)	205,701	5,367,781	2,471,626	–	8,045,108
Reclassifications	(53,910)	84,058	(67,645)	–	(37,497)
Translation adjustment	(5,838)	(42,624)	(13,615)	–	(62,077)
Disposals	(78,986)	(10,535)	(22,001)	–	(111,522)
As at December 31, 2016	1,754,581	40,096,356	19,072,615	–	60,923,552
Effect of common control business combination (Note 5)	–	527	769	–	1,296
Depreciation and amortization (Note 24)	207,478	6,320,224	2,667,722	–	9,195,424
Reclassifications	–	1,697	–	–	1,697
Translation adjustment	37,530	325,992	95,175	–	458,697
Disposals	(11,538)	(94,504)	(45,280)	–	(151,322)
As at December 31, 2017	**₱1,988,051**	**₱46,650,292**	**₱21,791,001**	**₱–**	**₱70,429,344**
Net Book Value					
As at December 31, 2017	**₱66,331,782**	**₱175,351,599**	**₱14,376,104**	**₱32,958,780**	**₱289,018,265**
As at December 31, 2016	67,646,741	164,035,831	14,002,887	24,461,049	270,146,508

As at December 31, 2017 and 2016, the allowance for impairment loss on land and improvements, and construction in progress amounted to ₱600.0 million. Portions of investment properties located in China were mortgaged as collateral to secure certain domestic borrowings in China (see Note 20).

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱42,396.7 million, ₱37,537.9 million and ₱33,457.0 million for the years ended December 31, 2017, 2016 and 2015, respectively. The corresponding direct operating expenses amounted to ₱30,742.5 million, ₱27,513.6 million and ₱24,016.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

In 2017, construction in progress includes ₱32,919.5 million for shopping malls under construction and ₱24,439.0 million for landbanking and commercial buildings under contruction.

In 2017, mall projects include SM Urdaneta Central, SM Telebasatagan, SM Legaspi, SM Olongapo 2 and SM Dagupan Arellano and redevelopment of SM Mall of Asia.

In 2016, mall projects include SM Cagayan de Oro Premier, SM Puerto Princesa, SM Olongapo 2, SM Center Tuguegarao Downtown and redevelopment of SM Mall of Asia, SM Sucat and SM Xiamen.

Interest capitalized to investment properties amounted to ₱2,299.0 million, and ₱2,921.0 million in 2017 and 2016, respectively. Capitalization rates used range from 2.4% to 4.8% for the years ended December 31, 2017 and 2016, respectively. In 2017 and 2016, foreign exchange loss amounting to nil and ₱528.0 million, respectively, was likewise capitalized.

The fair value of substantially all investment properties amounting to ₱833,282.7 million as at December 31, 2015 was determined by accredited independent appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. While fair value of the investment properties was not determined as at December 31, 2017 and 2016, the Group believes that there were no conditions present in 2017 and 2016 that would significantly reduce the fair value of investment properties from that determined in the most recent valuation.

The significant assumptions used in the valuations follow:

Discount rate	8.0%–12.0%
Capitalization rate	5.8%–8.5%
Average growth rate	2.3%–12.1%

In conducting the appraisal, the independent appraisers used either the Sales Comparison/ Market Data Approach or the Income Approach. The Sales Comparison/ Market Data Approach is a method of comparing prices paid for comparable properties sold or offered for sale in the market against the subject property. The Income Approach is based on the premise that the value of a property is directly related to the income it generates.

The fair value of investment properties is categorized as Level 3 since valuation is based on unobservable inputs.

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

Condominium and Residential Units for Sale
Condominium units for sale pertain to the completed projects of SMDC, HPI, Costa, Affluent and ICDC.

The movements in this account follow:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱5,241,346**	₱8,294,523
Transfer from land and development	**7,403,648**	3,516,449
Recognized as cost of real estate sold	**(6,101,683)**	(6,537,177)
Repossessed inventories	**92,721**	–
Adjustment to cost	**38,478**	(32,449)
Balance at end of year (Note 11)	**₱6,674,510**	₱5,241,346

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

The movements in this account follow:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱51,054,083**	₱47,201,323
Development cost incurred	**16,779,397**	12,800,026
Cost of real estate sold	**(9,158,630)**	(6,659,341)
Transfer to condominium and residential units for sale	**(7,403,648)**	(3,516,449)
Land acquisition	**13,111,730**	1,145,980
Borrowing cost capitalized	**38,240**	37,060
Transfer from property and equipment and others	**431,945**	45,484
Balance at end of year	**64,853,117**	51,054,083
Less current portion (Note 11)	**24,672,972**	27,228,525
Noncurrent portion	**₱40,180,145**	₱23,825,558

Included in land and development is land held for future development with details as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱1,845,755**	₱1,866,660
Acquisition and transferred-in costs and others	**(292,049)**	(20,905)
Balance at end of year	**₱1,553,706**	₱1,845,755

The average rates used to determine the amount of borrowing cost eligible for capitalization range from 3.5% to 4.6% in 2017 and 3.5% to 4.2% in 2016.

Land and development is stated at cost. There is no allowance for inventory write-down as at December 31, 2017 and 2016.

17. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	2017	2016
	(In Thousands)	
Goodwill	**₱17,398,491**	₱17,398,491
Less accumulated impairment loss	**91,620**	91,620
Net book value	**17,306,871**	17,306,871
Trademarks and brand names	**8,284,361**	8,404,896
	₱25,591,232	₱25,711,767

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

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 20 years.

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

Value-in-use. 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 average percentage of 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 13.4% to 14.4% and 11.6% to 12.3% as at December 31, 2017 and 2016, respectively.

Management assessed that no reasonably possible change in pre-tax discount rates and future cash inflows would cause the carrying value of goodwill, trademarks and brand names in 2017 and 2016 to materially exceed its recoverable amount.

Fair value less cost of disposal. The fair values of the assets and liabilities of the CGUs were determined by independent appraisers and in reference to the available market price for quoted instruments. Management assessed that no reasonably possible change in the fair values would cause the carrying value of goodwill in 2017 and 2016 to materially exceed its recoverable amount.

Other Noncurrent Assets
This account consists of:

	2017	2016
	(In Thousands)	
Deposits and advance rentals	**₱33,760,110**	₱17,767,510
Receivables from real estate buyers (Note 10)	**15,854,070**	10,526,627
Land use rights	**10,630,926**	9,727,575
Long-term notes (Notes 22 and 30)	**6,399,410**	6,876,128
Derivative assets (Notes 29 and 30)	**3,546,694**	6,757,361
Deferred input VAT	**1,798,706**	2,544,100
Defined benefit asset (Note 26)	**376,448**	629,658
Escrow fund (Note 22)	**132,460**	132,460
Others	**2,056,209**	2,300,040
	₱74,555,033	₱57,261,459

Deposits and advance rentals include other assets used to secure certain obligations of the Group as well as deposits and advance rentals for parcels of land where some of its malls are located. Deposits and advance rentals are not re-measured at amortized cost.

- Long-term notes pertain to a 7-year loan amounting to US$150.7 million that was extended to Carmen Copper Corporation, a wholly owned subsidiary of Atlas, in March 2017. The loan bears fixed interest that starts at 5.0% and escalates annually up to 10.0%, payable quarterly.

- Included under "Land use rights" account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties was not part of the consideration paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying value under "Other noncurrent assets" account and a corresponding liability equivalent to the same amount, which is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets. Portions of land use rights with carrying amount of ₱327.7 million and ₱312.6 million as at December 31, 2017 and 2016, respectively, are used as collateral to secure certain domestic borrowings in China (see Note 20).

- 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. The escrow fund also includes deposits made by SMDC for payments of liability arising from acquisition of land (see Note 11).

18. Bank Loans

This account consists of:

	2017	2016
	(In Thousands)	
Parent Company		
U.S. dollar-denominated loans	**₱–**	₱2,983,200
Peso-denominated loans	**10,200,000**	4,800,000
Subsidiaries		
Peso-denominated loans	**13,972,965**	6,204,565
	₱24,172,965	₱13,987,765

The peso-denominated loans amounting to ₱24,173.0 million and ₱11,004.6 million as at December 31, 2017 and 2016, respectively, bear interest ranging from 2.5% to 3.5% and 2.5% to 3.0% in 2017 and 2016, respectively. A portion of the bank loans is secured by temporary investments as disclosed in Note 7.

These loans have maturities of less than one year.

Interest on bank loans is disclosed in Note 25.

19. Accounts Payable and Other Current Liabilities

This account consists of:

	2017	2016
	(In Thousands)	
Trade	**₱60,399,742**	₱54,189,536
Accrued expenses	**11,060,797**	12,083,636
Nontrade	**7,183,147**	5,825,072
Tenants and customers' deposits	**10,208,533**	5,938,921
Payable arising from acquisition of land	**4,252,991**	3,067,669
Payable to government agencies	**4,438,597**	2,949,740
Accrued interest (Note 22)	**2,422,265**	2,335,604
Subscription payable	**2,396,790**	55,312
Due to related parties (Note 22)	**828,679**	708,767
Gift checks redeemable and others	**3,369,914**	2,104,776
	₱106,561,455	₱89,259,033

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors. These are noninterest-bearing and are normally settled on 30-to 60-day terms.
- Accrued expenses pertain to accrual for selling, general and administrative expenses which are normally settled within the next financial year.
- Nontrade payables, accrued interest, subscription payable and others are expected to be settled within the next financial year.
- Tenants and customers' deposits pertain to the excess of collections from real estate buyers over the related revenue recognized based on the percentage of completion method, as well as non-refundable reservation fees.
- Payable arising from acquisition of land is expected to be settled within the next financial year.
- Payable to government agencies mainly consists of output tax which is normally settled within the next financial year.
- The terms and conditions relating to Due to related parties is discussed in Note 22.
- Gift checks are redeemable at face value.

20. Long-term Debt

This account consists of:

	Availment	Maturity	Interest rate/Term	Security	2017	2016
					(In Thousands)	
Parent Company						
U.S. dollar-denominated	October 13, 2010 - September 19, 2017	October 13, 2017 - June 10, 2024	Fixed 4.2%-5.5%; Floating six-month and three-month LIBOR + margin; semi-annual and quarterly	Unsecured	**₱66,531,725**	₱75,660,072
Peso-denominated	July 16, 2012 - September 5, 2017	January 14, 2019 - September 5, 2024	Fixed 4.4%-6.9%; PDST-R2 + margin; semi-annual and quarterly	Unsecured	**73,171,870**	66,327,220
Subsidiaries						
U.S. dollar-denominated	December 7, 2012 - October 16, 2017	August 30, 2017 - June 30, 2022	LIBOR + spread; semi-annual	Unsecured	**54,387,944**	55,241,172
China Yuan Renminbi-denominated	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10.0%; quarterly	Secured	**3,445,302**	524,743
Peso-denominated	January 12, 2012 - December 19, 2017	January 13, 2017 - July 26, 2026	Fixed 3.1%-6.7%; PDST-R2 + margin	Unsecured	**136,974,407**	109,920,285
					334,511,248	307,673,492
Less debt issue cost					**1,658,247**	1,817,683
					332,853,001	305,855,809
Less current portion					**40,297,133**	25,601,582
					₱292,555,868	₱280,254,227

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

Subsidiaries

Philippine Peso-denominated Seven-Year Retail Bonds
₱20.0 billion fixed rate Series G bonds issued on May 18, 2017 and maturing on May 18, 2024, for a seven-year term with fixed interest rate of 5.1683% per annum.

China Yuan Renminbi-denominated Five-Year Loan
¥142.0 million taken out of a ¥400.0 million loan facility obtained initially on July 28, 2015. These loans are payable in quarterly installments until June 2020 and bear floating rates with quarterly re-pricing at prevailing rates dictated by the People's Bank of China. The loans carry interest rates of 4.8% to 5.3%. Portions of investment properties and land use rights located in China with total carrying value of ₱1,898.2 million and ₱1,828.0 million as at December 31, 2017 and 2016, respectively, are used as collateral for certain debt (see Notes 15 and 17).

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

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱1,817,683**	₱1,827,891
Amortization	**(627,940)**	(614,626)
Additions	**468,504**	609,349
Prepayments	**–**	(4,931)
Balance at end of year	**₱1,658,247**	₱1,817,683

Repayment Schedule
The repayment schedule of long-term debt as at December 31, 2017 follows:

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱40,351,885	₱54,752	₱40,297,133
More than 1 year to 5 years	193,905,282	1,154,426	192,750,856
More than 5 years	100,254,081	449,069	99,805,012
	₱334,511,248	₱1,658,247	₱332,853,001

Covenants
The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at December 31, 2017 and 2016, the Group is in compliance with the terms of its debt covenants.

21. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2017	2016
Authorized - ₱10 par value per share	**2,790,000,000**	2,790,000,000
Issued and subscribed:		
Balance at beginning of year	**1,204,582,867**	803,055,405
Issuance of 50% stock dividends	**–**	401,527,462
Balance at end of year	**1,204,582,867**	1,204,582,867

On March 2, 2016, the BOD approved the Parent Company's:

- Increase in authorized capital stock from ₱12,000.0 million, consisting of 1,190.0 million common shares and 10.0 million redeemable preferred shares both with a par value of ₱10 per share, to ₱28,000.0 million, consisting of 2,790.0 million common shares and 10.0 million redeemable preferred shares both with a par value of ₱10 per share.

- Declaration of 50% stock dividends in favor of stockholders on record to be fixed by the Philippine SEC.

On April 27, 2016, the stockholders, which represent at least two-thirds of the outstanding capital stock of the Parent Company, approved the amendment of its articles of incorporation for the increase in its authorized capital stock as well as the declaration of 50% stock dividends.

On July 15, 2016, the Philippine SEC approved the increase in the authorized capital stock from ₱12,000 million to ₱28,000 million.

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

As at December 31, 2017 and 2016, 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	Issued Shares	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 1,252 and 1,244 as at December 31, 2017 and 2016, respectively.

b. Redeemable preferred shares

	Number of shares	
	2017	2016
Authorized - ₱10 par value per share	**10,000,000**	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2017 and 2016.

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

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates in 2016 (see Note 5).
- SM Prime common control business acquisition in 2016 (see Note 5).

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

Retained Earnings

a. 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, 2017 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		(In Thousands)
Debt servicing		
US$180.0 million	2018	₱9,000,000
US$360.0 million	2019	18,000,000
New investments	2018–2020	10,000,000
		₱37,000,000

b. Unappropriated

The Parent Company's cash dividend declarations in 2017 and 2016 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 26, 2017	**May 11, 2017**	**May 25, 2017**	**₱7.77**	**₱9,359,609**
April 27, 2016	May 12, 2016	May 26, 2016	10.63	8,536,467

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱176,587.5 million and ₱154,730.7 million as at December 31, 2017 and 2016, 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.

22. Related Party Disclosures

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

The significant transactions with related parties follow:

a. 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).

b. Management and Service Fees

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

c. Dividend Income

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

d. 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 based on prevailing market interest rates.

e. Notes Receivable

The Group has certain notes receivable from Atlas and Carmen Copper Corporation (see Notes 11, 17 and 29).

f. 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			
	2017	2016	2015	2017	2016	Terms	Conditions
			(In Thousands)				
Banking Group							
Cash placement and investment in marketable securities				₱98,656,653	₱130,427,891	Interest-bearing 0.5% to 4.9%	Unsecured; no impairment
Interest receivable				329,829	431,533	–	–
Interest income	₱2,587,312	₱2,401,642	₱2,407,497			–	–
Interest-bearing debt				24,493,678	9,831,165	Interest-bearing 1.8% to 5.3%	Unsecured
Interest payable				59,429	36,915	–	–
Interest expense	984,569	535,828	462,322			–	–
Rent receivable				112,099	110,669	Noninterest-bearing	Unsecured; no impairment
Rent income	856,149	769,720	679,691			–	–
Receivable financed	4,923,847	3,297,217	2,842,481			Without recourse	Unsecured
Dividend receivable				–	2,162	Noninterest-bearing	Unsecured; no impairment
Deposit and advance rentals				17,475,500	–	Interest-bearing 4.3%	No impairment
Management and service fee receivable				23,933	31,905	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	7,892	4,368	6,793			–	–
Escrow fund				183,341	339,974	Interest-bearing 1.4% to 1.6%	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				507,849	471,477	Noninterest-bearing	Unsecured; no impairment
Rent income	1,746,184	1,516,273	1,253,185			–	–
Management and service fee receivable				275,148	218,757	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	489,437	393,564	279,110			–	–
Dividend receivable				–	24,000	Noninterest-bearing	Unsecured; no impairment
Dividend income	–	–	86,790			–	–
Due from related parties				655,580	631,342	Noninterest-bearing	Unsecured; no impairment
Due to related parties				828,679	708,767	Noninterest-bearing	Unsecured
Interest receivable				8,888	35,760	–	–
Interest income	366,183	316,633	53,882			–	–
Notes receivable				6,399,410	7,857,563	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 for the years ended December 31, 2017, 2016 and 2015 consist of short-term employee benefits amounting to ₱2,043.7 million, ₱1,740.2 million and ₱1,482.7 million, respectively, and post-employment benefits amounting to ₱279.9 million, ₱196.7 million and ₱156.3 million, respectively.

23. Cost of Merchandise Sales

This account consists of:

	2017	2016	2015
		(In Thousands)	
Merchandise inventories at beginning of year	₱25,825,290	₱21,589,701	₱19,444,961
Purchases	214,648,954	205,088,168	187,581,693
Total goods available for sale	240,474,244	226,677,869	207,026,654
Less merchandise inventories at end of year	27,778,741	25,825,290	21,589,701
	₱212,695,503	₱200,852,579	₱185,436,953

24. Selling, General and Administrative Expenses

This account consists of:

	2017	2016	2015
		(In Thousands)	
Personnel cost (Note 22)	₱19,725,683	₱18,293,812	₱16,048,078
Utilities	15,691,055	13,495,097	12,282,410
Depreciation and amortization (Notes 14, 15 and 17)	14,020,884	12,861,154	11,846,356
Taxes and licenses	9,409,106	6,942,846	6,158,660
Rent (Note 28)	6,723,855	6,233,281	6,045,825
Outside services	8,157,459	6,220,300	5,196,137
Marketing and selling	5,166,973	4,473,268	3,664,128
Repairs and maintenance	2,791,300	2,358,071	2,010,546
Supplies	2,363,417	2,097,055	1,609,985
Provision for impairment loss and others (Notes 10 and 15)	1,488,855	1,335,461	478,869
Transportation and travel	1,034,751	912,614	822,936
Insurance	734,322	753,134	695,169
Donations	252,540	648,669	265,060
Pension (Note 26)	667,572	543,924	509,898
Data processing	614,141	414,238	259,804
Entertainment, representation and amusement	373,296	380,675	389,926
Professional fees	444,687	353,108	291,189
Communications	333,149	266,414	246,292
Management fees (Note 22)	207,180	130,203	1,324,253
Others	2,734,945	3,413,947	4,214,494
	₱92,935,170	₱82,127,271	₱74,360,015

25. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2017	2016	2015
		(In Thousands)	
Interest income on:			
Time deposits and other noncurrent assets (Notes 8 and 17)	₱1,967,629	₱2,063,883	₱2,058,413
Cash in banks and temporary investments (Note 7)	1,137,524	958,162	676,670
AFS investments (Notes 9 and 12)	326,093	331,327	326,658
Investments held for trading (Note 9)	14,891	17,655	17,998
Others (Note 11)	557,364	354,490	135,277
	₱4,003,501	₱3,725,517	₱3,215,016
Interest expense on:			
Long-term debt (Note 20)	₱13,217,491	₱10,907,650	₱9,569,626
Bank loans (Note 18)	819,017	425,526	655,228
Others	951,572	695,703	250,100
	₱14,988,080	₱12,028,879	₱10,474,954

26. 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")

	2017	2016	2015
		(In Thousands)	
Net benefit expense:			
Current service cost	₱728,182	₱577,642	₱534,171
Net interest income	(12,097)	(33,718)	(24,273)
Past service cost - curtailment	(48,513)	–	–
	₱667,572	₱543,924	₱509,898

Changes in the net defined benefit liability and asset

a. 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, 2015	₱1,077,678	₱909,439	₱–	₱168,239
Net benefit expense (Note 24):				
Current service cost	257,285	–	–	257,285
Net interest cost (income)	135,549	136,016	414	(53)
	392,834	136,016	414	257,232
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(113,826)	–	113,826
Actuarial changes arising from:				
Changes in financial assumptions	(410,880)	–	–	(410,880)
Changes in demographic assumptions	7,708	–	–	7,708
Experience adjustment	783,793	–	–	783,793
Others	–	–	(8,615)	(8,615)
	380,621	(113,826)	(8,615)	485,832
Reclassifications from defined benefit assets	1,624,035	1,843,862	–	(219,827)
Actual contributions	–	104,221	–	(104,221)
Benefits paid	(247,337)	(247,111)	–	(226)
Transfer to (from) related parties	36,790	37,617	–	(827)
Other adjustments	–	–	8,201	8,201
As at December 31, 2016	3,264,621	2,670,218	–	594,403
Net benefit expense (Note 24):				
Current service cost	338,845	–	–	338,845
Net interest cost	212,424	186,646	34	25,812
	551,269	186,646	34	364,657
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(51,791)	–	51,791
Actuarial changes arising from:				
Changes in financial assumptions	28,914	–	–	28,914
Changes in demographic assumptions	(15,578)	–	–	(15,578)
Experience adjustment	81,964	–	–	81,964
Others	4,078	–	(3,878)	200
	99,378	(51,791)	(3,878)	147,291
Reclassifications from defined benefit assets	330,208	384,068	–	(53,860)
Actual contributions	–	437,767	–	(437,767)
Benefits paid	(106,635)	(104,634)	–	(2,001)
Transfer to related parties	15,737	15,815	–	(78)
Other adjustments	–	–	3,844	3,844
As at December 31, 2017	₱4,154,578	₱3,538,089	₱–	₱616,489

b. 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, 2015	₱4,386,403	₱5,017,542	₱7,606	(₱623,533)
Net benefit expense (Note 24):				
Current service cost	320,358	–	–	320,358
Net interest cost (income)	177,167	214,192	3,359	(33,666)
	497,525	214,192	3,359	286,692
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(27,153)	–	27,153
Actuarial changes arising from:				
Changes in financial assumptions	(558,840)	–	–	(558,840)
Changes in demographic assumptions	37,256	–	–	37,256
Experience adjustment	405,632	–	–	405,632
Others	–	–	20,205	20,205
	(115,952)	(27,153)	20,205	(68,594)
Reclassifications from defined benefit liabilities	(1,629,161)	(1,843,294)	–	214,133
Effect of common control business combination (Note 5)	790,753	1,179,772	–	(389,019)
Actual contributions	–	106,809	–	(106,809)
Benefits paid	(262,039)	(262,039)	–	–
Transfer from the plan	(5,728)	(5,728)	–	–
Amount not recognized due to asset limit	–	–	88,643	88,643
Other adjustments	–	–	(31,171)	(31,171)
As at December 31, 2016	3,661,801	4,380,101	88,642	(629,658)
Net benefit expense (Note 24):				
Current service cost	389,337	–	–	389,337
Net interest cost (income)	199,148	241,581	4,524	(37,909)
Past service cost - curtailment	(48,513)	–	–	(48,513)
	539,972	241,581	4,524	302,915
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(50,936)	–	50,936
Actuarial changes arising from:				
Changes in financial assumptions	71,891	–	–	71,891
Changes in demographic assumptions	(22,600)	–	–	(22,600)
Experience adjustment	224,481	–	–	224,481
Others	–	–	(55,716)	(55,716)
	273,772	(50,936)	(55,716)	268,992
Reclassifications from defined benefit liabilities	(331,118)	(376,942)	–	45,824
Effect of common control business combination (Note 5)	23,496	16,604	–	6,892
Actual contributions	–	333,977	–	(333,977)
Benefits paid	(121,668)	(121,668)	–	–
Transfer from the plan	(43,376)	(43,376)	–	–
Amount not recognized due to asset limit	–	–	15	15
Other adjustments	–	–	(37,451)	(37,451)
As at December 31, 2017	₱4,002,879	₱4,379,341	₱14	(₱376,448)

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

	2017	2016
Discount rate	**5.0%–6.0%**	5.0%–6.0%
Future salary increases	**4.0%–10.0%**	3.0%–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:

	2017	2016
	(In Thousands)	
Cash and cash equivalents	**₱532,130**	₱891,526
Investment in debt and other securities	**2,025,911**	1,566,001
Investment in common trust funds	**2,867,023**	2,442,878
Investment in equity securities	**333,123**	274,988
Investment in government securities	**1,991,308**	1,830,329
Others	**167,935**	44,597
	₱7,917,430	₱7,050,319

- Cash and cash equivalents include regular savings and time deposits.
- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 3.5% to 6.8% and 4.0% to 6.8% in 2017 and 2016, respectively. These have maturities from June 2018 to October 2025 and June 2019 to October 2025 in 2017 and 2016, respectively.
- Investment in common trust funds consists of unit investment trust fund placements.
- Investment in equity securities consists of listed and unlisted equity securities.
- Investments in government securities consist of retail treasury bonds. These bonds bear interest ranging from 2.1% to 8.8% in 2017 and 2016, respectively. These bonds have maturities ranging from March 2018 to May 2030 and January 2016 to December 2035 and January 2016 to December 2035 in 2017 and 2016, 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:

	2017	2016
	(In Thousands)	
Balances:		
Cash and cash equivalents	**₱532,130**	₱891,526
Investment in common trust funds	**2,867,023**	2,442,878
Transactions:		
Interest income from cash and cash equivalents	**12,313**	6,092
Gains (loss) from investment in common trust funds	**459,883**	(98,591)

The Group expects to contribute about ₱1,282.3 million to its Pension Plan in 2018.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2017, assuming all other assumptions were held constant:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱490,789)
	(50)	501,141
Future salary increases	100	921,369
	(100)	(891,850)
No attrition rate	–	4,190,769

The average duration of the Group's defined benefit obligation is 3 to 29 years as at December 31, 2017 and 2016, respectively.

The maturity analysis of the undiscounted benefit payments follows:

	2017	2016
	(In Thousands)	
Year 1	₱869,893	₱640,937
Year 2	312,845	170,006
Year 3	408,137	240,637
Year 4	491,324	324,347
Year 5	481,444	468,230
Year 6 – 10	3,244,244	2,553,717

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

27. Income Tax

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

	2017	2016
	(In Thousands)	
Deferred tax assets:		
Excess of fair values over cost of investment properties	₱1,184,476	₱1,201,539
NOLCO	563,576	614,549
Accrued leases	528,557	528,960
Provision for doubtful accounts and others	584,524	332,046
Deferred rent expense	114,973	208,304
Unamortized past service cost and defined benefit liability	139,653	157,994
MCIT	8,370	13,963
	3,124,129	3,057,355
Deferred tax liabilities:		
Appraisal increment on investment property	3,162,858	3,275,167
Trademarks and brand names	1,879,000	1,879,000
Capitalized interest	1,840,286	1,711,078
Unrealized gross profit on sale of real estate	1,356,190	1,063,613
Unamortized past service cost and defined benefit asset	154,416	261,941
Accrued/deferred rent income	127,105	174,436
Others	144,039	52,770
	8,663,894	8,418,005
Net deferred tax liabilities	₱5,539,765	₱5,360,650

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

	2017	2016
	(In Thousands)	
Deferred tax assets	₱2,489,814	₱2,527,745
Deferred tax liabilities	8,029,579	7,888,395
	₱5,539,765	₱5,360,650

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱3,821.6 million and ₱3,500.0 million as at December 31, 2017 and 2016, respectively.

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

	2017	2016	2015
Statutory income tax rate	30%	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	(8)	(8)	(8)
Interest income subjected to final tax	(2)	(2)	(2)
Change in unrecognized deferred tax assets	1	(1)	1
Others	–	–	(1)
Effective income tax rates	21%	19%	20%

28. Lease Agreements

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

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

	2017	2016
	(In Millions)	
Within one year	₱5,230	₱4,533
After one year but not more than five years	11,853	13,525
More than five years	7,077	4,990
	₱24,160	₱23,048

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

The Group also has various non-cancellable operating lease commitments with lease periods ranging from two to thirty years, mostly containing renewal options. Some lease contracts provide for the payment of additional rental based on a certain percentage of sales of the sub-lessees.

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

	2017	2016
	(In Millions)	
Within one year	₱2,047	₱926
After one year but not more than five years	5,755	3,886
More than five years	26,966	27,863
	₱34,768	₱32,675

Tenant's deposits amounted to ₱17,355.2 million and ₱15,863.7 million as at December 31, 2017 and 2016, respectively.

29. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

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

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

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

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations (see Note 20).

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, 2017 and 2016, after taking into account the effect of the swaps, approximately 83.1% and 76.9%, respectively of the Group's borrowings are kept at fixed interest rates.

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax and equity after income tax, through the impact of floating rate financial liabilities and debt securities classified as FVPL and AFS investments, respectively.

	Increase (Decrease) in Basis Points	Effect on Income Before Tax	Effect on Equity After Income Tax
		(In Millions)	
2017	**100**	**(₱483.6)**	**(₱37.8)**
	50	**(241.8)**	**(19.0)**
	(100)	**483.6**	**38.8**
	(50)	**241.8**	**19.3**
2016	100	(₱678.3)	(₱109.8)
	50	(339.2)	(54.1)
	(100)	678.3	118.2
	(50)	339.2	59.9

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

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

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

	2017		2016	
	US$	PhP	US$	PhP
		(In Thousands)		
Current assets:				
Cash and cash equivalents	$3,566	₱178,039	$80,801	₱4,017,440
Time deposits	211,489	10,559,628	511,103	25,412,046
Receivables	59,910	2,991,309	9,182	456,512
AFS investments	14,152	706,625	50,192	2,495,550
Noncurrent assets:				
AFS investments	805	40,172	53,574	2,663,696
Time deposits	458,400	22,887,912	766,000	38,085,520
Other noncurrent assets	495,167	24,723,693	–	–
Derivative assets	20,130	1,005,084	20,130	1,000,857
Total foreign currency-denominated financial assets	1,263,619	63,092,462	1,490,982	74,131,621
Current liabilities:				
Bank loans	–	–	60,000	2,983,200
Current portion of long-term debt	119,693	5,976,254	371,212	18,456,650
Accounts payable and other current liabilities	5,969	298,024	9,907	492,565
Noncurrent liabilities -				
Long-term debt - net of current portion	1,325,944	66,204,403	1,354,650	67,353,221
Total foreign currency-denominated financial liabilities	1,451,606	72,478,681	1,795,769	89,285,636
Net foreign currency-denominated financial liabilities	($187,987)	(₱9,386,219)	($304,787)	(₱15,154,015)

As at December 31, 2017 and 2016, approximately 34.7% and 41.8%, respectively, of the Group's borrowings are denominated in foreign-currency.

The Group recognized net foreign exchange gain (loss) of ₱698.7 million, (₱170.1 million) and ₱240.8 million for the years ended December 31, 2017, 2016 and 2015, respectively. This resulted from movements in the closing rate of U.S. dollar against the Philippine peso as shown in the following table:

	US$ to PhP
December 31, 2017	**₱49.93**
December 31, 2016	49.72
December 31, 2015	47.06

Foreign Currency Risk Sensitivity Analysis. The sensitivity analysis for a reasonably possible change in U.S. Dollar to Philippine peso exchange rate, with all other variables held constant, follow:

	Appreciation (Depreciation) of PhP	Effect on Income Before Tax
		(In Millions)
2017	**1.50**	**₱1,024.7**
	1.00	**683.2**
	(1.50)	**(1,024.7)**
	(1.00)	**(683.2)**
2016	1.50	₱457.2
	1.00	304.8
	(1.50)	(457.2)
	(1.00)	(304.8)

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

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

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

	2017	2016
	(In Thousands)	
Cash and cash equivalents	₱74,318,190	₱74,947,731
Current portion of time deposits	13,237,886	24,473,541
Investments held for trading – bonds	–	296,596
Current portion of AFS investments -		
Bonds and corporate notes	706,626	2,495,550

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

	2017			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	(In Thousands)			
Bank loans	₱24,172,965	₱–	₱–	₱24,172,965
Accounts payable and other current liabilities *	91,914,325	–	–	91,914,325
Long-term debt (including current portion) **	48,938,571	229,489,427	116,465,601	394,893,599
Derivative liabilities**	–	777,408	–	777,408
Dividends payable	2,939,590	–	–	2,939,590
Tenants' deposits **	502,472	16,595,381	468,109	17,565,962
Other noncurrent liabilities ***	91,258	6,735,447	323,315	7,150,020
	₱168,559,181	₱253,597,663	₱117,257,025	₱539,413,869

**Excluding payable to government agencies of ₱4,438.6 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱1,015.0 million.*

	2016			
	Less than 1 Year	1 to 5 Years	More than 5 Years	Total
	(In Thousands)			
Bank loans	₱13,987,765	₱–	₱–	₱13,987,765
Accounts payable and other current liabilities *	80,360,441	–	–	80,360,441
Long-term debt (including current portion) **	31,909,563	217,666,838	114,402,680	363,979,081
Derivative liabilities**	9,931	–	–	9,931
Dividends payable	3,302,828	–	–	3,302,828
Tenants' deposits **	470,530	15,038,029	674,104	16,182,663
Other noncurrent liabilities ***	–	4,193,041	–	4,193,041
	₱130,041,058	₱236,897,908	₱115,076,784	₱482,015,750

**Excluding payable to government agencies of ₱2,949.7 million, which are not considered as financial liabilities.*
***Based on estimated future cash flows.*
****Excluding nonfinancial liabilities amounting to ₱1,624.9 million.*

Credit Risk

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

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

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

As at December 31, 2017 and 2016, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

Credit Quality of Financial Assets

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

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

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

	2017			2016		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	₱72,640,001	₱–	₱72,640,001	₱73,348,682	₱–	₱73,348,682
Time deposits including noncurrent portion	39,926,607	–	39,926,607	66,514,768	–	66,514,768
Investments held for trading - Bonds	–	–	–	296,596	–	296,596
AFS investments	26,886,183	51,905	26,938,088	21,783,484	51,905	21,835,389
Receivables - net (including noncurrent portion of receivables from real estate buyers)	37,567,278	7,402,039	44,969,317	31,440,075	6,873,429	38,313,504
Advances and other receivables - net (includes non-trade receivables, advances and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)	15,208,546	–	15,208,546	15,361,682	–	15,361,682
Escrow fund	183,341	–	183,341	342,434	–	342,434
Other noncurrent assets:						
Deposits and advance rentals	17,475,500	–	17,475,500	–	–	–
Long-term notes	6,399,410	–	6,399,410	6,876,128	–	6,876,128
Derivative assets (including noncurrent portion)	5,341,439	–	5,341,439	6,757,361	–	6,757,361
	₱221,628,305	₱7,453,944	₱229,082,249	₱222,721,210	₱6,925,334	₱229,646,544

Equity Price Risk

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

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

	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
2017	**+2.94%**	**₱595.5**
	-2.94%	**(595.5)**
2016	+3.04%	₱941.3
	-3.04%	(941.3)

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

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

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

Net Gearing Ratio

	2017	2016
	(In Thousands)	
Bank loans	**₱24,172,965**	₱13,987,765
Long-term debt (current and noncurrent)	**332,853,001**	305,855,809
Less:		
Cash and cash equivalents (excluding cash on hand)	**(72,640,001)**	(73,348,682)
Time deposits (current and noncurrent)	**(39,926,607)**	(66,514,768)
AFS investments (bonds and corporate notes)	**(746,797)**	(4,893,300)
Investments held for trading – bonds	**–**	(296,596)
Net interest-bearing debt (a)	**243,712,561**	174,790,228
Equity attributable to owners of the Parent	**328,132,735**	300,483,382
Net interest-bearing debt and equity attributable to owners of the Parent (b)	**₱571,845,296**	₱475,273,610
Gearing ratio - net (a/b)	**43%**	37%

Gross Gearing Ratio

	2017	2016
	(In Thousands)	
Bank loans	**₱24,172,965**	₱13,987,765
Long-term debt	**332,853,001**	305,855,809
Total interest-bearing debt (a)	**357,025,966**	319,843,574
Total equity attributable to owners of the Parent	**328,132,735**	300,483,382
Total interest-bearing debt and equity attributable to owners of the Parent (b)	**₱685,158,701**	₱620,326,956
Gearing ratio - gross (a/b)	**52%**	52%

30. 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:

	2017				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVPL - Derivative assets	₱5,341,439	₱5,341,439	₱–	₱5,341,439	₱–
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Time deposits - noncurrent portion	26,688,721	27,069,511	–	–	27,069,511
Receivables - net (including noncurrent portion of receivables from real estate buyers)	48,206,644	46,831,054	–	–	46,831,054
Other concurrent assets:					
Deposits and advance rentals	17,475,500	19,323,721	–	–	19,323,721
Long-term notes	6,399,410	8,309,619	–	–	8,309,619
	98,770,275	101,533,905	–	–	101,533,905
	₱104,111,714	₱106,875,344	₱–	₱5,341,439	₱101,533,905
Liabilities Measured at Fair Value					
Financial liabilities at FVPL -					
Derivative liabilities	₱777,408	₱777,408	₱–	₱777,408	₱–
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	292,555,868	297,063,011	–	–	297,063,011
Tenants' deposits and others*	25,939,021	23,705,361	–	–	23,705,361
	318,494,889	320,768,372	–	–	320,768,372
	₱319,272,297	₱321,545,780	₱–	₱777,408	₱320,768,372

**Excluding nonfinancial liabilities amounting to ₱2,495.1 million.*

	2016				
	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 FVPL - Derivative assets	₱6,757,361	₱6,757,361	₱–	₱6,757,361	₱–
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Time deposits - noncurrent portion	42,041,227	45,124,026	–	–	45,124,026
Receivables - net (including noncurrent portion of receivables from real estate buyers)	41,873,329	41,496,950	–	–	41,496,950
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	6,876,128	7,160,804	–	–	7,160,804
	90,790,684	93,781,780	–	–	93,781,780
	₱97,548,045	₱100,539,141	₱–	₱6,757,361	₱93,781,780

(Forward)

	2016				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Liabilities Measured at Fair Value					
Financial liabilities at FVPL -					
Derivative liabilities	₱9,931	₱9,931	₱–	₱9,931	₱–
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	280,254,227	290,118,678	–	–	290,118,678
Tenants' deposits and others*	21,518,256	20,841,472	–	–	20,841,472
	301,772,483	310,960,150	–	–	310,960,150
	₱301,782,414	₱310,970,081	₱–	₱9,931	₱310,960,150

**Excluding nonfinancial liabilities amounting to ₱1,624.9 million.*

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2017 and 2016.

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:

	2017	2016
Noncurrent portion of time deposits	**2.0%–2.8%**	1.3%–2.2%
Noncurrent portion of receivables from real estate buyers	**4.7%**	4.4%
Long-term notes included under "Other noncurrent assets" account	**1.8%–2.3%**	1.5%–4.0%
Tenants' deposits	**1.9%–5.7%**	1.9%–5.0%

Long-term Debt. Fair value is based on the following:

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 1.7% to 6.9% and 1.0% to 5.9% as at December 31, 2017 and 2016, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 3.4% to 6.4% and 2.3% to 4.6% as at December 31, 2017 and 2016, 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:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱6,757,361**	₱3,964,807
Net changes in fair value during the year	**149,396,745**	2,685,500
Fair value on settled derivatives	**(11,610,238)**	107,054
Balance at end of year	**₱144,543,868**	₱6,757,361

Derivative Instruments Accounted for as Cash Flow Hedges

As at December 31, 2017, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:

Cross-currency swaps:

	Notional Amount							
	In US$	*In Ph₱*	Principal	Fair Value	Receive	Pay	US$: Rate	Maturity
		(In Thousands)						
Parent:								
	US$50,000	₱2,059,250	₱2,496,500	₱422,593	LIBOR + spread	4.1%	₱41.19	May 15, 2018
	60,000	2,478,000	2,995,800	500,295	LIBOR + spread	4.0%	41.30	May 15, 2018
	70,000	2,888,200	3,495,100	587,116	LIBOR + spread	4.0%	41.26	May 15, 2018
SM Prime:								
	200,000	8,134,000	9,986,000	1,866,261	LIBOR + spread	3.7%	₱40.67	January 29, 2018
	150,000	6,165,000	7,489,500	1,346,282	LIBOR + spread	3.9%	41.10	March 23, 2018
	25,000	1,246,900	1,248,248	(99,299)	LIBOR + spread	5.4%	49.88	March 27, 2022
	25,000	1,246,900	1,248,248	(97,446)	LIBOR + spread	5.4%	49.88	March 27, 2022
	50,000	2,580,500	2,496,496	(12,141)	LIBOR + spread	4.9%	51.61	June 30, 2022

Principal only and interest rate swaps:

			Fair Value				
	Notional Amount	Principal	Principal Only Swap	Interest Rate Swap	US$:CNY Rate	Fixed Rate	Maturity
			(in Thousands)				
SM Prime	US$270,000	₱13,481,081	(₱520,986)	₱302,089	6.528-6.569	6.2%	January 29, 2021
	150,000	7,970,935	–	32,062	–	3.2%	April 14, 2019
	50,000	2,496,500	(47,536)	–	6.458-6.889	–	March 23, 2018

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

Options Arising from Long-term Notes. In 2015, the Parent Company extended a loan to Atlas. The loan contains multiple embedded derivatives such as conversion, call and put options. The conversion option pertains to the right of the Parent Company to convert the loan into common shares of Atlas at the conversion price of ₱8.29 per share at any time beginning July 21, 2015 until June 2, 2018. The call option pertains to the right of Atlas to early redeem the loan, in whole but not in part, on or after December 9, 2016 subject to the conditions stated in the loan agreement. On the other hand, the put option pertains to the right of the Parent Company to require Atlas to redeem all or some of the loan at their prepayment amount on the date fixed for prepayment beginning June 9, 2016. The loan was settled in March 2017.

Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to gains of ₱38.6 million and ₱40.2 million in 2017 and 2016, respectively.

31. EPS Computation

	2017	2016	2015
		(In Thousands Except Per Share Data)	
Net income attributable to owners of the Parent (a)	**₱32,923,455**	₱31,204,304	₱28,865,157
Weighted average number of common shares outstanding (b)	**1,204,583**	1,204,583	1,199,004
EPS (a/b)	**₱27.33**	₱25.90	₱24.07

32. Change in Liabilities Arising From Financing Activities

	Bank Loans (Note 18)	Long-term Debt (Note 20)
	(In Thousands)	
Balance as at January 1, 2017	₱13,987,765	₱305,855,809
Availments	59,419,602	55,866,308
Payments	(49,234,402)	(31,640,120)
Cumulative translation adjustment on cash flow hedges	–	2,713,427
Foreign exchange movement	–	(172,455)
Others	–	230,032
Balance as at December 31, 2017	₱24,172,965	₱332,853,001

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

33. Reclassification

The Group reclassified certain consolidated statement of income accounts in 2016 and 2015 to conform to the 2017 consolidated financial statements presentation and classification. The reclassification has no impact on the 2016 and 2015 profit or loss and equity of the Group.

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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:

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