SM INVESTMENTS CORPORATION

ANNUAL REPORT 2018

Our Vision

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

Our Mission

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

Our Core Values

Sustainability. Accountability. Innovation.
Leadership. Hard Work. Integrity

60 years and beyond

2018 is a celebration of SM's journey of growth and development and our milestones for six decades. Our history began as a humble shoe store established in 1958. Today, SM has evolved into a forerunner of customer experience with constant focus on service excellence and innovation. Looking ahead in our journey towards the next 60 years, SM is focused on sustaining its growth, keeping its role as a catalyst and delivering value across its diverse portfolio; and most importantly continuing to service its customers.

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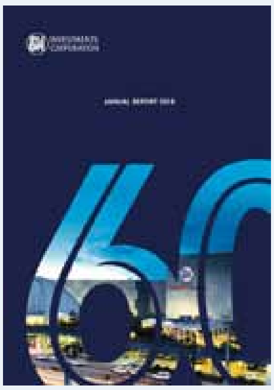


The annual report is available online at
www.sminvestments.com

On the cover: SM has become a lifestyle destination that has grown with its customers throughout its 60 years. Its first Philippine mall, SM City North EDSA which has undergone many transformations, is not only SM's first Philippine mall but it also reinforces SM's commitment to sustainability as the first mall in the country to build over 5,000 solar panels powering its operations sustainably and contributing power to the Luzon grid.

SM at a Glance

Corporate Profile

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

SM's combined retail operation is the country's largest and most diversified with its food (SM Markets, WalterMart, Alfamart), non-food (THE SM STORE and specialty retail stores). SM's property arm, SM Prime Holdings, Inc. (SM Prime) is one of the largest integrated property developers in the country and Southeast Asia with interests in malls, residences, office buildings, resorts, hotels and convention centers. In banking, SM has the largest footprint in the Philippines through its interests in BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank), the country's largest and sixth largest bank, respectively.

Total Assets
PHP1.06tn
↑10%

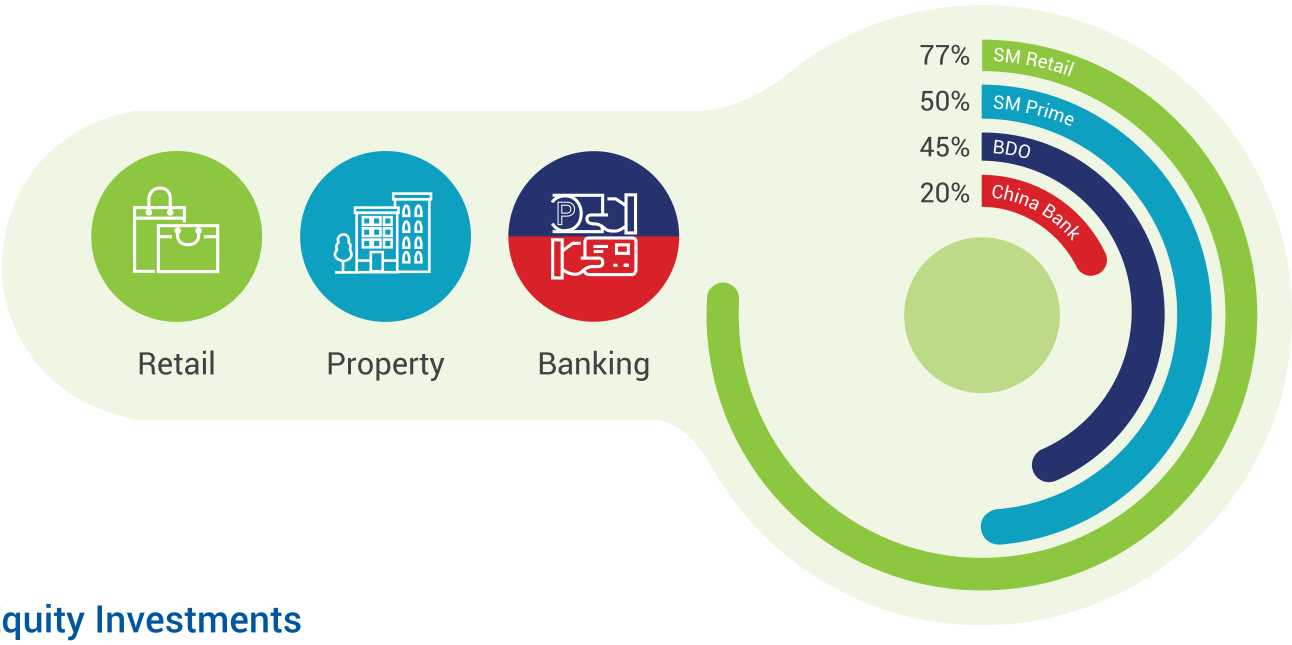
Consolidated Revenues
PHP449.8bn
↑13%

Consolidated Net Income
PHP37.1bn
↑13%

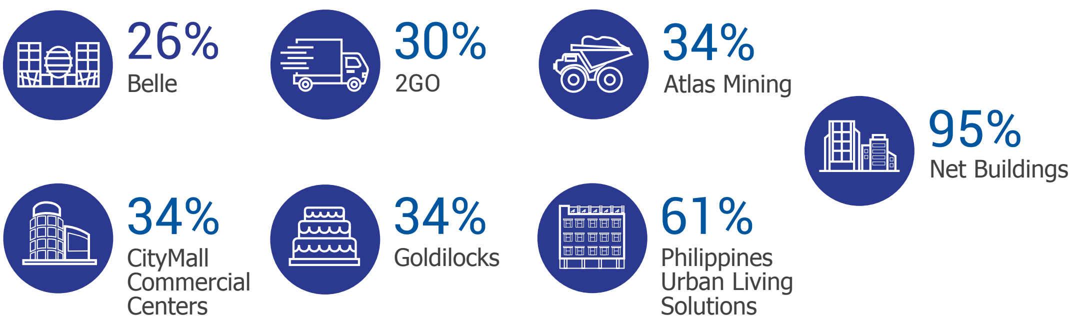
as of end December 2018

Core Investments

Effective Interest



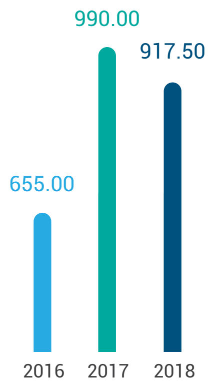
Equity Investments



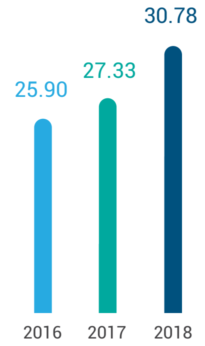
FY2018 FINANCIAL HIGHLIGHTS

	SM RETAIL INC.	SM PRIME HOLDINGS, INC.	BDO UNIBANK, INC.	CHINA BANKING CORPORATION
Consolidated Revenues	PHP335.6bn Revenues ⇧12%	PHP104.1bn Revenues ⇧14%	PHP98.3bn Net Interest Income ⇧20%	PHP22.9bn Net Interest Income ⇧17%
Consolidated Net Income	PHP11.3bn ⇧8%	PHP32.2bn ⇧17%	PHP32.7bn ⇧17%	PHP8.1bn ⇧8%

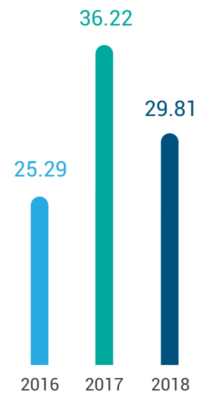
SM Share Performance



Share Price

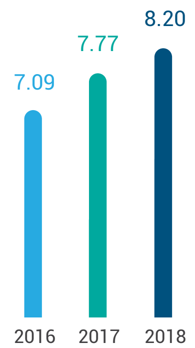


Earnings Per Share



Price/Earnings Ratio

Market Capitalization
(PHP billion)



Dividend Per Share

Dividend Payout Ratio

Performance Overview

	Assets	Revenue	Net Income
CAGR	↑10.5%	↑10.5%	↑8.7%
2018	1,061	450	37.1
2015	785	334	28.9

PHP billion

Our Business Footprint

Core Businesses

Total Number of Stores

SM Retail

63
THE SM STORE

195
Savemore

526
Alfamart

53
SM Hypermarket

1,383
Specialty Stores

56
SM Supermarket

52
WalterMart

Total Number of Developments

SM Prime

72
Philippine Malls

11
Office Buildings

6
Hotels

7
China Malls

4
Convention Centers

63
Residential Projects

3
Trade Halls

Total Number of Branches and ATMs

BDO

1,309
Branches

4,325
ATMs

China Bank

620
Branches

968
ATMs

Consolidated Financial Highlights

2018 Full Year Results

BALANCE SHEET (PHP billion)	2018	2017	2016
Total Assets	1,060.64	960.08	861.46
Current Assets	241.73	212.51	219.09
Noncurrent Assets	818.92	747.57	642.37
Current Liabilities	212.69	175.86	134.83
Noncurrent Liabilities	355.66	330.41	311.88
Total Liabilities	568.35	506.27	446.72
Stockholders' Equity	492.29	453.81	414.75
Book Value per Share (PHP)	293.37	272.40	249.45

INCOME STATEMENT (PHP billion)			
Revenues	449.79	397.95	365.25
Income from Operations	86.61	75.85	67.22
Other Income (Charges)	(12.48)	(10.56)	(7.90)
Income before Income Tax	74.13	65.29	59.32
Consolidated Net Income	37.08	32.92	31.20
Basic Earnings Per Share (PHP)	30.78	27.33	25.90

FINANCIAL RATIOS			
Current Ratio (X)	1.1	1.2	1.6
Return on Equity	10.9%	10.4%	10.7%
Debt-equity Ratio (Gross)	52:48	52:48	52:48
Revenue Growth	13.0%	9.0%	9.5%
Net Income Growth	12.6%	5.5%	8.1%
EBITDA (PHP billion)	101.78	89.87	80.08
EBITDA Margin	22.6%	22.6%	21.9%
Net Margin	13.0%	12.9%	13.1%

REVENUE PROFILE			
Retail	74.8%	75.4%	76.4%
Property	21.4%	20.9%	19.9%
Banking*	3.8%	3.7%	3.7%

NET INCOME PROFILE			
Retail	20.4%	21.7%	23.8%
Property	41.4%	40. 5%	39.1%
Banking*	38.2%	37.8%	37.1%

**Banks are not consolidated with SMIC*

Our History

1958

SM Founder Henry Sy, Sr. opens a shoe store along Rizal Avenue called Shoemart and a second one at Carriedo, Manila

1980

SM Cubao, the department store, opens

1983

Sy establishes SM Foundation, Inc.

1984

SM Department Store opens in Harrison, Manila

1984-1985

From "We've got it all", the "We've got it all for you" slogan and jingle are launched

1985

SM's first mall, SM North EDSA, is opened at a time when the country was in a political and economic turbulence; SM also opens its first supermarket

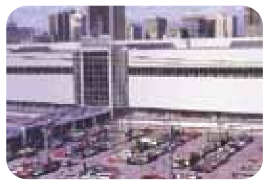
1988

Sy acquires Taal Vista Hotel

1990

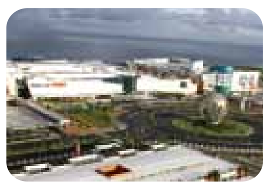
SM opens SM City Sta Mesa or SM Centerpoint because of its highly strategic location

1991



SM Megamall is opened and spearheaded what is now known as the malling phenomenon in the Philippines

2006



SM Mall of Asia is opened in the scenic Manila Bay in Pasay City; SMDC launches Mezza Residences, its first high-rise project

2007

SM Foundation launches Kabalikat sa Kabuhayan Farmers' Training program which provides agricultural training, sustainable farming and financial literacy

SM launches Hamilo Coast, a large scale eco-tourism project in Batangas

2008

SM commemorates its 50th anniversary; SM also acquires majority ownership of National University

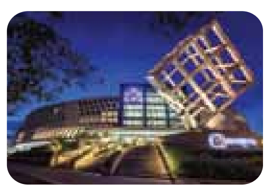
2012

The Mall of Asia Arena opens with a two-day concert of Grammy Award winner Lady Gaga

2014

SM Prime Holdings builds 5,760 solar panels on the rooftop of SM City North EDSA which could generate up to 1.5 Megawatts power or equivalent to 1,000 households

2015



SM Seaside City Cebu opens as the region's newest landmark

2016

SM Investments Corporation announces the merger of its retail arm, SM Retail, Inc. with several retail companies

1950s-1960s

The concept of fixed pricing, air-conditioned stores and glass displays are introduced to better attract customers

1960

Holding firm SM Investments Corporation is incorporated

1963

Shoemart Makati opens

1967

Shoemart Cubao opens

1969

Sy ventures outside retail by building the Manila Royal Hotel in Echague with a revolving restaurant

1972

Shoemart Manila on Calle Echague is transformed into the first department store

1975

Shoemart is re-christened as SM

1976

Acme Savings Bank is acquired and later named to BDO; SM Food Center (SM Food Court) opens in SM Makati as a complementary business

1992

SM Megamall launches the country's first indoor Olympic-size ice skating rink, a breakthrough in a tropical country

1993

SM opens its first provincial mall, SM City Cebu

1994

SM Prime Holdings, Inc. goes public to enhance its funding capabilities and increase its growth momentum in mall development

1995

SM opens Savemore, its neighborhood store to bring SM closer to its customers

2001

SM Hypermarket, which combines a supermarket and a department store, opens in 2001

SM's first mall in China opens in Xiamen

2004

SM Cares, a division of SM Foundation which handles the corporate social responsibility of SM Prime, is established

2005

SM Investments Corporation holds its Initial Public Offering (IPO) which is considered the largest IPO this year

2017

SM Investments Corporation reaches the One Trillion Peso Market Capitalization following SM Prime's historic feat of being the first company to record One Trillion Peso Market Capitalization

SM Investments Corporation invests in 2GO Group and in Philippines Urban Living Solutions, operator and developer of MyTown

2018

SM celebrates its 60th year

HENRY SY:

A Man of Vision and Purpose

by SM Chairman Jose T. Sio

MR. HENRY SY, SR.

(October 25, 1924 - January 19, 2019)

"I receive so much joy and pleasure in work. I do not work for money, security, power and beautiful possessions but rather for the realization of my many hopes and dreams."

Henry Sy, Sr.

SM Founder Henry Sy was a big dreamer, a visionary leader and a man with a strong sense of purpose who helped transform the business landscape and left an indelible mark on the lives of many people.

Even at a young age, Mr. Sy was resilient – sailing penniless and hungry from China to follow in his father's trading footsteps. He persisted and carved his own place in the business scene in the aftermath of the second World War and vividly dreamed of creating a better world than what his family lived through.

That dream took shape as he keenly watched people going to the stores. He envisioned selling a pair of shoes to every Filipino from all walks of life. Working hard and fast, he put up his first shoe store, Shoemart, in 1958 in downtown Manila. The retail industry was vibrant and soon he expanded his stores to other sites to accommodate more demand.

His keen observation of shoppers resulted in several innovations in his stores—customer service ingrained in the corporate culture, air conditioning and fixed pricing. Seeing that customers needed more, he decided to expand the range of his merchandise which transformed Shoemart into the SM Department Store, now THE SM STORE.

His dream began to evolve into something bigger. To support the retail business and strengthen his relationship with suppliers, Mr. Sy acquired a small bank called Acme Savings, later named Banco de Oro, now BDO Unibank.

Deriving many of his learnings from travels, he saw the huge potential of bringing the shopping mall concept to Filipinos. At the height of the country's political upheaval in 1985, Mr. Sy opened the first SM mall, SM North EDSA and with it, SM Supermarket. Despite many criticisms of this venture, it met with huge success. The malls heralded new trends, brands and developments. With new malls came new department stores, new supermarkets, new related retail outlets and new bank branches. Mr. Sy demonstrated how synergies could help his businesses achieve optimal results.

He was convinced that in order to accelerate the growth of the business, he had to go public. SM Prime Holdings, Inc. went public in 1994. Today, SM Prime has become a leading developer of shopping malls, residential condominiums and commercial buildings. Mr. Sy also saw huge potential in Philippine tourism. Thus SM Prime, through its subsidiaries, now owns world-class hotels, a state-of-the-art arena and convention and exhibition centers.


SMIC IPO in 2005

In 2005, SM Investments Corporation, the holding company of the SM group of companies, undertook an initial public offering and was at that time, the biggest in value at around USD528 million.

SM is now one of the largest companies listed at the Philippine Stock Exchange in terms of market capital at PHP1.1 trillion or USD21 billion with leading interests in property, banking, retail and other investments.

The remarkable growth of SM from a simple shoe store to the formidable brand and conglomerate it is today is a testament to Mr. Sy's values of hard work, trustworthiness, discipline and commitment to service. His leadership style allowed these values to be passed on to his family who manage the company, and to his employees.

Build the world better

Mr. Sy believed that the more accomplished one became, the more one had to give back. He believed that education is the great equalizer and the key in the fight against poverty.

In 1983, he formed SM Foundation, Inc. (SM Foundation) in a desire to address the gaps in basic services in the communities SM serves.

The Foundation provided access to quality education to students from financially challenged families via college and technical-vocational scholarship grants and by building well-equipped public schools. Since its founding, it has expanded to advocacies that improve the quality of universal healthcare by renovating public health facilities and by conducting medical and diagnostic missions nationwide. It also created a program to help farmers learn progressive farming techniques.

True to Mr. Sy's values, SM's path to sustainability is anchored on energizing local economies wherever SM is present by creating jobs, promoting inclusive supply chains, facilitating infrastructure development and providing access to financial services. It is also hinged on supporting community development and social inclusion, integrating disaster resilience and encouraging entrepreneurship.

Mr. Sy's dream lives on in more than 5,000 foundation scholar-graduates, over 23,000 farmer beneficiaries trained, and nearly 12 million families benefitted by SM's social programs as well as the countless communities touched by SM.

He once said that he doesn't work *"for money, security, power and beautiful possessions but rather for the realization of my many hopes and dreams."*

Today, his dream has formed the foundation of so many other dreams that will create a better path for many people. In all of these, Mr. Sy has truly built it better.

Board of Directors

Our Leadership Team

(Seated*)
Henry T. Sy, Jr., Henry Sy, Sr., Jose T. Sio

(Standing*)
Tomasa H. Lipana, Frederic C. DyBuncio, Teresita T. Sy, Alfredo E. Pascual, Joseph R. Higdon, Harley T. Sy

from left to right

HENRY SY, SR. †
Chairman Emeritus

Henry Sy, Sr. was the Chairman Emeritus of the Board of Directors of SMIC. He was the founder of the SM Group and was Chairman Emeritus of SM Prime Holdings, Inc., SM Development Corporation, and Highlands Prime, Inc., BDO Unibank, Inc., and Honorary Chairman of China Banking Corporation until his passing. Mr. Sy opened the first ShoeMart store in 1958 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. He is also a Director of China Banking Corporation, Belle Corporation, Atlas Consolidated Mining and Development Corporation and NLEX Corporation, and Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a master's degree in Business Administration from New York University, is a certified public accountant and was formerly a senior partner at Sycip, Gorres, Velayo & Co. Mr. Sio was voted CFO of the Year in 2009 by the Financial Executives of the Philippines. He was also awarded as Best CFO (Philippines) in various years by several Hong Kong-based business publications.

TERESITA T. SY
Vice Chairperson

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

HENRY T. SY, JR.
Vice Chairman

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

FREDERIC C. DYBUNCIO
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 SM Retail, Inc. He holds a degree in Bachelor of Science in Commerce, Major in Finance from De La Salle University.

JOSEPH R. HIGDON
Lead Independent Director

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

TOMASA H. LIPANA
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 also an Independent Director and Audit Committee Chairperson of Flexo Manufacturing Corporation, QBE Seaboard Insurance Philippines, Inc. and Trade and Investments Development Corporation of the Philippines (PhilExim), a government-owned and controlled corporation. She was previously an Independent Director of Goldilocks Bakeshop Inc. and Inter-Asia Development Bank. She is a fellow and Trustee of the Institute of Corporate Directors. She is also a Trustee of the Shareholders Association of the Philippines, Inc., among other non-profit organizations. Ms. Lipana took up Executive Education/ Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She received Outstanding CPA in the Public Practice Award from the Philippine Institute of Certified Public Accountants and the Outstanding Alumna Award from the University of the East where she graduated Cum Laude. She is also a CPA Board placer.

ALFREDO E. PASCUAL
Independent Director

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

Advisers to the Board

• Elizabeth T. Sy • Gregory L. Domingo • Serafin U. Salvador • Hans T. Sy • Herbert T. Sy • Roberto G. Manabat

Message to Shareholders

60 years and Beyond

Dear Fellow Shareholders,

2018 has been a good year for SM Investments Corporation (SMIC). All our core businesses did well on both top and bottom line growth driven by robust consumer environment and expansive growth of our businesses in regional areas. We realized strong net income of PHP37.1 billion, up by 13%. Our sound capital structure and cash flows reinforce our ability to pursue aggressive expansion, scale new opportunities in the medium-term and provide fair returns for our shareholders.

2018 was a year with some significant milestones which included record earnings and international recognition for our commitment to corporate governance and sustainability. Throughout 2018, we commemorated SM's 60th year with a number of celebratory and thanksgiving activities for our various shareholders - fitting occasions to remember how far we have come and to thank those who have helped.

Our track record of innovating and developing capabilities have enabled us to adapt to the changing business landscape to stay relevant to our customers. We expanded our presence across our core businesses and captured new opportunities to enhance shareholder value.

In retail, we continue to track customer trends, invest in distribution and execute our omnichannel strategy to drive further growth for our portfolio.

In property, we recognize the emergence of growth areas and this has bolstered SM Prime Holdings' (SM Prime) expansion in various provincial areas in the Philippines and broadened our presence in Metro Manila which contributed to the company's double-digit growth across its businesses.

In banking, BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) carry on the execution of their growth strategies in order to take advantage of market opportunities. Both banks gained from healthy lending and deposit growth, increasing margins, better quality of loans and expanding distribution networks.

We also continued to invest in new businesses and strong partners to build our equity investments portfolio to capture new growth sectors in the Philippines.

Likewise, we are pleased that our commitment to good corporate governance has been well-received. SM Investments Corporation, SM Prime and China Bank were among the best companies in the region cited for their corporate governance practices and ranked as the Top 3 publicly-listed companies in the country by the ASEAN Corporate Governance Scorecard. SMIC was also recognized as one of the Forbes 2018 Global 2000 Best Regarded Companies and Forbes 2018 Global 2000 World's Best Employers.

We also led the gathering of like-minded captains of industry, partnering with the Global Reporting Initiative (GRI), to launch the first ever GRI Sustainability Summit in the country. The summit saw the collaboration of the Philippine business community, united towards a common sustainability agenda – the alignment to the United Nations Sustainable Development Goals using the GRI Standards as the framework to measure impact.

Over the course of six decades, we have endeavored to stay true to our values, service excellence, operational focus and high regard for our stakeholders. The foundations laid by our founder, Mr. Henry Sy, Sr. inspired us to build world-class businesses that are catalysts for growth – supporting communities, touching lives and delivering service to millions. His dream and vision has made SM what it is today – a company rooted in putting customers first and one that is well placed for a sustainable future.

We are grateful for the dedication of our Board of Directors, management team and all the employees, whose hard work and high regard for consumers, our stakeholders and communities we serve, have enabled SM's continued success.

JOSE T. SIO
Chairman of the Board

TERESITA T. SY
Vice Chairperson

HENRY T. SY, JR.
Vice Chairman

President's Report

Strong Foundation, Sustainable Future

We delivered good results this year with strong revenue growth and recurring income growth across our core businesses. This resulted in double-digit growth in our consolidated net income of PHP37.1 billion from PHP32.9 billion in 2017, up by 13% while consolidated revenues also grew by 13% to PHP449.8 billion from PHP397.9 billion in 2017.

This has been a very important year for SM, not only due to our results but because 2018 marked SM's 60th anniversary.

For six decades, SM has not stood still. Through the years, SM transformed from a simple shoe store – established by our founder and SM patriarch, Mr. Henry Sy, Sr. who dreamed that every Filipino deserved a pair of shoes – to becoming instrumental in the Philippine business landscape and one of the most agile companies focused on delighting customers and delivering value.

As we reap the benefits of the hard work of our founder in making SM what it is today, we challenge ourselves to ensure continued success for the Group. We invest in a sustainable future anchored on our pillars of growth and sustainability which include operating our diverse portfolio of market-leading businesses and strategic equity investments that energize local economies; capitalizing on our strength to build integrated lifestyle developments; and adhering to global standards of professionalism and corporate governance practices.

Delivering Solid Results

In 2018, we focused on delivering value and managing our growth in the medium-term through our ongoing interest in our core businesses, bolstering the Group's expansion.

In retail, we increased nationwide presence, ramping up expansion in food and delivering high margin growth in our specialty retail business. Under SM Retail, Inc., the company's retail portfolio comprised of non-food (THE SM STORE and specialty stores) and food (SM Markets), revenues grew 12% to PHP335.6 billion from PHP299.2 billion in 2017. Total net income increased 8% to PHP11.3 billion in 2018. We opened four THE SM STOREs, 32 food and 121 specialty stores in 2018, mostly in regional areas. We also opened 178 Alfamart stores, bringing this new format to over 500 stores by means of expansion in underserved residential areas.

In property, SM Prime Holdings, Inc. (SM Prime) achieved double-digit growth bolstered by strong domestic and foreign demand. SM Prime posted consolidated net income growth of 17% to PHP32.2 billion from PHP27.6 billion in 2017 while consolidated revenues grew by 14% to PHP104.1 billion in 2018 from PHP90.9 billion in 2017. This was driven by the robust mall revenues and outstanding residential take-up. Mall revenues increased 11% to PHP59.3 billion while consolidated mall rental income grew 11% to PHP50.5 billion in 2018. Meanwhile, revenues from residential development projects led by SM Development Corporation, grew 22% to PHP36.5 billion while reservation sales grew by 25% to PHP72.3 billion in 2018.

In banking, BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) delivered outstanding performance anchored on solid recurring earnings from their core businesses, margin expansion and ongoing loan growth.

BDO recorded net income of PHP32.7 billion in 2018 from PHP28.1 billion in 2017. This represented 17% growth and beating the Bank's PHP31.0 billion guidance for 2018. Net interest income increased by 20% to PHP98.3 billion on better net interest margins and boosted by gross customer loans which grew by 15% to PHP2.0 trillion on healthy increases across all market segments. The bank's total deposits went up by 14% to PHP2.4 trillion.

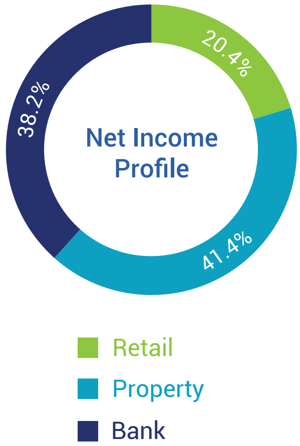
Meanwhile, China Bank posted an 8% growth in consolidated net income to PHP8.1 billion. The bank's net interest income increased by 17% to PHP22.9 billion on the back of a 13% increase in gross customer loans to PHP512.9 billion. Total deposits increased 14% to PHP722.1 billion while total assets grew 15% to PHP866.1 billion driven by double-digit growth in loans and investment securities.

Likewise, BDO and China Bank's continued expansion and strategic initiatives across underserved segments and growth areas supported their sustained growth in 2018. Both banks are market leaders in climate-smart financing in the country and have established a clear sustainability strategy. These include BDO's pioneering USD150-million green bond issuance in 2017 and, most recently, China Bank's first green bond, raising USD150 million to fund a fresh wave of environmentally-beneficial projects to help mitigate climate change.

EBITDA

PHP101.8bn

↑13%



Capturing New Opportunities

Aside from accelerated expansion of our core businesses, we also invested in technology, particularly in big data and analytics, cybersecurity and cloud computing, as well as strategic digital banking initiatives to better serve our customers.

Likewise, we are building our base of comprehensive assets and capabilities with best-in-class partners to accelerate our omnichannel retail presence and build end-to-end solutions for our customers. These include Click & Collect with SM online stores, Lazada and Shopee, electronic wallet and payment with GrabPay, and last mile delivery with 2GO to help drive e-commerce opportunities in the Philippines.

Sustainable Future

We are proud of our contributions to help realize the United Nations Sustainable Development Goals (SDGs) through our investments, particularly our targeted social investments in education, healthcare, food security, environmental sustainability and social development programs that create positive impact to society and communities we serve.

Our Sustainability Report showcases our sustainable operations and various initiatives with the communities we serve. You can read more about it through our separate report and its highlights are also featured in this report.

Beyond 60

Our priorities in 2019 are no different from the past years and we will continue to challenge ourselves so we can be assured of continued success. Overall, we ended the year with a strong balance sheet and we are confident of our growth prospects for the business.

We are confident of our future. We will work hard to maintain a healthy balance sheet and solid investment rating, sustain our pillars of growth, and strengthen our core businesses with the support of our Board of Directors, management team and colleagues who are dedicated and passionate about their work.

FREDERIC C. DYBUNCIO
President/CEO


SM
CELEBRATES
60
#AweSM

SPECIAL FEATURE

AweSM@60

2018 marked a momentous celebration of 60 #AweSM years of the SM brand and the legacy of its founder, Henry Sy, Sr.

From his first store in downtown Manila to being one of the biggest conglomerates in the Philippines — Mr. Sy has transformed dreams into reality and touched the lives of millions.

True to his values, Mr. Sy's SM brands have become hallmarks of accessibility, value for money and convenience.

From a child choosing his first pair of shoes at THE SM STORE, to a young professional spending her first paycheck on groceries at SM Markets, to the entire family having fun at SM CINEMAs or at SM Supermalls, the SM brand is significantly imprinted in minds of Filipinos. SM serves many generations and is interwoven into Philippine culture and history.

"**We've Got it All for You**" and being "**Happy to Serve**" are but two of the most palpable aspects of SM's unforgettable service—deeply signifying SM's connection with the community.

To commemorate the 60th milestone year, SM staged a meaningful celebration with many of its stakeholders to capture SM's journey through the years and to welcome its vibrant future that will continue to serve millions more. The celebration constituted 60 activations, AweSM deals and thrills and loads of fun experiences for customers. Employee activities such as the AweSM Run, AweSM Talent, 60,000 AweSM Tree Count and 60,000 Shoe Drive heightened employee engagement.
A culminating activity in October honored employees and showcased 60 exceptional Women of SM.

Launch at the SM Mall of Asia

SM's 60th celebration featured kick-off events and activations for customers as well as employee engagement activities that champion diversity and inclusion

SM Seaside City Cebu Launch

Pampanga Eye

Shoe Drive

15,660 sponsors

60,000 beneficiaries in 88 public schools

3,684 volunteers from 75 retail branches and malls

Ultimate Talent Search

1,300 acts showcased

AweSM Run

14,000 Participants

Exceeded target by 6,000 Participants

60,000 fruit bearing trees planted in Batangas, Pampanga, Iloilo and Davao

The AweSM Tree Count

SM Women 60

Business Review

SM RETAIL, INC.

Capitalizing on a Vibrant Retail Sector

SM Retail delivered robust results in 2018 reflecting double-digit revenue growth across all segments amid continued expansion of the business outside of Metro Manila. About 80% of new stores opened in 2018 were in new provincial market areas. Alfamart, SM Retail's minimart format, has now opened over 500 stores and established its neighborhood grocery format as a platform for expansion into residential areas.

SM Retail, which comprises market leading brands like THE SM STORE, specialty retailing and food retailing led by SM Markets, reported growth in total revenues of 12% to PHP335.6 billion. Net income likewise grew 8% to PHP11.3 billion from PHP10.4 billion the previous year.

At end-December 2018, SM Retail had a total of 2,328 outlets, comprising 63 THE SM STORES, 1,383 specialty retail outlets, 56 SM Supermarkets, 53 SM Hypermarkets and 195 Savemore, 52 WalterMart and 526 Alfamart stores. A total of 335 outlets were added in 2018 across the retail business portfolio.

THE SM STORE

THE SM STORE performed strongly in 2018 with growth led by Beauty products, Men's Wear as well as Shoes & Bags. With the evolving preferences of Filipino consumers, THE SM STORE was able to capitalize on popular trends in these categories.

It opened four stores in Urdaneta, Pangasinan; Telabastagan, Pampanga; Legazpi City, Albay and Valenzuela City. The year 2018 will always be remembered when THE SM STORE opened its 60th store in Urdaneta, Pangasinan on its 60th Anniversary. Total gross selling areas of all 63 department stores in 2018 stood at 797,740 square meters.

Brands such as Toms, Dr. Martens, Aldo, GH Bass, Melissa, Under Armour, Ellie, Flaunt, McBeth, were added to THE SM STORE's increasing roster of International Brands. These developments enabled THE SM STORE to lead the response to the ever changing Filipino consumer shopping habits.

Several innovations were introduced to improve customer convenience such as the implementation of a nationwide customer care center number for customers to call. It also introduced other services such as the "Click & Collect" where customers can purchase items not only from the SM online store but also from other online players such as Lazada and Shopee and subsequently pick up their purchases from the most convenient THE SM STORE location. SM also partnered with "On-Demand" delivery service providers such as Mober and Transportify allowing same day delivery. Digitization of customer rewards (QR code, digital vouchers, etc.) and the acceptance of additional cashless payments (Gcash, PayMaya, WeChat Pay, Alipay) were also implemented.

Specialty Retailing

Specialty retailing includes a wide assortment of quality products offered through leading local category specialists and aspirational but affordable foreign brands. These stores are SM Appliance, ACE Hardware, Our Home, Homeworld, Toy Kingdom, Baby Company, Watsons, Kultura, Sports Central, Pet Express, Crate & Barrel, Forever 21, Miniso, Under Armour, Body Shop, Uniqlo, Bata and Dyson.

In 2018, significant sales growth was seen in the segments home and furnishings, foreign brands and specialty retail. Miniso delivered significant revenue growth, fueled by expansion. 2018 also saw the entry of new brands such as footwear, sports, and casual apparel company Under Armour and British household appliances Dyson.

121 new specialty stores were added in 2018 and these contributed to the growth in SM's merchandise sales. Currently, there are over 1,300 specialty stores operating nationwide.

SM Markets

The food group, led by SM Markets (SM Supermarket, SM Hypermarket and Savemore), delivered good revenue growth for the year as it continued to focus on improving product assortment, aggressively expanding locations and opening multiple store formats to cater to a growing range of needs of the market.

New branches opened by SM Markets contributed to the group's growth by being the first movers to reach new markets in the rural areas. Established SM Markets stores, especially in Metro Manila, with the largest concentration of existing sites, delivered consistent same-store improvements amid a competitive landscape. Outlets in Visayas and Mindanao likewise demonstrated strong growth.

Customer loyalty has been maintained and strengthened by continuous upgrades of mature branches while keeping product assortment relevant to suit customer preferences. These have likewise helped same store sales. Shopper-oriented promotions such as bundled items and deliberate expansion in urban and rural areas drew new customers with increased transactions and bigger basket sizes. The continued benefits of a healthy economy driven by the BPO industry and OFW remittances also contributed to SM Markets' performance.

Among the year's biggest milestones were the opening of SM Markets' 300th store, SM Supermarket Legazpi City in Albay and Alfamart opening its 500th branch at SMDC Shore Residences.

As consumer behavior evolves, SM Markets developed opportunities online with the launch of its e-commerce site, "Click & Collect" and the expansion into more digital payment options such as the global Alipay and WeChat Pay platforms. The service currently runs in selected locations.

Alfamart performed well with the opening of additional 178 stores, bringing convenient small format modern grocery retailing into underserved residential areas. Together with WalterMart and SM Markets, the food retail group added 210 new outlets in 2018.

SM Markets was recognized by the Autism Society Philippines' Partner of the Year award for its continued support for persons with autism through the program *AutiSM at Work* along with 53 Gold DTI Bagwis Awards and 9 Silver Bagwis Awards that commended SM for upholding consumer rights and excellently maintaining fair trade. Twenty three (23) SM Markets stores were also recognized by their respective cities and municipalities as top taxpayers.

SM PRIME HOLDINGS, INC.

Delivering Sustained Growth

SM Prime Holdings, Inc. (SM Prime) delivered double-digit growth in 2018 driven by its robust core businesses. SM Prime posted a record high consolidated net income of PHP32.2 billion in 2018, up by 17% from PHP27.6 billion in 2017. Strong performance was bolstered by mall revenues and residential development businesses which increased consolidated revenues by 14% to PHP104.1 billion from PHP90.9 billion in 2017 while consolidated overall operating income grew by 19% to PHP48.3 billion from PHP40.6 billion.

For the company's mall operations, SM Prime recorded revenue growth of 11% to PHP59.3 billion in 2018 from PHP53.2 billion in 2017. This was largely contributed by its mall expansion strategy in the provinces, which delivered consolidated mall rental income growth of 11% year-on-year to PHP50.5 billion.

New and expanded malls built from 2017 to 2018 in Metro Manila and developing provinces contributed to the increase in mall rental revenues. These include SM CDO Downtown Premier, S Maison, SM City Puerto Princesa and SM Center Tuguegarao Downtown launched in 2017 and SM Center Imus, SM City Urdaneta Central, SM City Telabastagan, SM City Legazpi and SM Center Ormoc in 2018.

SM City Legazpi


SM Center Tuguegarao

In 2018, SM Prime expanded its domestic footprint with five new malls and capped the year with a total of 72 malls in the Philippines with 8.3 million square meters (sqm.) of gross floor area (GFA). In China, SM Prime has seven malls with 1.3 million sqm. of GFA. SM Prime delivered same-mall-sales growth at 8% across all mature malls.

Meanwhile, revenues from cinema and event tickets increased by 9% to PHP5.2 billion in 2018 while amusement and merchandise sales accounted for PHP3.6 billion, up by 14% in 2018 with the opening of new malls. Mall operating income improved by 13% while operating margin moved up to 54% in 2018.

SM Prime's residential group led by SM Development Corporation (SMDC) increased revenue by 22% to PHP36.5 billion in 2018 while operating income grew by 39 % to PHP12.3 billion on the back of higher construction accomplishments of residential projects launched in 2015 to 2017.

SMDC's reservation sales increased by 25% in terms of sales value to PHP72.3 billion from PHP57.8 billion in 2017. Unit sales increased by 23% to 21,157 from 17,259 residential units. Growth was contributed by strong sales take-up from residential projects in the Mall of Asia Complex, Mandaluyong City and Parañaque City.

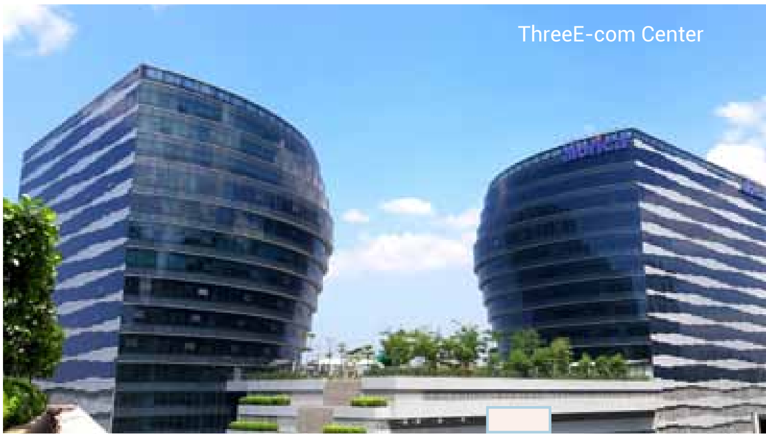
Likewise, SMDC's residential projects launched in the provinces such as Charm Residences in Rizal, Hope Residences and Green 2 Residences in Cavite, Lane Residences in Davao and Park Residences in Laguna, complemented residential projects in Metro Manila such as the Vine Residences, Trees Residences and Hill Residences in Quezon City, Red Residences in Makati City and Leaf Residences in Muntinlupa City - these were notable projects that contributed to SMDC's robust performance.

To further strengthen its residential business portfolio, SM Prime is set to launch 15,000 to 18,000 residential units in 2019. These include high-rise buildings, mid-rise buildings and single detached house and lot projects.

Lane Residences Amenity

Conrad Manila

Conrad Manila Spa



ThreeE-com Center

Meanwhile, SM Prime's other business segments posted a combined revenue of PHP8.4 billion in 2018, up by 7% from PHP7.9 billion in 2017. Revenue growth from the Commercial Properties Group and the Hotels and Convention Centers are mostly contributed by the opening of ThreeE-com Center, FiveE-com Center and Conrad Manila.

To date, SM Prime has 11 office buildings with a combined GFA of more than 637,000 sqm. It operates six hotels with over 1,500 rooms, four convention centers and three trade halls.

For 2019, SM Prime is set to launch two new hotels and one office building: the Park Inn by Radisson Iloilo and Park Inn by Radisson North EDSA; and the NU Tower at the Mall of Asia Complex.

BDO UNIBANK, INC.

Strong Performance

BDO Unibank, Inc. (BDO) posted a record net income of PHP32.7 billion in 2018 from PHP28.1 billion in 2017, representing 17% growth and beating the Bank's PHP31 billion full-year guidance on strong recurring earnings from its core businesses.

BDO likewise capped another milestone as the first Philippine bank to breach the PHP3 trillion mark in total assets.

Leading BDO's performance was the solid growth in its core lending and deposit-taking businesses. Gross customer loans rose by 15% to PHP2.0 trillion on healthy increases across all market segments, while total deposits went up by 14% to PHP2.4 billion, with low-cost CASA ratio at 70%. This resulted in the 20% expansion in net interest income to PHP98.3 billion on better net interest margins (NIM). The Bank's NIM improved to 3.64% from 3.48% in 2017.

Meanwhile, non-interest income settled at PHP49.7 billion, with fee-based income contributing PHP30.7 billion and insurance premiums up 20%. Overall, gross operating income grew by 15% to PHP148 billion.

Operating expenses amounted to PHP98.0 billion, up 16%, in line with the Bank's sustained investments in branch network and strategic initiatives. Excluding taxes and licenses, which grew by 41% as a result of higher business volumes and increased documentary stamp taxes (DST) under TRAIN, operating expenses would have grown by 13%.

The Bank remained prudent and set aside PHP6.3 billion in provisions even as NPL ratio further improved to 1.0% from 1.2% in 4Q 2017. NPL cover was higher at 183% compared to 146% in 2017.

The Bank's capital base stood at PHP328.1 billion, with Capital Adequacy Ratio (CAR) and Common Equity Tier 1 (CET1) ratio at 13.7% and 12.1%, respectively, both above regulatory levels.

BDO enters 2019 with increased optimism as inflation is stabilizing and more economic activity is expected due to the government's infrastructure spending program. It is well-positioned to take advantage of market opportunities and strengthen its leadership position in the industry by leveraging on its strong business franchise and extensive distribution network.

CHINA BANKING CORPORATION

A continuing story of trust and enduring partnerships

China Bank will mark its 100th anniversary in 2020, driven to uphold its legacy of trust. Established as a bank for businessmen and entrepreneurs, China Bank, leveraging its strong foundation and enduring relationships with the Filipino-Chinese community, has since expanded the scope of its products and services to serve all customer segments—corporate, commercial, consumer—offering a complete range of financial solutions in pursuit of its mission to be a catalyst of wealth and value creation.

2018 marked the first full year of China Bank's new president, William C. Whang, and the "Wildly Important Goals" or WIGS concept he introduced as the pillars of execution for the institution's continued success and sustainability: business growth, customer centricity, operational excellence, and employee engagement.

Boosted by the sustained growth of its core businesses, China Bank posted a record PHP8.1 billion net income in 2018, up 8%. This translated to a return on equity of 9.5% and a return on assets of 1.0%.

Total operating income rose 11% to PHP28.6 billion, as net interest income surged 17% to PHP22.9 billion on the back of double-digit growth in loans. Meanwhile, fee-based revenues excluding trading gains and one-off gains grew 16%.

Total assets expanded 15% to PHP886.1 billion on the strength of the Bank's core business drivers. Gross loans reached PHP513 billion, 13% higher on the broad based increases across customer segments, particularly the consumer and corporate segments. On the funding side, total deposits climbed 14% to PHP722.1 billion, buoyed by the 17% increase in low-cost deposits to PHP400.8 billion.

Despite brisker lending, asset quality remained healthy. Non-performing loans (NPL) declined by PHP240 million or 4%, which further improved NPL ratio to 1.2%—better than industry at both the parent bank and subsidiary levels. NPL reserve cover increased to 155%, with the ratio at the parent bank level even stronger at 306% from 175% in 2017.

Total capital funds grew 5% to PHP87.8 billion. Common equity tier 1 (CET 1) and total capital adequacy ratios at 12.2% and 13.1%, respectively, are well above the minimum regulatory requirement.

The Bank remained on track with its expansion plans, opening 24 branches in 2018 to bring its combined network to 620 China Bank and China Bank Savings branches nationwide. This vast footprint is complemented with 968 ATMs and robust electronic banking channels: China Bank Tellerphone, China Bank Online, and China Bank Mobile Banking App.

The Bank capped the year with solid achievements that underpin its continuing story of sustainable growth, governance excellence, and enduring partnerships.

Moody's affirmed China Bank's investment grade credit rating of Baa2, citing the Bank's strong capital base and stable asset quality. Fitch similarly affirmed its BB+ Long Term Issuer Default Ratings. Meanwhile, local credit watchdog PhilRatings gave the Bank an issuer rating of PRS Aaa, the highest corporate credit rating assigned on the PRS scale, reflecting the Bank's very strong capacity to meet its financial obligations.

Committed to sustainability, China Bank signed a USD150 million Green Bond Agreement with International Finance Corporation (IFC) to open up more financing for climate-smart projects, including renewable energy, green buildings, energy efficiency, and water conservation initiatives.

Strategic and well-timed fund raising via LTNCDs enables the Bank to support its business expansion plans and create more value for stakeholders, as well as to improve its deposit maturity profile. In 2018, the Bank raised PHP10.25 billion, the largest in its history. Strong investor demand prompted the Bank to upsize the issuance to double the original offer size of PHP5 billion.

The Bank was cited at the 2018 ASEAN Governance Awards as the only bank among the top three listed Philippine companies and among the 50 best publicly-listed companies in ASEAN. The Bank's excellence in corporate governance was also recognized by London-based publications Global Banking & Finance Review and Capital Finance International. Affirming China Bank's commitment to high customer service standards, the Bangko Sentral ng Pilipinas (BSP) gave it the Pagtugon Award for Universal and Commercial Banks. Meanwhile, China Bank Capital was named Best Retail Bond House in the Philippines by The Asset for the third year in a row, and as Best Bond Adviser in the Philippines.

The Bank's strong fundamentals, sound strategy, and solid financials provide it with a great platform to meet the opportunities and challenges in 2019 as it prepares to mark its 100th anniversary in 2020. After nearly a century of steady progress, China Bank surges forward, further building its capabilities to remain relevant, responsive, and competitive in a changing world. Moving forward, the Bank will continue to leverage its strength to facilitate sustainable growth and improve the lives of the millions it serves.

PHILIPPINES URBAN LIVING SOLUTIONS, INC.

Innovating Co-Living Spaces

In 2018, Philippines Urban Living Solutions Inc. (PULS) has expanded its co-living portfolio by completing the construction of 13 buildings, bringing their portfolio to 16 buildings with 1,145 units and a total of 3,300 beds. The recently added buildings offer unprecedented modern amenities that complement the work-life balance lifestyle of young professionals such as a rooftop pool, outdoor cinema, mini movie theater, full boxing gym, yoga studio, gyms, KTV rooms, canteens and recreational areas. Moreover, occupancy rates have remained high despite the rapid expansion, and corporate unit offtake has grown to around 50% of total capacity.

With MyTown pioneering co-living in the region, corporates turn to MyTown to accommodate their staff as a 21st Century HR benefit as employees now value convenience in location and a better work-life balance over traditional HR benefits such as a lease car or other allowances. This has resulted in the growth and diversification of PULS' corporate client base to one that includes the BPO sector, financial institutions, online gaming operators, insurance, fast-growing tech startups and traditional sectors such as mining, agriculture and education.

To further its role as the innovator of co-living spaces, PULS expanded its product offering by introducing its serviced apartments' package, which includes upscale exclusive MyTown Club membership, housekeeping, point to point transportation, customized meal plans, utilities, serviced apartments and other tailor-fit features. Likewise, MyTown introduced the MyTown app to help tenants avail of services and accomplish dorm responsibilities.

As a community-centered company, PULS has also partnered up with several local NGOs and government organizations through its CSR programs implementing advocacy and community projects which are open for tenants.

MyTown Gym

2-person unit

In recognition of its founding role in the co-living industry, PULS received the SME Company of the Year Award at the 2018 Asia CEO Awards for revolutionizing rental housing communities.

In late 2018, PULS started work on MyTown Los Angeles conveniently located in Kalayaan Avenue, adjacent to BGC Uptown. MyTown Los Angeles comes with 380 co-living units, over 2,000 sqm. of training rooms and co-working space combined, and a separate club house with a set of even more exciting amenities, which is expected to be MyTown's largest and most forward-looking concept yet. It is slated for completion in early 2020.

Tagaytay Midlands Golf Course

BELLE CORPORATION

Ensuring Sustainable Growth

Belle Corporation (Belle) continued its momentum in 2018 as its strategy, established a decade earlier, of developing a premium integrated resort laid the foundation for a robust business that complements an expanding tourism sector. Record tourist arrivals in 2018 and Belle's unique exposure to the gaming sector through its subsidiary, Premium Leisure Corp., drove the growth in its share in the gaming revenues of City of Dreams Manila. As a result, Belle posted revenues of PHP8.5 billion and recurring net income of PHP3.6 billion in 2018, up 6% and 10%, respectively.

Aside from the success of City of Dreams Manila, Belle continues to take pride in its luxury mountain resort, Tagaytay Highlands, with its celebrated Tagaytay Highlands International Golf Club that commemorates its 25th anniversary in 2019. With approximately 800 hectares of available land for development in the vicinity of Tagaytay Highlands and its neighboring Tagaytay Midlands, Belle continues to be at the forefront of the high-end leisure property industry.

Belle is committed to being a good corporate steward and is well aware of its responsibility. In 2018, Belle stepped up its efforts for sustainable operations and worked with its various stakeholders to minimize its impact on the environment, conserving resources, empowering its workforce and enhancing its corporate governance practices. This resulted in Belle's maiden sustainability report, *Creating a Sustainable Tomorrow*, which challenges Belle to strengthen its commitment to the United Nations Sustainable Development Goals, the UN Global Compact and the Greenhouse Gas Protocol.

2GO GROUP, INC.

Ready 2GO

2GO Group, Inc. (2GO) made good progress this year but performance was impacted by changes in its activities while operating in a challenging industry environment.

The group faced significant external challenges such as fuel prices surges, weather disturbances and a competitive business landscape. Despite these, the Shipping business cornered 95% of the passage market share in and out of Metro Manila and captured 23% of the freight market – still the largest in the industry.

In the Non-shipping business, comprised of Logistics and Distribution, revenues decreased by 3% in 2018. This was largely due to the Logistics group, which continued to disengage from unprofitable accounts. Distribution revenues increased by 9% primarily attributed to new clients and increased sales. The Non-shipping business focused on customer service and improved their offerings to existing customers such as end-to-end warehousing, inventory management, cross-docking, delivery and merchandising.

2GO Group announced the merger of Negros Navigation with 2GO with the latter as the surviving listed entity. The merger simplified the corporate structure of 2GO with 12 entities either ceased, sold, or merged with other operating units. This has developed efficiencies across the group thereby increasing shareholder value.

2GO strengthened its governance initiatives, raising the level of governance to provide better transparency to stakeholders. In 2018, 2GO formed a Board IT Steering Committee to look after the company's IT infrastructure enhancement initiatives. When implemented, these initiatives will increase collaboration across its business units, strengthening 2GO's position as the leading local end-to-end logistics solutions provider.


Sangi Port

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION

Sustainable Value through Responsible Stewardship

Atlas Consolidated Mining and Development Corporation (Atlas Mining) strengthened its commitment to operational sustainability in 2018 through its wholly-owned subsidiary, Carmen Copper Corporation.

This year saw Carmen Copper's enhanced cost efficiency campaign focused on manpower productivity ratios, strict procurement standards and stringent audit systems. It also re-emphasized its mantra of commitment, competence and cooperation across its operating groups. These efforts led to significant operating improvements which increased milling tonnage and copper as well as gold production. The consequent increase in shipments underpinned its reported 2018 revenues of PHP14.2 billion, a 19% increase compared to the previous year. Efficiency initiatives also helped sustain earnings before interest, tax, depreciation and amortization of PHP3.9 billion.

Beyond its operations, Atlas Mining recognizes its role with the communities as a responsible steward of the environment and natural resources. Since 2007, it has rehabilitated 634 hectares of mined-out areas and grown over 800,000 seedlings of assorted tree species. Atlas Mining has also invested more than PHP750 million for the development of community facilities, the promotion of sustainable livelihood projects and access to essential services such as quality education, healthcare and enterprise development skills. These initiatives are part of Atlas Mining's strategic approach to implementing its Social Development and Management Program aligned to the United Nations Sustainable Development Goals. For its efforts, Atlas Mining was honored in 2017 and in 2018 with the Presidential Mineral Industry and Environmental Award, Titanium and Platinum Achievements, respectively.

Going forward, Atlas Mining is committed to uphold responsible mining and more importantly, to pursuing its vision of creating sustainable value for all its stakeholders through responsible stewardship.

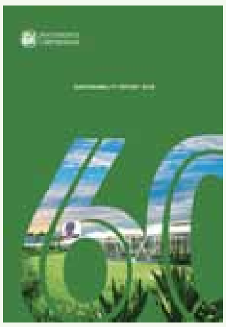
Sustainability and Governance

Sustainability Report Highlights

Our Sustainabilty Framework and Principles

Our Path to Sustainable Growth is outlined in the SM group's Sustainability Framework, focusing on providing inclusive economic opportunities, creating positive social impact, practicing environmental responsibility and embracing good corporate governance with the objective of building a web of vibrant local economies.

VISION	MISSION	FOCUS	PERFORMANCE	RESULT
To build world-class businesses that are catalysts for development in the communities we serve.	Create and deliver value to our business partners and shareholders Provide high quality products and standard of service to our customers	INCLUSIVE ECONOMIC OPPORTUNITIES	• Inclusive Supply Chain • Job Creation • Innovative Products and Services	Sustained Growth Positive Impact on Society and the Environment
	Integrate disaster resilience and sustainable practices in our operations	ENVIRONMENTAL RESPONSIBILITY	• Disaster Risk Reduction and Resiliency • Climate Change Action Plan	
	Look after the welfare of our employees Partner in the development of host communities	POSITIVE SOCIAL IMPACT	• Performance Management System • Customer Service Program • Education Program • Health & Wellness Program • Farmer's Training Program • SM Cares	
	Uphold highest standard of corporate governance	GOOD CORPORATE GOVERNANCE	• Leadership Development • SM Code of Ethics • Risk and Crisis Management • Anti-corruption Program	



The 2018 SM Investments Corporation Sustainability Report has been prepared in accordance with the GRI Standards: Core Option and has successfully completed the GRI Materiality Disclosures Service.

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

In Support of the Sustainable Development Goals

SM is committed to take on an active role in achieving the Sustainable Development Goals. From our initial alignment to the Sustainable Development Goals, we have taken deliberate steps in identifying specific targets to focus our strategic investments and initiatives on, allowing us to contribute substantially within our sphere of operations and influence.

1 NO POVERTY

PHP24.9bn
taxes paid in 2018

16.6M
beneficiaries of social development programs to date

2 ZERO HUNGER

23,170
farmers trained through

187
farmers training sessions conducted to date in

2,925
barangays in 772 municipalities and cities

3 GOOD HEALTH AND WELL-BEING

20
birthing facilities in

20
public health centers renovated serving 96,000 women to date

81
public health centers renovated to date that received PhilHealth TB-DOTS* accreditation

*Tuberculosis Directly Observed Treatment Short Course

4 QUALITY EDUCATION

50,275
students benefitting from

135
public school buildings built to date with

478
classrooms

Don Bosco Technical-Vocational education training school funded by BDO Foundation

9,015
technical-vocational and college scholars to date

5 GENDER EQUALITY

66%
of SM's workforce are women

57%
of new hires are women

22%
of SMIC's Board are women

6 CLEAN WATER AND SANITATION

33-35%
SM Prime's average annual water recycling equivalent to

2,000+
Olympic-size swimming pools

7 AFFORDABLE AND CLEAN ENERGY

33,000
solar panels installed to date producing 7 megawatts

569
MWh of renewable energy generated through project under the BDO SEF program to date

8 DECENT WORK AND ECONOMIC GROWTH

91%
of SM's economic value generated in 2018 distributed to key stakeholders

23,469
employees part of collective bargaining agreements within the SM group

Around
232,000
indirect jobs supported through SM's supply chain

 # 158
World's Best Employer Forbes Global 2000

9 INDUSTRY INNOVATION AND INFRASTRUCTURE

18,567
tenants in SM malls

PHP44bn
total clean energy projects funded by BDO and China Bank to date

10%
of Capex in infrastructure costs is allocated to disaster resilience and sustainability

10 REDUCED INEQUALITIES

105,000
participated in Angels' Walk to raise awareness for autism

52,311
participated in Happy Walk to raise awareness for Down syndrome

11 SUSTAINABLE CITIES AND COMMUNITIES

1,000
disaster resilient homes

5 integrated lifestyle cities with disaster resilient features built

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

88%
of total waste generated equivalent to 15,384 m^3 is recycled

Publication of Sustainability Reports by all listed companies in the SM group

13 CLIMATE ACTION

64 private sector members of UNISDR Private Sector Alliance for Disaster Resilient Societies (UN ARISE) Philippines

USD300mn
total green bond issuance by BDO and China Bank with IFC as sole investor

53
automated weather stations in SM malls

14 LIFE BELOW WATER

3
marine protected areas

PHP20.2mn
funds raised for World Wide Fund for Nature (WWF) through BDO ATM donations

15 LIFE ON LAND

120
bird species protected in Pico de Loro Village and Carmen Copper Mine Site

10
hectares of mangroves preserved

3.3M
tree saplings planted to date

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

8
SM companies ranked among the Top 30 publicly listed companies with the highest corporate governance score based on the ASEAN Corporate Governance Scorecard

17 PARTNERSHIP FOR THE GOALS

GRI-SM Partnership for the first GRI Sustainability Summit in the country

GRI Sustainability Summit Philippines

October 2018 Co-presenter

UN ARISE Philippines

signatory

United Nations Global Compact (UNGC)

signatory

Our Commitment to the Principles of the United Nations Global Compact

The SM Board of Directors approved guiding principles aligned to the 10 Principles of the United Nations Global Compact.

SM is a signatory of the United Nations Global Compact.
The Company supports:

United Nations Global Compact

Principle 1, 2 & 3	Principle 4 & 5	Principle 6	Principle 7	Principle 8	Principle 9	Principle 10
The responsibility to protect the dignity of every person and uphold labor rights and human rights	The elimination of all forms of forced and compulsory labor and child labor	The recognition of the role of women in achieving economic growth and poverty reduction	The adoption of instruments that help quantify, manage and report the carbon footprints of its businesses	Access to clean, renewable energy sources and services	Climate-friendly solutions and opportunities for business	Corporate governance

Corporate Governance

SM Investments Corporation (SMIC) 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.

Board of Directors

SMIC's Board of Directors set the "tone from the top" and uphold the highest standard of excellence and integrity that permeates throughout the organization. The Board is composed of eight (8) highly-qualified directors, majority of whom are non-executive directors. The Company's directors 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, the Company adheres to a board diversity policy that ensures that there is always a diverse composition of directors on the Board which assists in advancing SMIC's strategic objectives. Per the said policy, the Company commits to having a diverse collection of directors, in terms of age, ethnicity, culture, skill, competence, knowledge, gender, among other qualifications. To monitor progress in achieving the Board's diversity goals, the relevant board committee utilizes a Board Matrix, which provides for the mix of attributes, skills, competencies, experience and affiliations, the Board currently possesses and needs to complement its existing composition.

In accordance with 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.

Further to fostering the Company's culture of corporate governance, the Board of Directors 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;

SM Investments Corporation's Board of Directors

Director	Designation	Directorship	Age	Year First Elected	No. of years served as director
Henry Sy, Sr.	Chairman Emeritus	-	94	Jan. 1960	59
Jose T. Sio	Chairman of the Board	Non-Executive Director	79	May 2005	14
Teresita T. Sy	Vice Chairperson	Non-Executive Director	68	May 1979	40
Henry T. Sy, Jr.	Vice Chairman	Non-Executive Director	65	May 1979	40
Frederic C. DyBuncio	President/CEO	Executive Director	59	April 2017	2
Harley T. Sy	Executive Director	Executive Director	59	May 1993	26
Joseph R. Higdon	Lead Independent Director	Independent Director	77	April 2010	9
Tomasa H. Lipana	Independent Director	Independent Director	70	April 2016	3
Alfredo E. Pascual	Independent Director	Independent Director	70	April 2017	2

- 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 investors 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 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 or five (5) business days before the actual meeting.

Board Committees

To address specific tasks and responsibilities, the Board adopted six (6) board committees, namely the Executive Commitee, the Audit Committee, the Related Party Transactions Committee, the Compensation Committee, the Risk Management Committee, and the Corporate Governance Commitee.

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.

	Special 1	Regular 2	Regular 3	ASM	Organizational	Special 4	Regular 5	Regular 6	Percent
Director	1/24/18	2/28/18	4/25/18	4/25/18	4/25/18	5/9/18	8/8/18	11/7/18	
Jose T. Sio	√	√	√	√	√	√	√	√	100
Teresita T. Sy	√	√	√	√	√	√	√	√	100
Henry T. Sy, Jr.	√	√	√	√	√	√	√	√	100
Frederic C. DyBuncio	√	√	√	√	√	√	√	√	100
Harley T. Sy	√	√	√	√	√	√	√	√	100
Joseph R. Higdon	√	√	√	√	√	√	√	√	100
Tomasa H. Lipana	√	√	√	√	√	√	√	√	100
Alfredo E. Pascual	√	√	√	√	√	√	√	√	100

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 Audit Committee

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

The Related Party Transaction 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.

Related Party Transaction Committee		
Office	Director	11/6/18
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) directors, one (1) of whom is an independent director.

Compensation Committee			
Office	Director	4/25/18	11/6/18
Chairperson (NED)	Teresita T. Sy	√	√
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.

Risk Management Committee			
Office	Director	8/8/18	11/6/18
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.

Corporate Governance Committee				
Office	Director	2/28/18	3/19/18	4/25/18
Chairman (ID)	Joseph R. Higdon	√	√	√
Member (ID)	Tomasa H. Lipana	√	√	√
Member (ID)	Alfredo E. Pascual	√	√	√

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 Corporation;
- 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).

Notable Continuing Education/Training of the Board of Directors			
Director	Date of Training	Program	Name of Training Institution
Jose T. Sio	8/8/18	Annual Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Teresita T. Sy	10/8/18	GRI Sustainability Summit 2018	Global Reporting Initiative (GRI)
Henry T. Sy, Jr.	8/8/18	Annual Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Frederic C. DyBuncio	8/8/18	Annual Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Harley T. Sy	8/8/18	Annual Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Joseph R. Higdon	4/24/18	Advanced Corporate Governance Training Program	Institute of Corporate Directors (ICD)
Tomasa H. Lipana	8/8/18	Annual Corporate Governance Training Program	Institute of Corporate Directors (ICD)
	10/11/18	6th Annual Forum on Good Governance, Ethics & Compliance	Good Governance Advocates & Practitioners of the Philippines
Alfredo E. Pascual	10/9/18	Corporate Governance Conference on Sustainability	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.	Non-Executive Director
	China Banking Corp.	Non-Executive Director
	Atlas Consolidated Mining and Development Corp.	Non-Executive Director
Teresita T. Sy	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
Alfredo E. Pascual	Megawide Construction Corp.	Independent Director
	Asiabest Group International Inc.	Independent Director

Evaluation of the Board

Through the Corporate Governance Committee, the Board conducts an annual performance evaluation of the collective Board, Board Committees, individual directors, the Company's Chairman of the Board, President and selected officers. The evaluation criteria is based on the duties and responsibilities of the Board of Directors, Board Committees, individual directors, Chairman of the Board, President and the heads of the control functions (Chief Audit Executive, Chief Risk Officer and Chief Compliance Officer) as provided for by SMIC's By-Laws, Manual on Corporate Governance and respective Board Committee Charters.

Directors are asked to rate the annual performance of the respective bodies and individuals, as well as 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. Every three (3) years, the annual evaluation is conducted by a third-party facilitator. The forms used for the evaluation may be viewed via the Company's website.

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. All 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 all 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 all the 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	Brief Descriptions
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 all 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.

SM Companies clinch 7 Awards as Frontrunners in ASEAN Corporate Governance. In photo are (l-r) SM Prime Risk Officer, Marvin Perrin Pe; China Bank Corporate Governance Compliance Officer, Ma. Chimene Alvarez; China Bank Chief Compliance Officer, Atty. Aileen Paulette De Jesus; SM Prime Chairman of the Board of Executive Committee, Hans T. Sy; SMIC Chief Risk and Compliance Officer Wellington Palmero; and SMIC Corporate Governance Senior Asst. Vice President, Reginald Tiu.

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 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 One E-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 all 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. Stockholders of SM Investments Corporation holding certificated shares, if not personally attending the Annual Stockholders' Meeting (ASM) but wanting to vote in a specific manner on matters to be taken up, can participate by appointing the Chairman of the Meeting or another individual as their proxy for the ASM and pre-cast his votes using the Company's secure online voting portal at eVote.sminvestments.com. 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 can play 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, all stakeholders may refer to:

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Harbor Drive, Mall of Asia Complex
Pasay City, 1300 Philippines
+63 2 8570100 local 0323
reginald.tiu@sminvestments.com

Awards & Citations

SM Investments Corporation

Alpha Southeast Asia
- Most Oganized Investor Relations
- Best Senior Management IR Support
- Strongest Adherence to Corporate Governance
- Most Consistent Dividend Policy
- Best CFO in the Philippines, *Jose T. Sio, Chairman*

Annual Global CSR and Good Governance Summit and Awards
- Gold Award, Best Corporate Communications and Investor Relations
- Gold Award, Best Governed and Transparent Company
- Bronze Award, CSR Leadership

ASEAN Corporate Governance Awards
- Top 2 Most Improved Publicly Listed Company, PLCs Category
- Among the Top 50 ASEAN Publicly Listed Company (Top 11-30), PLCs Category
- Top 3 in ASEAN Corporate Governance Scorecard in the Philippines, PLCs Category

Asia CEO Awards
- Lifetime Contributor of the Year, *Teresita T.Sy-Coson, Vice Chairperson*

Asia Sustainability Reporting Rating Indonesia
- Gold Award in communications on the economic, environment and social policies, impacts and performance of the company in the context of sustainable development

Corporate Governance Asia 8th Asian Excellence Awards
- Best in Corporate Communications
- Best Investor Relations Company (Philippines)
- Asia's Best CEO, *Frederic C. DyBuncio, President*

Corporate Governance Asia Best of Asia Awards
- Asia's Icon
- Asian Corporate Director Award, *Jose T. Sio, Chairman*

Forbes 2018 Global 2000
- Best Regarded Companies (Rank #235)
- World's Best Employers (Rank #158)

Institute of Corporate Directors
- Recognition as a top performing publicly-listed company in the Philippines under the ASEAN Corporate Governance Scorecard (ACGS 2017)

Public Relations Society of the Philippines (PRSP) 54th Anvil Awards
- Silver Award, 2017 SM Unified Annual Reports
- Silver Award, 2017 SMIC Sustainability Report

The Asset Corporate Awards
- Platinum Award, 10th year
- Excellence in Environmental, Social and Governance

SM Prime Holdings, Inc.

Agora Awards
- Marketing Company of the Year, SM Supermalls

ASEAN Corporate Governance Awards
- Top Publicly Listed Companies in the Philippines, PLCs Category
- Award for Leadership and Best Practices

Apolinario Mabini Awards Presidential Recognition Awards
- *Hans T. Sy, Chairman of the Executive Committee*

Apolinario Mabini PWD Friendly Establishment of the Year Award
- SM Seaside City Cebu
- SM City Cabanatuan
- SM City Clark
- SM City Cauayan
- SM City San Lazaro
- SM City Rosario
- SM Store in Makati
- SM Store in Sucat
- SM Store in Cabanatuan
- SM Store in San Jose Del Monte
- SM Store in East Ortigas
- SM Store in Trece Martires
- SM Supermarket in SM Seaside City Cebu
- SM City BF Parañaque

China-ASEAN Business Council
- Among the Top Ten Successful ASEAN Enterprises Entering China

China-ASEAN Economic Trade Cooperation
- *Henry Sy, Sr.*, Outstanding Contributor for promoting ASEAN-China Economic and Trade Cooperation

Corporate Governance Asia Best of Asia Awards
- Asia's Icon
- Asian Corporate Director Awards, *Jeffrey C. Lim, President*

Frost & Sullivan
- Philippines Property Development Growth and Excellence Leadership Award

International Council of Shopping Centers (ICSC) Foundation
- Albert Sussman International Community Support Award

• Recognized SM Prime's pioneering housing project for the survivors of Super Typhoon 'Yolanda'

International Council of Shopping Centers (ICSC) Global Awards
• Marketing Excellence under the Sales Promotion Category, SM Supermalls
• Marketing Excellence for Emerging Digital Technology, SM Supermalls
• Silver Award for Marketing Excellence, SM Supermalls

Lamudi 2018 Personality of the Year
• *Jeffrey C. Lim, President*

PH Best Brand Awards
• Shopping Center of the Year, SM Supermalls

Philippine Quill Awards
• Award of Merit, SM Supermalls

Reader's Digest Asia Trusted Brands
• Mall Category, SM Supermalls

VM & Display Awards
• Most Outstanding Feature or Prop, SM Supermalls

Public Relations Society of the Philippines (PRSP) 54th Anvil Awards
• Gold Anvil, SM Cinema's "Reel to Real" Campaign, where movies come alive and move you
• Gold Anvil, SM Supermalls Summer "Mess Fest 2018", an inclusive and fun playground catering to all ages

SM Foundation

Public Relations Society of the Philippines (PRSP) 54th Anvil Awards
• Silver Award, 2017 SM Foundation Annual Report

SM Retail, Inc.

City Government of Mandaluyong
• THE SM STORE Megamall, Top Taxpayer

Public Relations Society of the Philippines (PRSP) 54th Anvil Awards
• Silver Award, SM Retail's #AweSMatWork, celebrating employee engagement which implemented seven (7) major employee programs that strengthened SM's commitment to championing employee welfare

SM Markets

Autism Society of the Philippines
• Partner of the Year

Bagwis Awards
Gold Award
• 12 Supermarket Branches
• 4 Hypermarket Branches
• 37 Savemore Branches

Silver Award
• 9 Savemore Branches

Top Taxpayer Awards
• 4 Supermarket Branches
• 3 Hypermarket Branches
• 16 Savemore Branches

China Banking Corporation

ASEAN Corporate Governance Awards
• Among the Top 50 ASEAN Publicly Listed Companies, PLCs Category
• Top 3 Publicly Listed Companies in the Philippines, PLCs Category

Bangko Sentral ng Pilipinas
• Pagtugon Award for Universal and Commercial Banks

Capital Finance International's CFI.co Awards
• Best Bank Governance - Philippines

Chartered Financial Analysts (CFA) Society of the Philippines
• Best Managed Fund of the Year, Dollar Long-Term Bond Category
• Best Managed Fund (China Bank Balanced Fund) Balance Peso Category

Corporate Governance Asia 8th Asian Excellence Awards
• Best Investor Relations Company (Philippines)
• Best Investor Relations Professional
- Alexander C. Escucha , SVP for Investor and Corporate Relations Group

Finance Asia Country Awards for Achievement
• Best Debt Capital Markets (DCM) House

Global Banking & Finance Review Awards (U.K.)
• Best Corporate Governance Bank, Philippines
• Best Investor Relations Bank, Philippines
• Best Bank for Capital Markets, Philippines

Investment House Association of the Philippines (IHAP)
- Best Fixed Income House
- Best Fixed Income Deal - PHP181 Billion Republic of the Philippines Bureau of Treasury's Retail Treasury Bond
- Best Fixed Income Deal - Ayala Corporation US$400 Million Fixed-For-life Bonds (Ayala USD Fixed For Life)
- Best Equity Deal - Del Monte Pacific US$200 Million Preferred Shares (Del Monte USD Preferred Shares)
- Deal of the Year - PHP181 Billion Republic of the Philippines Bureau of Treasury's Retail Treasury Bond

Public Relations Society of the Philippines (PRSP) 54th Anvil Awards
- Silver Award, 2017 Annual Financial and Sustainability Report

Philippine Dealing System (PDS) Annual Awards
- China Bank Capital Corporation, Top Corporate Issue Manager/Arranger, Investment House Category
- Special Citation, Underwriter and Bookrunner who participated in the pilot issuance and the first official issuance under the approved enrolled Securities Program

The Asset's 2018 Triple A Awards
- Best Bond Adviser – Domestic Category

BDO Unibank, Inc.

Alpha Southeast Asia 12th Annual Best Financial Institution Awards
- Best Bank, Philippines
- Best Investment Bank, BDO Capital and Investment Corporation
- Best Private Wealth Management Bank, BDO Private Bank
- Best Cash Management Bank

Asiamoney Asia's Outstanding Companies Poll
- Most Outstanding Company in the Philippines, Financials

Asiamoney Best Bank Awards
- Best Domestic Bank

Asian Banking & Finance Wholesale Banking Awards
- Domestic Cash Management Bank of the Year
- Philippine Domestic Trade Finance Bank of the Year

Corporate Governance Asia 8th Asian Excellence Awards
- Best Corporate Communications
- Best Investor Relations Company (Philippines)
- Asia's Best CEO, *Nestor V. Tan, President & CEO*
- Asia's Best CFO, *Pedro M. Florescio III, CFO*
- Best Investor Relations Professional (Philippines), *Luis S. Reyes, Jr., SVP & Head of Investor Relations*

Corporate Governance Asia 14th Asia Recognition Awards
- Asian Corporate Director of the Year Awardees
  - *Teresita T. Sy, Chairperson*
  - *Nestor V. Tan, President & CEO*

Euromoney Awards for Excellence
- Best Bank in the Philippines

Finance Asia Country Awards
- Best Bank in the Philippines
- Best Private Bank in the Philippines

Forbes 2018 Global 2000
- No. 24 on Top 500 World's Best Employers List
- No. 1072 on 2000 World's Largest Public Companies List
- No. 140 on Best Regarded Companies

Global Finance Awards
- Best Safest Bank
- Best Foreign Exchange Provider
- Best Trade Finance Bank
- Best Private Bank in the Philippines
- Best Investment Bank in the Philippines

Institutional Investor All Asia Executive Team Awards
- Best CEO - Emerging Markets, Philippines, *Nestor V. Tan, President*

Investment House Association of the Philippines
- Best Equity Deal

Reader's Digest Asia Trusted Brand Award
- Gold Trusted Brand Award, Bank
- Gold Trusted Brand Award, Credit Card Issuing Bank
- Gold Trusted Brand Award, Investment Fund
- Gold Trusted Brand Award, Personal Loans

The Asian Banker
- The Asian Banker Transaction Banking Awards
  - Best Cash Management, Philippines
- The Asian Banker Excellence in Retail Financial Services Awards
  -Mortgage Product of the Year
- The Asian Banker Excellence Strongest Banks
  -Strongest Bank in the Philippines

The Asset Triple A Country Awards
- Best Domestic Bank in the Philippines
- Best Corporate and Institutional Bank/Adviser
- Best Equity Adviser
- Best Loan Adviser
- Best Acquisition Financing
- Best Syndicated Loan
- Best Innovative Deal

Financial Statements

Management's Discussion and Analysis or Plan of Operation

Calendar Years Ended December 31, 2018 and 2017

Results of Operation
(amounts in billion pesos)

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

SM Investments Corporation and Subsidiaries (the Group) reported ₱37.1 billion *Net Income Attributable to Owners of the Parent*, 12.6% higher than 2017, and ₱449.8 billion *Revenue*, 13.0% higher than 2017.

Income from Operations increased by 14.2% to ₱86.6 billion from ₱75.8 billion in 2017. *Operating Margin and Net Margin* is at 19.3% and 13.0%, respectively.

Merchandise Sales, which grew by 12.2% to ₱323.7 billion from ₱288.5 billion in 2017, accounts for 72.0% of total revenues in 2018. The increase is attributable to the opening of *4 SM Stores, 4 SM Supermarkets, 15 Savemore* stores, *6 SM Hypermarkets, 7 WalterMart* stores, 178 Alfamart stores, and 121 Specialty stores.

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

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

Real Estate Sales increased by 21.6% to ₱36.0 billion from ₱29.6 billion in 2017 due primarily to higher construction accomplishments of projects launched from 2015 to 2017 namely, *Shore 2, Shore 3, Coast,* and *S Residences* in Pasay, *Fame Residences* in Mandaluyong, and *Spring Residences* in Parañaque and continued increase in sales take-up of various projects due to strong demand fueled by international buyers, Overseas Flipino Workers' remittances, and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenue, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 13.0% to ₱47.6 billion from ₱42.1 billion in 2017. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2017 and 2018, namely, *SM CDO Downtown Premier, SM City Puerto Princesa, SM Center Tuguegarao Downtown, SM City Urdaneta Central, SM City Telabastagan, SM City Legazpi, SM Center Ormoc,* and *S Maison* at the Conrad Manila. Excluding the new malls and expansions, same-store rental growth is at 8%. Rentals from commercial operations also increased due to the opening of ThreeE-Com Center and SM Southmall South Tower in 2018.

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

Equity in Net Earnings of Associate Companies and Joint Ventures increased by 15.2% to ₱19.2 billion from ₱16.6 billion in 2017 due mainly to the increase in net income of bank, retail, and property associates.

Management and Service Fees, which is computed based on percentage of sales, increased by 9.6% to ₱6.4 billion from ₱5.8 billion in 2017.

Gain on Sale of Financial Assets - Net decreased by 98.8% to ₱1.3 million from ₱110.2 million in 2017 resulting primarily from the disposal of certain investments in 2017.

Dividend Income decreased by 14.9% to ₱421.9 million from ₱495.6 in 2017 million due to lower dividends received from investees in 2018.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 14.0% to ₱9.3 billion from ₱8.1 billion in 2017.

Operating Expenses increased by 15.2% to ₱106.4 billion from ₱92.3 billion in 2017 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges - Net increased by 18.2% to ₱12.4 billion from ₱10.5 billion in 2017. Interest Expense increased by 6.4% to ₱16.6 billion from ₱15.6 billion in 2017 due mainly to new debt availments for working capital and capital expenditure requirements. *Interest Income* decreased by 6.2% to ₱3.8 billion from ₱4.0 billion in 2017 due mainly to lower balance of time deposits in 2018. *Gain on Fair Value Changes on Derivatives* - net increased by 53.5% to ₱454.9 million from ₱296.3 million in 2017 resulting mainly from the mark-to-market valuation of outstanding forward swap transactions in 2018. *Foreign Exchange Gain (Loss)* - net decreased by 126.1% to a loss of ₱182.5 million from a gain of P698.7 million in 2017. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP49.93 : USD1.00 in 2017 to PHP52.58 : USD1.00 in 2018.

Provision for Income Tax increased by 13.1% to ₱15.6 billion from ₱13.8 billion in 2017 due mainly to increase in taxable income. The effective income tax rate is 21.0% in 2018 and 21.1% in 2017.

Non-controlling Interests increased by 15.5% to ₱21.5 billion from ₱18.6 billion in 2017 due to the increase in net income of partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

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

Management's Discussion and Analysis or Plan of Operation

Total *Assets* increased by 10.5% to ₱1,060.6 billion from ₱960.1 billion in 2017. Likewise, total *Liabilities* increased by 12.3% to ₱568.3 billion from ₱506.3 billion in 2017.

<u>*Current Assets*</u>

Current Assets increased by 13.7% to ₱241.7 billion from ₱212.5 billion in 2017.

Cash and Cash Equivalents increased by 6.7% to ₱79.3 billion from ₱74.3 billion in 2017 due mainly to net proceeds from loans partially offset by investments and capital expenditures.

Financial Assets decreased by 52.6% to ₱0.6 billion from ₱1.3 billion in 2017 due mainly to maturity of certain investments in bonds in 2018.

Merchandise Inventories increased by 14.6% to ₱31.8 billion from ₱27.8 billion in 2017. Bulk of the increase came from the Specialty Group.

Other Current Assets increased by 10.8% to ₱70.3 billion from ₱63.5 billion in 2017 due mainly to the increase in current portion of Land and development arising from development costs on ongoing projects and higher prepaid taxes and other prepayments and receivable from banks.

<u>*Noncurrent Assets*</u>

Noncurrent Assets increased by 9.5% to ₱818.9 billion from ₱747.6 billion in 2017.

Investments in Associate Companies and Joint Ventures increased by 7.3% to ₱259.8 billion from ₱242.1 billion in 2017. The increase mainly represents equity in net earnings of associates in 2018 and investments in new associates, partly offset by dividends received in 2018.

Time Deposits decreased by 91.0% to ₱2.4 billion from ₱26.7 billion in 2017 due mainly to reclassification of maturing time deposits to current. On the other hand, the current portion of *Time Deposits* increased by 95.2% to ₱25.8 billion from ₱13.2 billion in 2017 due mainly to reclassification from non-current and new investments in time deposits coming from proceeds from matured investments in bonds, partly offset by matured time deposits that were used to pay off loans.

Property and Equipment increased by 8.7% to ₱23.2 billion from ₱21.3 billion due mainly to new stores in 2018.

Investment Properties increased by 7.0% to ₱309.3 billion from ₱289.0 billion in 2017 due mainly to ongoing new mall projects and commercial building construction, including the FourE-Com Center as well as the redevelopment of *SM Mall of Asia* and other existing malls. The increase is also attributable to landbanking initiatives.

Land and Development increased by 34.2% to ₱53.9 billion from ₱40.2 billion in 2017 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets increased by 54.8% to ₱115.4 billion from ₱74.6 billion in 2017. The increase mainly represents higher receivable from real estate buyers and bonds and deposits.

Current Liabilities

Current Liabilities increased by 20.9% to ₱212.7 billion from ₱175.9 billion in 2017.

Bank Loans decreased by 21.9% to ₱18.9 billion from ₱24.2 billion in 2017 due to net payments during the period, partly offset by new loan availments.

*Accounts Payable and Other Current Liabilitie*s increased by 17.1% to ₱124.8 billion from ₱106.6 billion in 2017 mainly from higher business volume.

Income Tax Payable increased by 93.3% to ₱3.6 billion from ₱1.9 billion in 2017 due mainly to higher income tax due.

Current Portion of Long-term Debt increased by 52.6% to ₱61.5 billion from ₱40.3 billion in 2017 due mainly to reclassification of maturing loans.

Dividends Payable increased by 32.9% to ₱3.9 billion from ₱2.9 billion in 2017. This represents dividends due to minority stockholders of certain subsidiaries.

Noncurrent Liabilities

Noncurrent Liabilities increased by 7.6% to ₱355.6 billion from ₱330.4 billion in 2017.

Long-term Debt - Net of Current Portion increased by 4.4% to ₱305.6 billion from ₱292.6 billion in 2017 due mainly to new debt availments, partly offset by payments.

Tenants' Deposits and Others increased by 38.4% to ₱41.3 billion from ₱29.8 billion in 2017 due mainly to new malls and office buildings and increase in customers' deposits from residential buyers.

Equity

Total *Equity* increased by 8.5% to ₱492.3 billion from ₱453.8 billion in 2017.

Equity Attributable to Owners of the Parent increased by 7.7% to ₱353.4 billion from ₱328.1 billion in 2017. This increase resulted mainly from the (a) ₱30.1 billion net increase in *Retained Earnings* due to the ₱37.1 billion *Net Income Attributable to Owners of the Parent*, ₱2.9 billion effect from the adoption of PFRS 9, *Financial Instruments,* less ₱9.9 billion dividend declaration during the year, and (b) *Cumulative Translation Adjustment (CTA)* which increased by 48.1% to ₱2.1 billion from ₱1.4 billion in 2017. This is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso and includes the Group's share in the CTA of associates. These were partially offset by (a) *Net Unrealized Gain on Financial Assets at Fair Value* which decreased by 23.3% to ₱11.7 billion from ₱15.3 billion in 2017 due mainly to the depreciation in market value of certain investments of the Group, and (b) *Re-measurement Loss on Defined Benefit Asset/Obligation* which increased by 194.2% to ₱2.1 billion from ₱0.7 billion as a result of the valuation of the Group's retirement plan.

Non-controlling Interests increased by 10.5% to ₱138.9 billion from ₱125.7 billion in 2017 due mainly to the increase in net assets of subsidiaries that are not wholly owned.

Management's Discussion and Analysis or Plan of Operation

The Group has no known direct or contingent financial obligation that is material to the Group operations, including any default or acceleration of an obligation. The Group 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 Group's continuing operations.

Key Performance Indicators

The key financial ratios of the Group follow:

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

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

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

Gross Debt-Equity Ratio remained at 52:48 in 2018 and 2017 but *Net Debt-equity Ratio* slid to 44:56 from 43:57 in 2017 due mainly to higher increase in net debt of 14.9% from ₱243.7 billion to ₱280.1 billion in 2018.

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

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

EBITDA increased by 13.2% to ₱101.8 billion from ₱89.9 billion in 2017 due mainly to the 14.2% increase in income from operations.

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

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

1.	Current Ratio	$\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$
2.	Asset to Equity Ratio	$\dfrac{\text{Total Assets}}{\text{Total Equity}}$
3.	Debt-equity Ratio	
	a. Gross Basis	$\dfrac{\text{Total Interest Bearing Debt}}{\text{Total Equity Attributable to Owners of the Parent + Total Interest Bearing Debt}}$
	b. Net Basis	$\dfrac{\text{Total Interest Bearing Debt less Cash and Cash Equivalents (excluding Cash on Hand), Time Deposits, Investment in Bonds}}{\text{Total Equity Attributable to Owners of the Parent + Total Interest Bearing Debt less Cash and Cash Equivalents (excluding Cash on Hand), Time Deposits, Investments in Bonds}}$
4.	Revenue Growth	$\dfrac{\text{Total Revenues (Current Period)}}{\text{Total Revenues (Prior Period)}} - 1$
5.	Net Margin	$\dfrac{\text{Net Income After Tax}}{\text{Total Revenues}}$
6.	Net Income Growth	$\dfrac{\text{Net Income Attributable to Owners of the Parent (Current Period)}}{\text{Net Income Attributable to Owners of the Parent (Prior Period)}} - 1$
7.	Return on Equity	$\dfrac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$
8.	EBITDA	Income from Operations + Depreciation & Amortization
9.	Interest Cover	$\dfrac{\text{EBITDA}}{\text{Interest Expense}}$

Expansion Plans / Prospects for the Future

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

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

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

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

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

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

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

Statement of Management's Responsibility for Financial Statements

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with Philippine Financial Reporting Standards and for such internal controls as management determines is necessary, to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

JOSE T. SIO	FREDERIC C. DYBUNCIO	MARCELO C. FERNANDO, JR.
Chairman of the Board	President/CEO	Treasurer

Signed this 28th day of February 2019

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 regulation. Likewise, the Committee oversees special investigations as may be necessary. It reviews its Charter annually.

The Committee is composed of three (3) non-executive directors, two (2) of whom are independent directors including the Committee Chairperson. The Committee members have relevant background, knowledge, skill and/or experience in 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 also an independent director and Audit Committee Chairperson of Flexo Manufacturing Corporation, QBE Seaboard Insurance Philippines, Inc. and Trade and Investments Development Corporation of the Philippines (PhilExim), a government-owned and controlled corporation. She was previously an independent director of Goldilocks Bakeshop Inc. and Inter-Asia Development Bank. She is a fellow and trustee of the Institute of Corporate Directors. She is also a trustee of the Shareholders' Association of the Philippines, Inc., among other non-profit organizations. Ms. Lipana took up Executive Education/Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She received Outstanding CPA in the Public Practice Award from the Philippine Institute of Certified Public Accountants and the Outstanding Alumna Award from the University of the East where she graduated Cum Laude. She is also a CPA Board placer.

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

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

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

Audit Committee						
Committee Designation	**Name**	**2/28/18**	**4/25/18**	**5/9/18**	**8/8/18**	**11/7/18**
Chairperson (ID)	Tomasa H. Lipana	√	√	√	√	√
Member (ID)	Alfredo E. Pascual	√	√	√	√	√
Member (NED)	Jose T. Sio	√	√	√	√	√

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

Internal Audit

1. The Committee provided oversight of the Internal Audit.

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

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

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

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

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

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

External Audit

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

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

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

    - The annual audit plan for 2018, including scope, approach, risk-based methods, focus areas and time table;
    - The results of its examination and action plan to address pending audit issues; and
    - The assessment of internal controls and quality of financial reporting.

5. The Committee reviewed/discussed the report of SGV & Co. on significant accounting issues, changes in accounting policies/ standards and major/new pending tax legislations, which would impact the Company and its subsidiaries.

6. The Committee discussed with SGV & Co. the matters required to be disclosed under the prevailing applicable Auditing Standards, and obtained from said Firm a letter confirming its independence, as required by prevailing applicable Independence Standards.

7. The Committee reviewed and approved all audit and non-audit services provided by SGV & Co, and related professional fees.

Financial Statements

8. The Committee assessed the internal control system of the Company based upon the review and evaluation done and reported by the internal and external auditors and noted that the system is generally adequate to generate reliable financial statements.

9. The Committee reviewed and endorsed to the Board for approval, and the Board approved the unaudited consolidated financial statements of SM Investments Corporation and its subsidiaries for the first quarter ended March 31, 2018, six- month period ended June 30, 2018, and nine-month period ended September 30, 2018.

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, 2018.

11. The Committee reviewed and discussed the performance, independence and qualifications of the External Auditor, SGV & Co., in the conduct of their audit of the financial statements of SM Investments Corporation and its subsidiaries for the year. Based on the review of their performance and qualifications, the Committee also recommended the re-appointment of SGV & Co. as External Auditors for 2019.

28 February 2019

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, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Goodwill

As at December 31, 2018, the Group reported ₱17,306.9 million goodwill attributable to SM Prime Holdings, Inc., 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 16 to the consolidated financial statements.

Audit Response

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

Accounting for Investments in Associate Companies

As at December 31, 2018, the Group's investments in associate companies amounted to ₱251,856.1 million, representing 30.8% and 23.7% of the Group's total noncurrent assets and total assets, respectively. The investments in associate companies are accounted for under the equity method and considered for impairment if there are indicators that such investments may be impaired. Given the magnitude of the carrying amount and share in equity on investments in associate companies, as well as the significant management judgments and estimates applied in determining the recoverable amount of these investments, we consider this matter significant to our audit.

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

Audit Response

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

For the material associate company audited by other auditor, we sent audit instructions to the other auditor to perform an audit on the relevant financial information of the associate company for the purpose of the Group's consolidated financial statements. Our audit instructions detailed the other auditor's scope of work, audit strategy and reporting requirements. We discussed with the other auditor their key audit areas, including areas of significant judgments and estimates, and their audit findings. We focused on the other auditor's procedures on the review of the classification and measurement, expected credit loss and hedge accounting related to the adoption of PFRS 9, *Financial Instruments,* and revenue recognition related to the adoption of PFRS 15, *Revenue from Contracts with Customers*.

Adoption of PFRS 15, Revenue from Contracts with Customers

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

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

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

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

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

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

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

Audit Response

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

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

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

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

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

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

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

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

Existence and Completeness of Merchandise Inventories

As at December 31, 2018, the merchandise inventories of certain subsidiaries of the Group amounted to ₱31,836.3 million, representing 13.2% and 3.0% of the Group's total current assets and total assets, respectively. The Group has several warehouses and operates multiple stores across the country. Since the merchandise inventories are material to the consolidated financial statements, and various warehouses and stores are geographically dispersed across the country, we consider this a key audit matter.

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

Audit Response

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

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20IS (Definitive Information Statement), SEC Form 17A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20IS (Definitive Information Statement), SEC Form 17A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

  If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-AR-3 (Group A),
August 16, 2018, valid until August 15, 2021
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332594, January 3, 2019, Makati City

February 28, 2019

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 28)	₱79,313,215	₱74,318,190
Time deposits (Notes 8 and 28)	25,842,829	13,237,886
Financial assets (Notes 9 and 28)	639,316	1,347,926
Receivables and contract assets (Notes 10, 28 and 29)	33,755,192	32,352,574
Merchandise inventories - at cost (Note 22)	31,836,333	27,778,741
Other current assets (Notes 11 and 28)	70,338,577	63,478,186
Total Current Assets	241,725,462	212,513,503
Noncurrent Assets		
Financial assets (Notes 9 and 28)	26,702,764	25,590,162
Investments in associate companies and joint ventures (Note 12)	259,795,077	242,114,427
Time deposits (Notes 8, 28 and 29)	2,392,622	26,688,721
Property and equipment (Note 13)	23,201,667	21,339,407
Investment properties (Note 14)	309,264,274	289,018,265
Land and development (Note 15)	53,928,447	40,180,145
Intangibles (Note 16)	25,470,696	25,591,232
Deferred tax assets (Note 26)	2,726,155	2,489,814
Other noncurrent assets (Notes 16 and 28)	115,435,107	74,555,033
Total Noncurrent Assets	818,916,809	747,567,206
	₱1,060,642,271	₱960,080,709
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 17, 21 and 28)	₱18,885,465	₱24,172,965
Accounts payable and other current liabilities (Notes 18 and 28)	124,777,719	106,561,455
Income tax payable	3,641,379	1,883,871
Current portion of long-term debt (Notes 19, 21, 28 and 29)	61,480,887	40,297,133
Dividends payable (Note 28)	3,906,476	2,939,590
Total Current Liabilities	212,691,926	175,855,014
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28 and 29)	305,555,356	292,555,868
Deferred tax liabilities (Note 26)	8,810,862	8,029,579
Tenants' deposits and others (Notes 25, 27, 28 and 29)	41,294,115	29,828,024
Total Noncurrent Liabilities	355,660,333	330,413,471
Total Liabilities	568,352,259	506,268,485
Equity Attributable to Owners of the Parent		
Capital stock (Note 20)	12,045,829	12,045,829
Additional paid-in capital	75,815,520	76,439,288
Equity adjustments from common control transactions (Note 20)	(5,424,455)	(5,424,455)
Cost of Parent common shares held by subsidiaries	(25,386)	(25,386)
Cumulative translation adjustment	2,077,017	1,402,623
Net unrealized gain on financial assets (Notes 9 and 12)	11,748,980	15,324,123
Re-measurement loss on defined benefit asset/obligation (Note 25)	(2,063,358)	(701,255)
Retained earnings (Note 20):		
Appropriated	37,000,000	37,000,000
Unappropriated	222,213,054	192,071,968
Total Equity Attributable to Owners of the Parent	353,387,201	328,132,735
Non-controlling Interests	138,902,811	125,679,489
Total Equity	492,290,012	453,812,224
	₱1,060,642,271	₱960,080,709

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

(Amounts in Thousands Except Per Share Data)

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

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
NET INCOME	₱58,554,568	₱51,518,517	₱47,758,328
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified to profit or loss in subsequent periods			
Net unrealized gain (loss) on financial assets	–	4,973,426	(1,021,689)
Share in unrealized gain (loss) on financial assets of associates (Note 12)	(3,502,992)	354,028	(1,396,835)
Cumulative translation adjustment	329,125	(22,405)	549,896
Income tax relating to items to be reclassified to profit or loss in subsequent periods	–	(147,803)	373,597
	(3,173,867)	5,157,246	(1,495,031)
Items not to be reclassified to profit or loss in subsequent periods			
Re-measurement loss on defined benefit obligation (Note 25)	(2,080,805)	(416,283)	(417,238)
Net unrealized loss on financial assets	(520,230)	–	–
Income tax relating to items not to be reclassified to profit or loss in subsequent periods	(84,499)	124,884	125,171
	(2,685,534)	(291,399)	(292,067)
TOTAL COMPREHENSIVE INCOME	₱52,695,167	₱56,384,364	₱45,971,230
Attributable to			
Owners of the Parent	₱31,112,015	₱36,916,903	₱29,205,704
Non-controlling interests	21,583,152	19,467,461	16,765,526
	₱52,695,167	₱56,384,364	₱45,971,230

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

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

(Amounts in Thousands Except Per Share Data)

				Equity Attributable to
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries
As at January 1, 2018, as previously reported	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)
Effect of adoption of new accounting standards (Note 3)	–	–	–	–
As adjusted	12,045,829	76,439,288	(5,424,455)	(25,386)
Net income	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Sale of treasury shares held by a subsidiary	–	291,088	–	–
Acquisition of non-controlling interests	–	(914,856)	–	–
Cash dividends - ₱8.20 per share (Note 20)	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Increase in previous year's non-controlling interests	–	–	–	–
As at December 31, 2018	₱12,045,829	₱75,815,520	(₱5,424,455)	(₱25,386)
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 20)	–	–	–	–
Appropriation (Note 20)	–	–	–	–
Sale of treasury shares held by a subsidiary	–	78,810	–	–
Acquisition of non-controlling interests	–	13,249	–	–
Cash dividends - ₱7.77 per share (Note 20)	–	–	–	–
Cash dividends received by non-controlling interests	–	–	–	–
Decrease in previous year's non-controlling interests	–	–	–	–
As at December 31, 2017	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)
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 20)	4,015,275	(52,396)	–	–
Cash dividends - ₱10.63 per share (Note 20)	–	–	–	–
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)

See accompanying Notes to Consolidated Financial Statements.

Owners of the Parent							
Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Financial Assets	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
₱1,402,623	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224
–	1,703,458	–	–	2,940,327	4,643,785	–	4,643,785
1,402,623	17,027,581	(701,255)	37,000,000	195,012,295	332,776,520	125,679,489	458,456,009
–	–	–	–	37,078,325	37,078,325	21,476,243	58,554,568
674,394	(5,278,601)	(1,362,103)	–	–	(5,966,310)	106,909	(5,859,401)
674,394	(5,278,601)	(1,362,103)	–	37,078,325	31,112,015	21,583,152	52,695,167
–	–	–	–	–	291,088	294,120	585,208
–	–	–	–	–	(914,856)	(857,160)	(1,772,016)
–	–	–	–	(9,877,566)	(9,877,566)	–	(9,877,566)
–	–	–	–	–	–	(7,844,484)	(7,844,484)
–	–	–	–	–	–	47,694	47,694
₱2,077,017	₱11,748,980	(₱2,063,358)	₱37,000,000	₱222,213,054	₱353,387,201	₱138,902,811	₱492,290,012
₱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

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱74,130,336	₱65,291,234	₱59,316,592
Adjustments for:			
Equity in net earnings of associate companies and joint ventures (Note 12)	(19,164,345)	(16,640,597)	(14,979,645)
Interest expense (Note 24)	16,575,009	15,580,819	12,028,879
Depreciation and amortization (Notes 13, 14, 16 and 23)	15,161,207	14,020,884	12,861,154
Interest income (Note 24)	(3,754,141)	(4,003,501)	(3,725,517)
Provisions - net (Notes 10, 14 and 23)	2,207,458	1,488,855	1,335,461
Dividend income (Note 21)	(421,914)	(495,582)	(167,884)
Gain on fair value changes on derivatives - net (Note 29)	(454,941)	(296,334)	(15,232)
Unrealized foreign exchange loss - net	1,002,006	275,731	586,360
Gain on sale of financial assets - net (Note 9)	(1,337)	(110,234)	(6,517)
Gain on disposal of investments and properties - net (Notes 13 and 14)	(64,034)	(22,702)	(559,041)
Income before working capital changes	85,215,304	75,088,573	66,674,610
Decrease (increase) in:			
Receivables and contract assets	(1,437,678)	(616,938)	445,821
Merchandise inventories	(4,057,592)	(1,953,451)	(4,235,589)
Other current assets	5,535,204	1,996,544	3,955,218
Land and development	(37,802,279)	(29,891,127)	(13,946,006)
Increase in:			
Accounts payable and other current liabilities	15,834,514	18,509,650	1,901,637
Tenants' deposits and others	10,571,079	4,354,177	2,704,729
Net cash generated from operations	73,858,552	67,487,428	57,500,420
Income tax paid	(13,356,939)	(14,425,107)	(11,415,920)
Net cash provided by operating activities	60,501,613	53,062,321	46,084,500
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Financial assets	771,361	1,983,045	1,875,091
Property and equipment	203,564	182,366	310,534
Investment properties	105,524	70,301	243,644
Additions to:			
Investment properties (Note 14)	(27,554,245)	(25,806,496)	(26,769,270)
Property and equipment (Note 13)	(6,452,489)	(5,067,991)	(5,249,198)
Financial assets	(2,463,985)	(3,272,984)	(2,159,111)
Investments in associate companies and joint ventures (Note 12)	(3,849,756)	(47,832,363)	(468,050)
Decrease (increase) in:			
Time deposits	12,913,443	26,473,746	(480,639)
Other noncurrent assets	(28,224,945)	(11,201,733)	(8,285,737)
Dividends received	4,945,350	4,175,190	3,973,577
Interest received	3,827,116	4,182,186	3,660,063
Net cash used in investing activities	(45,779,062)	(56,114,733)	(33,349,096)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt (Note 31)	70,787,135	55,866,308	62,564,105
Bank loans (Note 31)	32,199,317	59,419,602	20,841,800
Payments of:			
Bank loans (Note 31)	(37,256,817)	(49,234,402)	(17,385,450)
Long-term debt (Note 31)	(40,292,241)	(31,640,120)	(34,560,516)
Dividends (Note 31)	(17,674,115)	(16,432,295)	(14,417,931)
Interest (Note 31)	(18,043,821)	(16,510,177)	(13,561,377)
Reissuance by a subsidiary of treasury shares	585,207	158,316	–
Net cash provided by (used in) financing activities	(9,695,335)	1,627,232	3,480,631
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,027,216	(1,425,180)	16,216,035
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(32,191)	795,639	448,965
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	74,318,190	74,947,731	58,282,731
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱79,313,215	₱74,318,190	₱74,947,731

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information

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

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

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD), as approved and recommended for approval by the Audit Committee on February 28, 2019.

2. Basis of Preparation and Statement of Compliance

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

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

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

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

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

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

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

Company	Principal Activities	Percentage of Ownership 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	50	–	50	–
SM Development Corporation and Subsidiaries (SMDC)	Real estate development	–	100	–	100
Highlands Prime, Inc. (HPI)	Real estate development	–	100	–	100
Costa del Hamilo, Inc. (Costa) and Subsidiary	Real estate development	–	100	–	100
Magenta Legacy, Inc.	Real estate development	–	100	–	100
Associated Development Corporation	Real estate development	–	100	–	100
Prime Metro Estate, Inc. and Subsidiary	Real estate development	40	60	40	60
Tagaytay Resort Development Corp	Real estate development	–	100	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	–	100	–	100
MOA Esplanade Port, Inc.	Port terminal operations	–	100	–	100
SM Hotels and Conventions Corp. and Subsidiaries	Hotel and conventions	–	100	–	100
First Asia Realty Development Corp.	Real estate development	–	74	–	74
Premier Central, Inc.	Real estate development	–	100	–	100
Consolidated Prime Dev. Corp.	Real estate development	–	100	–	100
Premier Southern Corp.	Real estate development	–	100	–	100
San Lazaro Holdings Corporation	Real estate development	–	100	–	100
Southernpoint Properties Corp.	Real estate development	–	100	–	100
First Leisure Ventures Group Inc.	Real estate development	–	50	–	50
CHAS Realty and Development Corporation and Subsidiaries	Real estate development	–	100	–	100
Affluent Capital Enterprises Limited and Subsidiaries (Affluent) *[British Virgin Islands (BVI)]	Real estate development	–	100	–	100
Mega Make Enterprises Limited and Subsidiaries *[BVI]	Real estate development	–	100	–	100
Springfield Global Enterprises Limited *[BVI]	Real estate development	–	100	–	100
Simply Prestige Limited and Subsidiaries *[BVI]	Real estate development	–	100	–	100
SM Land (China) Limited and Subsidiaries *[Hong Kong]	Real estate development	–	100	–	100
Rushmore Holdings, Inc.	Real estate development	–	100	–	100
Prime_Commercial Property Management Corp. and Subsidiaries (PCPMC)	Real estate development	–	100	–	100
Mindpro, Incorporated (Mindpro)	Real estate development	–	70	–	70
A. Canicosa Holdings, Inc. (ACHI)	Real estate development	–	100	–	100
AD Canicosa Properties, Inc. (ADCPI)	Real estate development	–	100	–	100
Cherry Realty Development Corporation	Real estate development	–	91	–	65
Mountain Bliss Resort & Development Corp and Subsidiary	Real estate development	100	–	100	–
Intercontinental Development Corporation (ICDC)	Real estate development	97	3	97	3
Prime Central Limited and Subsidiaries *[BVI]	Investment	100	–	100	–
Bellevue Properties, Inc.	Real estate development	62	–	62	–
Net Subsidiaries (a)	Real estate development	95	–	90	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	100	–	100	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	77	–	77	–
Others					
Primebridge Holdings, Inc.	Investment	100	–	80	20
Asia-Pacific Computer Technology Center, Inc.	Education	52	–	52	–
Multi-Realty Development Corporation (MRDC)	Investment	91	–	91	–
Henfels Investments Corporation	Investment	99	–	99	–
Belleshares Holdings, Inc. and Subsidiaries	Investment	59	40	59	40
Sto. Roberto Marketing Corp.	Investment	100	–	100	–

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

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

Material Partly-owned Subsidiary

The non-controlling interests of SM Prime is material to the Group. Non-controlling shareholders hold 50% of SM Prime as at December 31, 2018 and 2017.

The summarized financial information of SM Prime follows:

Financial Position

	December 31 2018	2017
	(In Thousands)	
Current assets	₱127,790,263	₱125,576,040
Noncurrent assets	476,344,055	412,841,558
Total assets	604,134,318	538,417,598
Current liabilities	88,279,852	78,207,732
Noncurrent liabilities	236,776,504	197,335,952
Total liabilities	325,056,356	275,543,684
Total equity	₱279,077,962	₱262,873,914
Attributable to:		
Owners of the Parent	₱275,302,994	₱258,957,221
Non-controlling interests	3,774,968	3,916,693
	₱279,077,962	₱262,873,914

Statements of Income

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

Cash Flows

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

3. Summary of Significant Accounting Policies, Changes and Improvements

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

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

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

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

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

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

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

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

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

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

Financial Instruments (effective January 1, 2018)

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31, 2018, the Group does not have debt instruments measured at FVOCI.

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

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

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

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

Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Financial Instruments (effective before January 1, 2018)</u>

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

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

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

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

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

"Day 1" Difference
Where the transaction price in a 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 these are acquired for the purpose of selling or repurchasing in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of income under "Gain (loss) on sale of financial assets - net" account. Interest income earned on investments held for trading are recognized in "Interest income" account in the consolidated statement of income.

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

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

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

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

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

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

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

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

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

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

The Group's bank loans, accounts payable and other current liabilities, dividends payable, 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 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 re-assessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both, have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Derecognition of Financial Assets and Liabilities

Financial Assets
A financial asset is derecognized when:

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

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

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

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

The carrying amount of the impaired asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or 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 writeoff is later recovered, the recovery is recognized in the consolidated statement of income to the extent of the carrying amount that would have been determined had no impairment loss been recognized.

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective beginning January 1, 2018

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

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

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

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

Any excess of collections over the total of recognized installment real estate receivables is included in the contract liabilities (or referred also in the consolidated financial statements as "Unearned revenue from sale of real estate").

Information about the Groups's Performance Obligation. The Group entered into contracts to sell with one identified performance obligation which is the sale of the real estate unit together with the services to transfer the title to the buyer upon full payment of contract price. The amount of consideration indicated in the contract to sell is fixed and has no variable consideration.

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

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

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

Contract Balances

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

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

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

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

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

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

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

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

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

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

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

Effective before January 1, 2018

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

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

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

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

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

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

Borrowing Cost
Borrowing cost is capitalized as part of the cost of the asset if it is directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing cost commences when the activities to prepare the asset are in progress and expenditures and borrowing cost

are incurred. Borrowing cost is capitalized until the assets are substantially ready for their intended use. Borrowing cost is capitalized when it is probable that it will result in future economic benefits to the Group. All other borrowing costs are expensed as incurred. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

Taxes

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,

- for receivables and payables that are stated with the amount of tax included.

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

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

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

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

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

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

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

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

- PFRS 9, *Financial Instruments*

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

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

(a) Classification and measurement

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

- Loans and receivables measured at amortized cost under PAS 39 which include cash and cash equivalents, time deposits, receivables (including noncurrent portion of receivables from real estate buyers), advances and other receivables (included under "Other current assets" account), escrow fund, bonds and deposits (included under "other noncurrent assets" account), long-term notes (included under "Other noncurrent assets" account), amounting to ₱201,314.6 million as at December 31, 2017 are classified and measured as financial assets at amortized cost (debt instruments) beginning January 1, 2018 (see Notes 7, 8, 9, 10, 16).

- Equity instruments amounting to ₱23,694.8 million as at December 31, 2017, previously classified as AFS investments under PAS 39, are classified and measured as financial assets designated at FVOCI (equity instruments) beginning January 1, 2018. Impairment losses amounting to ₱122.8 million previously recognized for these investments were reversed as at January 1, 2018 (see Note 11). Fair value adjustments on unquoted equity investments amounted to ₱2,023.4 million as at January 1, 2018.

- Debt instruments amounting to ₱3,243.3 million as at December 31, 2017, previously classified as AFS investments, are classified and measured as financial assets at FVOCI and financial assets at FVPL beginning January 1, 2018. There were no impairment losses recognized in profit or loss for these investments as at January 1, 2018 (see Note 11).

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

(b) Impairment

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

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

(c) Hedge accounting

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2019

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

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

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

- PFRS 16, *Leases*

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

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

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

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

  The Group is assessing the impact of adopting PFRS 16.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

  The interpretation specifically addresses the following:

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

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

  The Group is assessing the impact of adopting this interpretation.

- Annual *Improvements to PFRSs 2015-2017 Cycle*

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

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

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

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

    The Group is assessing the impact of adopting these amendments.

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

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

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

    The Group is assessing the impact of adopting these amendments.

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

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

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

    The Group is assessing the impact of adopting these amendments.

Effective beginning on or after January 1, 2020

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred effectivity

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

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

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

Assessing of Control or Significant Influence of Investees

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

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

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

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

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

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

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

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

The allowance account is reviewed on a regular basis. In 2018 and 2017, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development is higher than cost, hence, the Group did not recognize any impairment loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Business Combination

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

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

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

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

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

Under the pooling of interests method:

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

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

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

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

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

6. Segment Information

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

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

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

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

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

Operating Segment Financial Data

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

	2017				
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱83,956,933	₱298,797,817	₱15,193,470	₱–	₱397,948,220
Inter-segment	12,207,193	5,378	4,339,794	(16,552,365)	–
	₱96,164,126	₱298,803,195	₱19,533,264	(₱16,552,365)	₱397,948,220
Segment results:					
Income before income tax	₱37,977,872	₱17,261,620	₱11,198,650	(₱1,146,908)	₱65,291,234
Provision for income tax	(8,056,781)	(5,623,633)	(130,927)	38,624	(13,772,717)
Net income	₱29,921,091	₱11,637,987	₱11,067,723	(₱1,108,284)	₱51,518,517
Net income attributable to:					
Owners of the Parent	₱29,370,537	₱10,431,256	₱11,067,723	(₱17,946,061)	₱32,923,455
Non-controlling interests	550,554	1,206,731	–	16,837,777	18,595,062

	2016				
	Property	Retail	Financial Services and Others	Eliminations/ Adjustments	Consolidated
			(In Thousands)		
Revenue:					
External customers	₱73,203,364	₱278,550,044	₱13,501,315	₱–	₱365,254,723
Inter-segment	11,253,256	3,123	5,520,056	(16,776,435)	–
	₱84,456,620	₱278,553,167	₱19,021,371	(₱16,776,435)	₱365,254,723
Segment results:					
Income before income tax	₱33,080,956	₱16,627,376	₱12,139,109	(₱2,530,849)	₱59,316,592
Provision for income tax	(6,777,132)	(4,906,396)	(88,242)	213,506	(11,558,264)
Net income	₱26,303,824	₱11,720,980	₱12,050,867	(₱2,317,343)	₱47,758,328
Net income attributable to:					
Owners of the Parent	₱25,742,249	₱10,615,139	₱12,050,867	(₱17,203,951)	₱31,204,304
Non-controlling interests	561,575	1,105,841	–	14,886,608	16,554,024

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

Revenue from contracts with customers amounted to ₱420,929.4 million in 2018.

7. Cash and Cash Equivalents

This account consists of:

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

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

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

8. Time Deposits

This account consists of time deposits as follows:

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

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

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

Interest earned from time deposits is disclosed in Note 24.

9. Financial Assets

This account consists of:

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

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

The movements in net unrealized gain on financial assets at FVOCI and share in unrealized loss on financial assets at FVOCI of associates attributable to the owners of the Parent in 2018 follow:

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

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

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

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

Interest earned from financial assets is disclosed in Note 24.

10. Receivables and Contract Assets

This account consists of:

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

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

The terms and conditions of these receivables follow:

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

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

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

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

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

The movements in allowance for impairment loss follow:

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

The aging analyses of receivables follow:

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

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

11. Other Current Assets

This account consists of:

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

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

12. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

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

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

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

The associate companies and joint ventures of the Group follow:

	Percentage of Ownership				
	2018		2017		
Company	Gross	Effective	Gross	Effective	Principal Activities
Associates					
BDO Unibank, Inc. (BDO)	46	45	46	45	Financial services
China Banking Corporation (China Bank)	23	20	23	20	Financial services
Belle Corporation (Belle)	27	26	32	28	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation	34	34	34	34	Mining
Sodexo Benefits and Rewards Services Philippines, Inc.	40	40	40	40	Retail
Fast Retailing Philippines, Inc.	25	19	25	19	Retail
CityMall Commercial Centers, Inc.	34	34	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	5	5	5	5	Gaming
OCLP Holdings, Incorporated (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	61	61	Real estate development
Negros Navigation Co., Inc. (NENACO)	34	34	34	34	Integrated supply chain
Net Associates (a)	34	34	34	34	Real estate development
Goldilocks Bakeshop, Inc. (GBI)	34	34	–	–	Bakery products and other food items
Joint Ventures					
Waltermart Mall (b)	51	25	51	25	Shopping mall development
Metro Rapid Transit Service, Inc.	51	25	51	25	Transportation
ST 6747 Resources Corporation	50	25	50	25	Real estate development

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

(a) Net Associates consists of N-Park BGC Properties, Inc., N-Lima BGC Properties, Inc. and N-Park BGC Land, Inc.
(b) Waltermart Mall consists of Winsome Development Corporation, Willin Sales, Inc., Willimson, Inc., Waltermart Ventures, Inc. and WM Development Inc.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. Property and Equipment

The movements in this account follow:

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

14. Investment Properties

The movements in this account follow:

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

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

Rent income from investment properties, which is primarily attributable to SM Prime, amounted to ₱46,222.4 million, ₱40,957.3 million and ₱36,161.7 million in 2018, 2017 and 2016, respectively. The corresponding direct operating expenses amounted to ₱32,701.3 million, ₱30,486.4 million and ₱27,166.5 million in 2018, 2017 and 2016, respectively.

Construction in progress includes construction costs incurred for new shopping malls, commercial building and redevelopment of existing malls amounting to ₱38,740.0 million and ₱33,183.0 million as at December 31, 2018 and 2017, respectively.

Construction contracts related to the construction of the above-mentioned projects amounted to ₱47,100.0 million and ₱40,511.0 million as at December 31, 2018 and 2017, respectively, inclusive of overhead, cost of labor and materials and all other costs necessary for the proper execution of the works. The outstanding contracts are valued at ₱15,738.0 million and ₱14,571.0 million as at December 31, 2018 and 2017, respectively.

Interest capitalized to investment properties amounted to ₱2,681.0 million and ₱2,299.0 million as at December 31, 2018 and 2017, respectively. Capitalization rates used range from 2.4% to 5.0% in 2018 and 2.4% to 4.8% in 2017.

The fair value of substantially all investment properties amounting to ₱846,612.1 million was determined by accredited independent appraisers with appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The fair value represents the price that would be received to sell the investment properties in an orderly transaction between market participants at the measurement date. While fair value of the investment properties was not determined as at December 31, 2018 and 2017, the Group believes that there were no conditions present in 2018 and 2017 that would significantly reduce the fair value of investment properties from that determined in the most recent valuation.

The significant assumptions used in the valuations follow:

Discount rate	8.0% –11.0%
Capitalization rate	5.8% – 8.5%
Average growth rate	2.3% –12.1%

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

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

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

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

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

	2018	2017
	(In Thousands)	
Balance at beginning of year	₱62,698,284	₱51,054,084
Reclassification to land and development - noncurrent, accounted as investment property	(36,484,925)	(27,052,003)
Development cost incurred	20,358,758	16,762,985
Borrowing cost capitalized	4,047	38,240
Cost of real estate sold	(15,390,471)	(10,444,511)
Transfer to condominium and residential units for sale	(1,733,711)	(5,690,563)
Reclassification and others	34,982	(2,150,093)
Balance at end of year	₱29,486,964	₱22,518,139

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

The movements in land and development - noncurent accounted as investment property follow:

	2018	2017
	(In Thousands)	
Reclassification from land and development - noncurrent, accounted as real estate inventories	₱36,484,925	₱27,052,003
Land acquisitions	17,443,522	13,128,142
	₱53,928,447	₱40,180,145

The average rates used to determine the amount of borrowing cost eligible for capitalization range from 4.6% to 5.1% in 2018 and 3.5% to 4.6% in 2017.

Not included in land and development - current and noncurrent is ₱51,097.0 million and ₱53,324.0 million as at December 31, 2018 and 2017, respectively, representing the estimated cost to complete the projects.

Land and development is stated at cost. There is no allowance for inventory write-down as at December 31, 2018 and 2017.

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

	2018	2017
	(In Thousands)	
Balance at beginning of year	₱8,829,343	₱7,823,383
Transfer from land and development	1,733,711	5,690,563
Development cost incurred	1,644	38,478
Cost of real estate sold	(2,461,799)	(4,815,802)
Repossessed inventories	7,605	92,721
Balance at end of year (Note 11)	₱8,110,504	₱8,829,343

The condominium and residential units for sale are stated at cost as at December 31, 2018 and 2017.

16. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

	2018	2017
	(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	8,163,825	8,284,361
	₱25,470,696	₱25,591,232

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 five-year period and fair value less cost of disposal calculations of the underlying net assets of the CGUs.

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

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

Pre-tax discount rates. Discount rates reflect the current market assessment of the risks to each CGU and are estimated based on the weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 14.8% to 16.7% and 13.4% to 14.4% as at December 31, 2018 and 2017, respectively.

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

Management assessed that no reasonably possible change in pre-tax discount rates, future cash inflows and fair values would cause the carrying value of goodwill in 2018 and 2017 to materially exceed its recoverable amount.

<u>Other Noncurrent Assets</u>
This account consists of:

	2018	2017
	(In Thousands)	
Bonds and deposits	₱65,893,795	₱33,522,994
Receivables from real estate buyers* (Note 10)	26,232,167	15,854,070
Land use rights	10,403,350	10,630,926
Long-term notes (Notes 21 and 29)	6,739,026	6,399,410
Derivative assets (Notes 21 and 29)	1,566,788	3,546,694
Deferred input VAT	1,689,045	1,798,706
Defined benefit asset (Note 25)	73,469	376,448
Escrow fund (Note 21)	132,460	132,460
Others	2,705,007	2,293,325
	₱115,435,107	₱74,555,033

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

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

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

- Included under "Land use rights" account are certain parcels of real estate properties planned for residential development in accordance with the cooperative contracts entered into by SM Prime with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties was not part of the consideration paid by SM Prime to Grand China and Oriental Land. Accordingly, the assets were recorded at carrying value under "Other noncurrent assets" account and a corresponding liability equivalent to the same amount, which is shown as part of "Tenants' deposits and others" account in the consolidated balance sheets. Portions of land use rights with carrying amount of ₱319.0 million and ₱327.7 million as at December 31, 2018 and 2017, respectively, are used as collateral to secure certain domestic borrowings in China (see Note 19).

- Escrow fund pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC, in connection with the corporate restructuring in 2013.

17. Bank Loans

This account consists of:

	2018	2017
	(In Thousands)	
Peso-denominated:		
Parent Company	₱4,850,000	₱10,200,000
Subsidiaries (Note 7)	14,035,465	13,972,965
	₱18,885,465	₱24,172,965

These loans bear interest ranging from 2.9% to 6.0% in 2018 and 2.5% to 3.5% in 2017.

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

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2018	2017
	(In Thousands)	
Trade	₱70,934,888	₱60,399,742
Accrued expenses	11,697,441	11,060,797
Nontrade	6,230,139	7,183,147
Tenants and customers' deposits*	12,699,887	10,208,533
Payable arising from acquisition of land	7,974,792	4,252,991
Payable to government agencies	4,618,623	4,438,597
Accrued interest (Note 21)	3,058,294	2,422,265
Subscriptions payable	2,021,790	2,396,790
Due to related parties (Note 21)	1,362,505	828,679
Gift checks redeemable and others	4,179,360	3,369,914
	₱124,777,719	₱106,561,455

* *Includes unearned revenue from sales of real estate amounting to ₱4,195.3 million as at December 31, 2018.*

The terms and conditions of the above liabilities follow:

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

19. Long-term Debt

This account consists of:

	Availment	Maturity	Interest Rate/Term	Security	2018	2017
					(In Thousands)	
Parent Company						
U.S. dollar-denominated	October 17, 2012 - July 26, 2018	May 15, 2018 - June 10, 2024	Fixed 4.3%-4.9%; Floating six-month and three-month LIBOR + margin; semi-annual and quarterly	Unsecured	₱65,097,129	₱66,531,725
Peso-denominated	July 16, 2012 - December 27, 2018	January 14, 2019 - August 8, 2025	Fixed 4.4%-6.9%; three-month PHP BVAL + margin; semi-annual and quarterly	Unsecured	78,864,170	73,171,870
Subsidiaries						
U.S. dollar-denominated	February 14, 2013 - July 30, 2018	January 29, 2018 - June 14, 2023	LIBOR + spread; semi-annual	Unsecured	41,975,402	54,387,944
China Yuan Renminbi-denominated	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10.0%; quarterly	Secured	3,118,514	3,445,302
Peso-denominated	January 12, 2012 - September 21, 2018	August 28, 2018 - July 26, 2026	Fixed 3.8%-7.6%; PDST-R2 + margin	Unsecured	179,751,217	136,974,407
					368,806,432	334,511,248
Less debt issue cost					1,770,189	1,658,247
					367,036,243	332,853,001
Less current portion					61,480,887	40,297,133
					₱305,555,356	₱292,555,868

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

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

	2018	2017
	(In Thousands)	
Balance at beginning of year	₱1,658,247	₱1,817,683
Amortization	(580,114)	(627,940)
Additions	692,056	468,504
Balance at end of year	₱1,770,189	₱1,658,247

Repayment Schedule
The repayment schedule of long-term debt as at December 31, 2018 follows:

	Gross Debt	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱61,556,496	₱75,609	₱61,480,887
Over 1 year to 5 years	224,222,915	1,445,238	222,777,677
Over 5 years	83,027,021	249,342	82,777,679
	₱368,806,432	₱1,770,189	₱367,036,243

Covenants
The long-term debt of the Group is covered with certain covenants including adherence to financial ratios. The Parent Company's loan covenants include adherence to certain financial ratios namely: (1) debt-to-equity ratio not to exceed 80:20, and, (2) current ratio at a minimum of 0.30, and, certain restrictions with respect to material change in ownership or control. As at December 31, 2018 and 2017, the Group is in compliance with the terms of its debt covenants.

20. Equity

Capital Stock

a. Common stock

	Number of Shares	
	2018	2017
Authorized - 10 par value per share	2,790,000,000	2,790,000,000
Issued and subscribed	1,204,582,867	1,204,582,867

As at December 31, 2018 and 2017, the Parent Company is compliant with the minimum public float as required by the PSE.

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

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

The total number of shareholders of the Parent Company is 1,255 and 1,252 as at December 31, 2018 and 2017, respectively.

b. Redeemable preferred shares

	Number of Shares	
	2018	2017
Authorized - 10 par value per share	10,000,000	10,000,000

There are no issued and subscribed preferred shares as at December 31, 2018 and 2017.

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

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.
- Merger of SM Retail with other retail affiliates in 2016 (see Note 5).
- SM Prime common control business acquisitions in 2016 and 2017 (see Note 5).

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

Retained Earnings

- Appropriated

Following are the appropriations approved by the BOD:

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

Retained earnings appropriated as at December 31, 2018 is intended for the payment of certain long-term debts and new investments as follows:

	Timeline	Amount
		(In Thousands)
Debt service	2019 - 2023	₱27,000,000
Investments	2019 - 2021	10,000,000
		₱37,000,000

- Unappropriated

The Parent Company's cash dividend declarations in 2018 and 2017 follow:

Declaration Date	Record Date	Payment Date	Per Share	Total
				(In Thousands)
April 25, 2018	**May 10, 2018**	**May 24, 2018**	**₱8.20**	**₱9,877,566**
April 26, 2017	May 11, 2017	May 25, 2017	7.77	9,359,609

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱202,669.4 million and ₱176,587.5 million as at December 31, 2018 and 2017, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

The retained earnings of the Parent Company available for dividend declaration amounted to ₱17,196.9 million and ₱15,934.9 million as at December 31, 2018 and 2017, respectively.

21. Related Party Disclosures

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

The significant transactions with related parties follow:

- Rent

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

- Management and Service Fees

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

- Dividend Income

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

- Cash Placements and Loans

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

- Notes Receivable

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

- Others

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

The related party transactions and outstanding balances follow:

	Transaction Amount			Outstanding Amount			
	2018	2017	2016	**2018**	2017	Terms	Conditions
			(In Thousands)				
Banking Group							
Cash placement and investment in marketable securities				**₱89,890,525**	₱98,656,653	Interest-bearing 1.0% to 4.2%	Unsecured; no impairment
Interest receivable				**227,606**	329,829	–	–
Interest income	**₱2,253,257**	₱2,587,312	₱2,401,642			–	–
Interest-bearing debt				**31,446,016**	24,493,678	Interest-bearing 1.8% to 6.6%	Unsecured
Interest payable				**65,477**	59,429	–	–
Interest expense	**1,441,884**	984,569	535,828			–	–
Rent receivable				**126,809**	112,099	Noninterest-bearing	Unsecured; no impairment
Rent income	**943,474**	856,149	769,720			–	–
Receivable financed	**1,663,822**	4,923,847	3,297,217			Without recourse	Unsecured
Dividends receivable				**2,587**	–	Noninterest-bearing	Unsecured; no impairment
Bonds and deposits				**18,403,000**	17,475,500	Interest-bearing 4.3% to 4.5%	Unsecured; no impairment
Management and service fee receivable				**14,469**	23,933	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**4,205**	7,892	4,368			–	–
Escrow fund				**284,160**	183,341	Interest-bearing 1.6% to 7.3%	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				**256,615**	507,849	Noninterest-bearing	Unsecured; no impairment
Rent income	**1,926,478**	1,746,184	1,516,273			–	–
Management and service fee receivable				**937,255**	275,148	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**1,233,740**	489,437	393,564			–	–
Dividends receivable				**–**	99,180	Noninterest-bearing	Unsecured; no impairment
Due from related parties				**953,010**	655,580	Noninterest-bearing	Unsecured; no impairment
Due to related parties				**1,362,505**	828,679	Noninterest-bearing	Unsecured
Interest receivable				**9,360**	8,888	–	–
Interest income	**345,700**	366,183	316,633			–	–
Notes receivable				**6,739,026**	6,399,410	Interest-bearing 5.0% to 10.0%	Unsecured; no impairment

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

Compensation of Key Management Personnel
The aggregate compensation and benefits relating to key management personnel in 2018, 2017 and 2016 consist of short-term employee benefits amounting to ₱2,544.5 million, ₱2,043.7 million and ₱1,740.2 million, respectively, and post-employment benefits amounting to ₱338.2 million, ₱279.9 million and ₱196.7 million, respectively.

22. Cost of Merchandise Sales

This account consists of:

	2018	2017 (In Thousands)	2016
Merchandise inventories at beginning of year	₱27,778,741	₱25,825,290	₱21,589,701
Purchases	242,959,699	216,448,154	206,715,479
Total goods available for sale	270,738,440	242,273,444	228,305,180
Less merchandise inventories at end of year	31,836,333	27,778,741	25,825,290
	₱238,902,107	₱214,494,703	₱202,479,890

23. Selling, General and Administrative Expenses

This account consists of:

	2018	2017 (In Thousands)	2016
Personnel cost (Note 21)	₱23,948,881	₱19,725,683	₱18,293,812
Utilities	18,048,050	15,691,055	13,730,330
Depreciation and amortization (Notes 13, 14 and 16)	15,161,207	14,020,884	12,861,154
Taxes and licenses	9,783,204	8,816,366	6,942,846
Outside services	8,339,162	8,157,459	6,220,300
Rent (Note 27)	7,668,449	6,723,855	6,233,281
Marketing and selling	5,847,641	5,166,973	4,473,268
Repairs and maintenance	2,977,334	2,791,300	2,358,071
Supplies	2,584,725	2,363,417	2,097,055
Provisions - net (Note 10)	2,207,458	1,488,855	1,335,461
Transportation and travel	1,152,212	1,034,751	912,614
Pension (Note 25)	962,405	667,572	543,924
Insurance	807,540	734,322	753,134
Data processing	664,778	614,141	414,238
Professional fees	579,945	444,687	353,108
Entertainment, representation and amusement	519,664	373,296	380,675
Communications	353,108	333,149	266,414
Donations	348,486	252,540	648,669
Management fees (Note 21)	183,884	207,180	130,203
Others	4,280,945	2,734,945	3,413,947
	₱106,419,078	₱92,342,430	₱82,362,504

24. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

	2018	2017 (In Thousands)	2016
Interest income on:			
Time deposits and other noncurrent assets (Notes 8 and 16)	₱1,551,959	₱1,967,629	₱2,063,883
Cash in banks and temporary investments (Note 7)	1,706,201	1,137,524	958,162
Financial assets (Note 9)	65,095	340,984	348,982
Others (Note 11)	430,886	557,364	354,490
	₱3,754,141	₱4,003,501	₱3,725,517
Interest expense on:			
Long-term debt (Note 19)	₱14,857,203	₱13,217,491	₱10,907,650
Bank loans (Note 17)	1,399,546	819,017	425,526
Others	318,260	1,544,311	695,703
	₱16,575,009	₱15,580,819	₱12,028,879

25. Pension Benefits

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

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

	2018	2017 (In Thousands)	2016
Current service cost	₱959,134	₱728,182	₱577,642
Net interest cost (income)	2,681	(12,097)	(33,718)
Past service cost - curtailment	590	(48,513)	–
	₱962,405	₱667,572	₱543,924

Changes in the net defined benefit liability and asset follow:

- Net Defined Benefit Liability

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
		(In Thousands)		
As at December 31, 2016	₱3,264,621	₱2,670,218	₱–	₱594,403
Net benefit expense (Note 23):				
Current service cost	338,845	–	–	338,845
Net interest cost	212,424	186,646	34	25,812
	551,269	186,646	34	364,657
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 (from) related parties	15,737	15,815	–	(78)
Other adjustments	–	–	3,844	3,844
As at December 31, 2017	4,154,578	3,538,089	–	616,489
Net benefit expense (Note 23):				
Current service cost	796,527	–	–	796,527
Net interest cost	406,544	395,213	193	11,524
	1,203,071	395,213	193	808,051
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(713,607)	–	713,607
Actuarial changes arising from:				
Changes in financial assumptions	(1,810,481)	–	–	(1,810,481)
Changes in demographic assumptions	266,954	–	–	266,954
Experience adjustment	2,055,346	–	–	2,055,346
Others	–	–	(1,644)	(1,644)
	511,819	(713,607)	(1,644)	1,223,782
Reclassifications from defined benefit assets	2,889,077	3,038,695	–	(149,618)
Actual contributions	–	981,148	–	(981,148)
Benefits paid	(393,096)	(393,096)	–	–
Transfer to related parties	6,670	6,670	–	–
Other adjustments	7,965	590	1,451	8,826
As at December 31, 2018	₱8,380,084	₱6,853,702	₱–	₱1,526,382

- Net Defined Benefit Asset

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized Due to Asset Limit	Defined Benefit Liability (Asset)
		(In Thousands)		
As at December 31, 2016	₱3,661,801	₱4,380,101	₱88,642	(₱629,658)
Net benefit expense (Note 23):				
Current service cost	389,337	–	–	389,337
Net interest cost (income)	199,148	241,581	4,524	(37,909)
Past service cost - curtailment	(48,513)	–	–	(48,513)
	539,972	241,581	4,524	302,915
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(50,936)	–	50,936
Actuarial changes arising from:				
Changes in financial assumptions	71,891	–	–	71,891
Changes in demographic assumptions	(22,600)	–	–	(22,600)
Experience adjustment	224,481	–	–	224,481
Others	–	–	(55,716)	(55,716)
	273,772	(50,936)	(55,716)	268,992

(Forward)

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized Due to Asset Limit	Defined Benefit Liability (Asset)
		(In Thousands)		
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)
Net benefit expense (Note 23):				
Current service cost	162,607	–	–	162,607
Net interest cost (income)	72,688	83,045	1,514	(8,843)
Past service cost - curtailment	590	–	–	590
	235,885	83,045	1,514	154,354
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(162,462)	–	162,462
Actuarial changes arising from:				
Changes in financial assumptions	(293,471)	–	–	(293,471)
Changes in demographic assumptions	(1,827)	–	–	(1,827)
Experience adjustment	188,577	–	–	188,577
Others	–	–	33	33
	(106,721)	(162,462)	33	55,774
Reclassifications from defined benefit liabilities	(2,766,690)	(3,035,117)	–	268,427
Effect of common control business combination (Note 5)	23,496	16,604	–	6,892
Actual contributions		196,152	–	(196,152)
Benefits paid	(33,148)	(33,148)	–	–
Transfer from the plan	839	839	–	–
Amount not recognized due to asset limit	–	–	15,250	15,250
Other adjustments	–	–	(1,566)	(1,566)
As at December 31, 2018	₱1,356,540	₱1,445,254	₱15,245	(₱73,469)

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

	2018	2017
Discount rate	5.0%–8.0%	5.0%–6.0%
Future salary increases	2.0%–10.0%	4.0%–10.0%

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

	2018	2017
	(In Thousands)	
Cash and cash equivalents	₱816,168	₱532,130
Investment in debt and other securities	2,214,942	2,025,911
Investment in common trust funds	2,720,038	2,867,023
Investment in equity securities	200,046	333,123
Investment in government securities	2,298,150	1,991,308
Others	49,612	167,935
	₱8,298,956	₱7,917,430

- Cash and cash equivalents include regular savings and time deposits.

- Investments in debt and other securities, consisting of both short-term and long-term corporate loans, notes and bonds, bear interest ranging from 4.0% to 8.8% and 3.5% to 6.8% in 2018 and 2017, respectively. These have maturities from May 2019 to October 2025 and June 2018 to October 2025 in 2018 and 2017, respectively.

- Investment in common trust funds consists of unit investment trust fund placements.

- Investment in equity securities consists of listed and unlisted equity securities.

- Investments in government securities consists of retail treasury bonds. These bonds bear interest ranging from 2.1% to 8.8% in 2018 and 2017, respectively. These bonds have maturities from February 2019 to May 2030 and March 2018 to May 2030 and January 2016 to December 2035 in 2018 and 2017, respectively.

- Others pertain to accrued interest income on cash deposits and debt securities held by the Plan.

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

	2018	2017
	(In Thousands)	
Balances:		
Cash and cash equivalents	₱816,168	₱532,130
Investment in common trust funds	2,720,038	2,867,023
Transactions:		
Interest income from cash and cash equivalents	11,702	12,313
Gains (loss) from investment in common trust funds	(15,627)	459,883

The Group expects to contribute about ₱1,293.3 million to its Pension Plan in 2019.

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

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱331,311)
	(50)	346,601
Future salary increases	100	972,807
	(100)	(815,430)
No attrition rate	–	1,921,376

The average duration of the Group's defined benefit obligation is 4 to 28 years in 2018 and 3 to 29 years in 2017.

The maturity analysis of the undiscounted benefit payments follows:

	2018	2017
	(In Thousands)	
Year 1	₱717,315	₱869,893
Year 2	379,992	312,845
Year 3	466,365	408,137
Year 4	372,793	491,324
Year 5	421,637	481,444
Year 6 – 10	2,575,923	3,244,244

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

26. Income Tax

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

	2018	2017
	(In Thousands)	
Deferred tax assets:		
Excess of fair values over cost of investment properties	₱1,167,853	₱1,184,476
NOLCO	508,314	563,576
Accrued leases	651,103	643,530
Provision for doubtful accounts and others	807,565	584,524
Unamortized past service cost and defined benefit liability	220,270	139,653
MCIT	3,394	8,370
	3,358,499	3,124,129
Deferred tax liabilities:		
Appraisal increment on investment property	3,088,393	3,162,858
Trademarks and brand names	1,879,000	1,879,000
Capitalized interest	1,807,409	1,840,286
Unrealized gross profit on sale of real estate	2,011,975	1,356,190
Excess of fair values over cost of equity instruments	273,146	–
Unamortized past service cost and defined benefit asset	35,853	154,416
Accrued/deferred rent income	107,640	127,105
Others	239,790	144,039
	9,443,206	8,663,894
Net deferred tax liabilities	₱6,084,707	₱5,539,765

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

	2018	2017
	(In Thousands)	
Deferred tax assets	₱2,726,155	₱2,489,814
Deferred tax liabilities	8,810,862	8,029,579
	₱6,084,707	₱5,539,765

The unrecognized deferred tax assets from the deductible temporary differences and carryforward benefits of NOLCO and MCIT amounted to ₱4,429.6 million and ₱3,821.6 million as at December 31, 2018 and 2017, respectively.

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

	2018	2017	2016
Statutory income tax rate	30%	30%	30%
Income tax effect of reconciling items:			
Equity in net earnings of associate companies and joint ventures	(8)	(8)	(8)
Interest income subjected to final tax	(2)	(2)	(2)
Change in unrecognized deferred tax assets	–	1	(1)
Others	1	–	–
Effective income tax rates	21%	21%	19%

27. Lease Agreements

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

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

	2018	2017
	(In Millions)	
Within one year	₱6,944	₱5,230
After one year but not more than five years	18,729	11,853
More than five years	6,517	7,077
	₱32,190	₱24,160

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

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

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

	2018	2017
	(In Millions)	
Within one year	₱2,470	₱2,047
After one year but not more than five years	4,283	5,755
More than five years	26,464	26,966
	₱33,217	₱34,768

Tenant's deposits amounted to ₱19,774.5 million and ₱17,355.2 million as at December 31, 2018 and 2017, respectively.

28. Financial Risk Management Objectives and Policies

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

The Group also enters into derivative transactions, principally, cross-currency swaps, interest rate swaps, foreign currency call options, 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 the required payments.

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

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

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

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

As at December 31, 2018 and 2017, after taking into account the effect of the swaps, approximately 81.1% and 83.0%, respectively of the Group's borrowings, net of debt issue cost, is kept at fixed interest rates.

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

	Increase (Decrease) in Basis Points	Effect on Income Before Tax
		(In Millions)
2018	**100**	**(₱236.3)**
	50	**(118.2)**
	(100)	**236.3**
	(50)	**118.2**
2017	100	(₱240.9)
	50	(120.4)
	(100)	240.9
	(50)	120.4

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

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

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

	2018		2017	
	US$	PhP	US$	PhP
		(In Thousands)		
Current assets:				
Cash and cash equivalents	**\$5,825**	**₱306,275**	\$3,566	₱178,039
Time deposits	**491,275**	**25,831,265**	211,489	10,559,628
Receivables and contract assets	**55,025**	**2,893,228**	59,910	2,991,309
Financial assets	**–**	**–**	14,152	706,625
Noncurrent assets:				
Financial assets	**–**	**–**	805	40,172
Time deposits	**21,713**	**1,141,652**	458,400	22,887,912
Other noncurrent assets	**514,749**	**27,065,524**	495,167	24,723,693
Derivative assets	**–**	**–**	20,130	1,005,084
Total assets	**1,088,587**	**57,237,944**	1,263,619	63,092,462
Current liabilities:				
Current portion of long-term debt	**495,680**	**26,062,856**	119,693	5,976,254
Accounts payable and other current liabilities	**5,607**	**294,821**	5,969	298,024
Noncurrent liabilities:				
Long-term debt - net of current portion	**528,424**	**27,784,556**	1,325,944	66,204,403
Total liabilities	**1,029,711**	**54,142,233**	1,451,606	72,478,681
Net	**\$58,876**	**₱3,095,711**	(\$187,987)	(₱9,386,219)

As at December 31, 2018 and 2017, approximately 28.4% and 34.7%, respectively, of the Group's borrowings, net of debt issue cost, are denominated in foreign currency.

The Group recognized net foreign exchange gain (loss) of ₱182.5 million loss, ₱698.7 million gain and ₱170.1 million loss in 2018, 2017 and 2016, respectively. This resulted from movements in the closing rate of U.S. dollar against the Philippine peso as follows:

	U.S. Dollar to Peso
December 31, 2018	₱52.58
December 31, 2017	49.93
December 31, 2016	49.72

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

	Appreciation (Depreciation) of Peso	Effect on Income Before Tax
		(In Millions)
2018	1.50	₱683.8
	1.00	455.9
	(1.50)	(683.8)
	(1.00)	(455.9)
2017	1.50	₱1,024.7
	1.00	683.2
	(1.50)	(1,024.7)
	(1.00)	(683.2)

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

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

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

	2018	2017
	(In Thousands)	
Cash and cash equivalents	₱79,313,215	₱74,318,190
Current portion of time deposits	25,842,829	13,237,886
Current portion of financial assets - Bonds and corporate notes	–	706,626

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

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

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

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

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

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

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

As at December 31, 2018 and 2017, the financial assets, except for certain receivables and AFS investments, are generally viewed by management as good and collectible considering the credit history of the counterparties. Past due or impaired financial assets are very minimal in relation to the Group's total financial assets.

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

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

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

	2018			2017		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
			(In Thousands)			
Cash and cash equivalents (excluding cash on hand)	₱77,583,440	₱–	₱77,583,440	₱72,640,001	₱–	₱72,640,001
Time deposits including noncurrent portion	28,235,451		28,235,451	39,926,607	–	39,926,607
Financial assets	24,728,390	2,613,690	27,342,080	26,876,683	61,405	26,938,088
Receivables and contract assets - net (including noncurrent portion of receivables from real estate buyers)*	30,230,611	7,610,927	37,841,538	37,567,278	7,402,039	44,969,317
Advances and other receivables - net (includes non-trade receivables, bonds and deposits, receivable from banks, notes receivable and accrued interest receivable under "Other current assets" account in the consolidated balance sheets)**	15,451,092	–	15,451,092	14,408,939	–	14,408,939
Escrow fund	290,179	–	290,179	183,341	–	183,341
Other noncurrent assets:						
Bonds and deposits	18,403,000	–	18,403,000	17,475,500	–	17,475,500
Long-term notes	6,739,026	–	6,739,026	6,399,410	–	6,399,410
Derivative assets (including noncurrent portion)	1,566,788	–	1,566,788	5,341,439	–	5,341,439
	₱203,227,977	₱10,224,617	₱213,452,594	₱220,819,198	₱7,463,444	₱228,282,642

**Excluding non-financial assets amounting to ₱20,269.0 million as at December 31, 2018.*
***Excluding non-financial assets amounting to ₱274.4 million and ₱403.6 million as at December 31, 2018 and 2017, respectively.*

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

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

	Change in Equity Price	Effect on Equity
		(In Millions)
2018	+1.78%	₱621.1
	-1.78%	(621.1)
2017	+2.94%	₱595.5
	-2.94%	(595.5)

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

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

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

Net Gearing Ratio

	2018	2017
	(In Thousands)	
Bank loans	₱18,885,465	₱24,172,965
Long-term debt (current and noncurrent)	367,036,243	332,853,001
Less:		
Cash and cash equivalents (excluding cash on hand)	(77,583,440)	(72,640,001)
Time deposits (current and noncurrent)	(28,235,451)	(39,926,607)
Financial assets	–	(746,797)
Net interest-bearing debt (a)	280,102,817	243,712,561
Equity attributable to owners of the Parent	353,387,201	328,132,735
Net interest-bearing debt and equity attributable to owners of the Parent (b)	₱633,490,018	₱571,845,296
Gearing ratio - net (a/b)	44%	43%

Gross Gearing Ratio

	2018	2017
	(In Thousands)	
Bank loans	₱18,885,465	₱24,172,965
Long-term debt	367,036,243	332,853,001
Total interest-bearing debt (a)	385,921,708	357,025,966
Total equity attributable to owners of the Parent	353,387,201	328,132,735
Total interest-bearing debt and equity attributable to owners of the Parent (b)	₱739,308,909	₱685,158,701
Gearing ratio - gross (a/b)	52%	52%

29. Financial Instruments

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

	2018				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Derivative assets	₱1,566,788	₱1,566,788	₱–	₱1,566,788	₱–
Assets for which Fair Values are Disclosed					
Time deposits - noncurrent portion	2,392,622	2,339,327	–	–	2,339,327
Receivables and contract asssets - net (including noncurrent portion of receivables from real estate buyers)	59,987,359	57,604,083	–	–	57,604,083
Other noncurrent assets:					
Bonds and deposits	18,403,000	19,800,272	–	–	19,800,272
Long-term notes	6,739,026	8,489,300	–	–	8,489,300
	87,522,007	88,232,982	–	–	88,232,982
	₱89,088,795	₱89,799,770	₱–	₱1,566,788	₱88,232,982
Liabilities Measured at Fair Value					
Derivative liabilities	₱335,008	₱335,008	₱–	₱335,008	₱–
Liabilities for which Fair Values are Disclosed					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	305,555,356	288,274,800	–	–	288,274,800
Tenants' deposits and others*	36,000,150	32,026,177	–	–	32,026,177
	341,555,506	320,300,977	–	–	320,300,977
	₱341,890,514	₱320,635,985	₱–	₱335,008	₱320,300,977

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

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

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

There were no transfers into and out of Levels 1, 2 and 3 fair value measurements as at December 31, 2018 and 2017.

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

	2018	2017
Noncurrent portion of Time deposits	2.0% - 7.9%	2.0%–2.8%
Noncurrent portion of receivables from real estate buyers	7.0%	4.7%
Long-term notes included under "Other noncurrent assets" account	2.6% - 2.8%	1.8%–2.3%
Tenants' deposits	5.3% - 7.9%	1.9%–5.7%

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

Debt Type	Fair Value Assumptions
Fixed Rate	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 2.6% to 8.5% and 1.7% to 6.9% as at December 31, 2018 and 2017, respectively.
Variable Rate	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used were 7.0% to 9.0% and 3.4% to 6.4% as at December 31, 2018 and 2017, respectively.

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

	2018	2017
	(In Thousands)	
Balance at beginning of year	₱4,564,032	₱6,757,361
Net changes in fair value during the year	(1,280,800)	(2,163,691)
Fair value on settled derivatives	(2,051,452)	(29,638)
Balance at end of year	₱1,231,780	₱4,564,032

Derivative Instruments Accounted for as Cash Flow Hedges
As at December 31, 2018, the Parent Company and SM Prime have outstanding arrangements to hedge both foreign currency and interest rate exposure on its foreign currency-denominated debt. Details follow:

Cross-currency swaps:

	Notional Amount (In US$)	Notional Amount (In Ph₱)	Principal	Fair Value	Receive	Pay	US$:Ph₱	Maturity
		(In Thousands)						
Parent:								
	$53,000	₱2,761,300	₱2,786,740	₱266,068	LIBOR + spread	5.3%	₱52.10	March 6, 2023
	100,000	5,210,000	5,288,000	350,872	LIBOR + spread	5.9%	52.10	April 16, 2023
	56,159	3,000,000	2,952,827	96,914	LIBOR + spread	6.1%	53.42	July 26, 2023
SM Prime:								
	25,000	1,246,900	1,314,500	(72,266)	LIBOR + spread	5.4%	49.88	March 27, 2022
	25,000	1,246,900	1,314,500	(70,878)	LIBOR + spread	5.4%	49.88	March 27, 2022
	50,000	2,580,500	2,629,000	32,366	LIBOR + spread	5.0%	51.61	June 30, 2022
	50,000	2,666,500	2,629,000	13,282	LIBOR + spread	6.4%	53.33	June 14, 2023
	60,000	3,199,200	3,154,800	11,490	LIBOR + spread	6.4%	53.32	June 14, 2023

Principal only and interest rate swaps:

	Notional Amount	Principal	Fair Value: Principal Only Swap	Fair Value: Interest Rate Swap	US$:CNY¥	Interest Rate	Maturity
		(In Thousands)					
SM Prime	US$150,000	₱8,487,737	₱–	₱38,909	¥–	3.2%	April 14, 2019
	270,000	14,196,645	(224,231)	395,264	6.458-6.889	6.2%	January 29, 2021

Derivative Instruments Accounted for as Fair Value Hedge

Forward swaps:

	Notional Amount	Principal	Fair Value	Strike Price: Low	Strike Price: High	Maturity
		(In Thousands)				
SM Prime	US$100,000	₱5,578,980	₱125,099	¥6.314	¥6.485	April 15, 2019
	100,000	5,578,980	117,177	6.289	6.496	April 15, 2019
	100,000	5,578,980	151,713	6.383	6.547	April 15, 2019

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

Other Derivative Instruments Not Designated as Accounting Hedges

Non-deliverable Forwards and Swaps. The net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to gains of ₱314.4 million and ₱38.6 million in 2018 and 2017, respectively.

30. EPS Computation

	2018	2017	2016
	(In Thousands Except Per Share Data)		
Net income attributable to owners of the Parent (a)	**₱37,078,325**	₱32,923,455	₱31,204,304
Weighted average number of common shares outstanding (b)	**1,204,583**	1,204,583	1,204,583
EPS (a/b)	**₱30.78**	₱27.33	₱25.90

31. Change in Liabilities Arising From Financing Activities

	2018		2017	
	Bank Loans (Note 17)	Long-term Debt (Note 19)	Bank Loans (Note 17)	Long-term Debt (Note 19)
	(In Thousands)			
Balance at beginning of year	₱24,172,965	₱332,853,001	₱13,987,765	₱305,855,809
Availments	32,199,317	70,787,135	59,419,602	55,866,308
Payments	(37,256,817)	(40,292,241)	(49,234,402)	(31,640,120)
Cumulative translation adjustment on cash flow hedges	–	(50,799)	–	2,713,427
Foreign exchange movement	–	3,621,088	–	(172,455)
Loan refinancing	(230,000)	230,000	–	–
Others	–	(111,941)	–	230,032
Balance at end of year	₱18,885,465	₱367,036,243	₱24,172,965	₱332,853,001

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

32. Reclassification

The Group reclassified certain consolidated statement of income accounts in 2017 and 2016 to conform to the 2018 consolidated financial statements presentation and classification. The reclassification has no impact on the 2018 and 2017 profit or loss and equity of the Group.

Corporate Information

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External Auditor
SyCip Gorres Velayo & Co.

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

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

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SMIC welcomes inquiries from investors, analysts and the financial community.

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