COVER SHEET
for
SEC FORM 20-IS

SEC Registration Number

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Company Name

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

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

10th Floor, Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300

Form Type	Department requiring the report	Secondary License Type, If Applicable
20-IS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
	831-1000	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
2,424		December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. John Nai Peng C. Ong		831-1000	

Contact Person's Address

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

PRIME

Notice of Annual Stockholders' Meeting
April 24, 2018 | 2:30p.m.
Forbes Ballroom 1 & 2, Conrad Manila
Seaside Boulevard cor. Coral Way, Mall of Asia Complex, Pasay City

To all Stockholders:

The annual meeting of the stockholders of **SM PRIME HOLDINGS, INC.** will be held on **April 24, 2018** at **2:30 p.m.** at **Forbes Ballroom 1 & 2, Conrad Manila, Seaside Boulevard cor. Coral Way, Mall of Asia Complex, Pasay City.**

AGENDA

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of Minutes of the Annual Meeting of Stockholders Held on April 25, 2017
4. Approval of Annual Report for 2017
5. General Ratification of the Acts of the Board of Directors, Board Committees and Management
6. Election of Members of the Board of Directors for 2018-2019
7. Appointment of External Auditor
8. Other Matters
9. Adjournment

Each agenda item for approval is explained in the Definitive Information Sheet, with brief details and rationale in the attached **Annex A**.

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange on **March 28, 2018** as the record date for the determination of stockholders entitled to the notice of, and to vote at, the meeting and any adjournment thereof.

In case you cannot personally attend the meeting, you may accomplish a proxy form (which need not be notarized) and submit it to the office of the Corporate Secretary at the 33rd Floor, The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City at least seventy-two (72) hours before the date of the meeting in accordance with the By-Laws of the Corporation. Validation of proxies will be conducted on April 23, 2018 at 11am at 10th Floor, Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Pasay City, Philippines.

For your convenience in registering your attendance, please bring proof of identification such as passport, driver's license, or a company I.D.

Pasig City, 28 February 2018.

ELMER B. SERRANO
Corporate Secretary

Annex A
Agenda Items for Approval

Agenda Item No. 3: Approval of Minutes of the Annual Stockholders' Meeting Held on April 25, 2017

The draft minutes of the annual stockholders' meeting held on April 25, 2017 were posted on the Company's website within twenty-four (24) hours from adjournment of the meeting. These minutes are subject to stockholders' approval during this year's stockholders' meeting. Results of the 2017 annual stockholders' meeting were likewise timely disclosed to the Securities and Exchange Commission and the Philippine Stock Exchange.

Agenda Item No. 4: Approval of Annual Report for the Year 2017

The Company's 2017 performance results have been duly summarized in the Annual Report, which includes the Audited Financial Statements (AFS) of the Company for the year ended 31 December 2017. The AFS, as audited by the external auditor Sycip Gorres Velayo & Co. (**SGV&Co.**) which expressed an unqualified opinion therefor, have been reviewed and approved by the Audit Committee and the Board of Directors of the Company . Any stockholder who would like to receive a hard or soft copy of the 2017 Annual Report may do so through the Investor Relations Office. The 2017 Annual Report is also posted on the Company's website.

Agenda Item No. 5: General ratification of the acts of the Board of Directors, Board Committees and the Management from the Date of the Last Annual Stockholders' Meeting up to the Date of this Meeting

The Company's performance in 2017, as detailed in the Annual Report, is attributed to the strategic directions and key policies set by the Board of Directors which were effectively executed and complied with by management in conformance with good corporate governance and ethical best practices. The ratification of the acts undertaken by the Board of Directors, Board Committees, and Management is subject to stockholders' approval during this year's stockholders' meeting.

Agenda Item No. 6: Election of Directors for 2018-2019

Incumbent Directors of the Company have been pre-qualified by the Company's Corporate Governance Committee for election as directors for 2018-2019. The Directors' proven competence, expertise and qualifications based on current regulatory standards, will help sustain the Company's solid performance for the benefit of all its stockholders. The profiles of the Directors are posted on the Company's website and are also here attached for your reference. Directors for 2018-2019 will be elected during this year's stockholders' meeting.

Agenda Item No. 7: Appointment of External Auditor

Upon recommendation of the Audit Committee, the Board approved and endorses for stockholder approval the re-appointment of SGV&Co. as the Company's external auditor for 2018. SGV&Co. is one of the top auditing firms in the country and is duly accredited with the SEC. The appointment of SGV&Co. as external auditor of the Company for 2018 is subject to stockholders' approval during this year's stockholders' meeting.

PROXY

The undersigned stockholder of **SM PRIME HOLDINGS, INC.** (the **Company**) hereby appoints ________________________________ or in his absence, the Chairman of the meeting, as attorney and proxy, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 24, 2018 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous meeting held on April 25, 2017.
____ Yes _____ No _____ Abstain

2. Approval of Annual Report for the Year 2017.
____ Yes _____ No _____ Abstain

3. General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.
____ Yes _____ No _____ Abstain

4. Election of Directors.
____ Vote for all nominees listed below
Henry T. Sy, Jr.
Hans T. Sy
Herbert T. Sy
Jeffrey C. Lim
Jorge T. Mendiola
Jose L. Cuisia, Jr. (Independent)
Gregorio U. Kilayko (Independent)
Joselito H. Sibayan (Independent)

____ Withhold authority for all nominees listed above

____ Withhold authority to vote for the nominees listed below:
________________ ________________
________________ ________________
________________ ________________
________________ ________________

5. Election of SyCip Gorres Velayo & Co. as independent auditors.
Yes _____ No _____ Abstain

6. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.
____ Yes _____ No _____ Abstain

____
PRINTED NAME OF STOCKHOLDER

____
SIGNATURE OF STOCKHOLDER/
AUTHORIZED SIGNATORY

____
DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY AT LEAST SEVENTY TWO (72) HOURS BEFORE THE DATE SET FOR THE ANNUAL MEETING AS PROVIDED IN THE BY-LAWS.

THIS PROXY IS NOT REQUIRED TO BE NOTARIZED, AND WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

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

Profiles of the Nominees for Election to the Board of Directors for 2018-2019

NAME : HENRY T. SY, JR.
AGE : 64 YRS.
DESIGNATIONS : Non-Executive Director/Chairman of the Board

EDUCATION/ EXPERIENCE: Mr. Henry T. Sy, Jr. has served as Director since 1994. 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. At present, he is Vice Chairman of SM Investments Corporation, Chairman and Chief Executive Officer of SM Development Corporation, Chairman of Highlands Prime Inc., Chairman of Pico de Loro Beach and Country Club Inc., and President of The National Grid Corporation of the Philippines. He holds a Bachelor's Degree in Management from De La Salle University.

POSITIONS IN OTHER PLCs :

SM Investments Corporation	Vice Chairman

BOARD ATTENDANCE : 100%; 6 of 6 Board Meetings
DATE OF FIRST APPOINTMENT : April 1994
NO. OF YEARS ON THE BOARD : 24 YRS.
SHAREHOLDINGS : 2.38%
OTHER INFORMATION : No conflict of interest transactions in the past one (1) year.

NAME : JOSE L. CUISIA, JR.
AGE : 73 YRS.
DESIGNATIONS : Independent Director/Vice-Chairman of the Board
Lead Independent Director

EDUCATION/ EXPERIENCE: Mr. Jose L. Cuisia, Jr. has served as Vice Chairman and Independent Director of the Board of Directors of SM Prime since 1994. He was appointed Lead Independent Director of the Company in February 2017. From 2011 to 2016, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He was the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company from 1993 to 2009. Mr. Cuisia also served as Governor of the *Bangko Sentral ng Pilipinas* from 1990 to 1993, and as Administrator of the Social Security System from 1986 to 1990. He was also the former Chairman of the Board of Far East Bank and Trust Co. and Union Bank, and President of Insular Bank of Asia & America. He graduated with a Bachelor's Degree in Commerce, Major in Accounting and Bachelor of Arts, Major in Social Sciences from De La Salle University and took his Masters in Business Administration at the prestigious Wharton School of the University of Pennsylvania. Mr. Cuisia is a recipient of numerous awards and accolades. In February 2016, he was conferred the Order of the Sikatuna with the rank of Grand Cross by President Benigno S. Aquino III. Before returning to the Philippines, he was recognized with the 2016 Carlos P. Romulo award by the US-Philippines Society. In 2016, Mr. Cuisia was recognized as one of the Ten Outstanding Filipino (TOFIL) Awardee by the JCI Senate and ZAZ Foundation. In 2015, he was awarded the Lifetime Contributor Award by the Asia CEO Forum. In 2011, he received the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton Club of Washington, DC. He was recognized as the 2007 Management Man of the Year awardee of the Management Association of the Philippines; a Distinguished La Sallian Awardee and the Manuel L.

Quezon Awardee for Exemplary Governance in 2006; the Asia Insurance Personality of the Year awardee in 2005; and the Raul Locsin CEO of the Year awardee in 2004. He was also cited as one of the Ten Most Outstanding Young Men of the Philippines in 1982.

POSITIONS IN OTHER PLCs :

PHINMA Corporation	Director
Manila Water Company, Inc.	Independent Director
Century Properties Group Inc.	Independent Director

BOARD ATTENDANCE : 100%; 6 of 6 Board Meetings
100%; 4 of 4 Audit Committee Meetings
100%; 2 of 2 Corporate Governance Committee Meetings
100%; 4 of 4 Board Risk Oversight Committee Meetings
DATE OF FIRST APPOINTMENT : April 1994
NO. OF YEARS ON THE BOARD : 24 YRS.
SHAREHOLDINGS : 0.00%
OTHER INFORMATION : No conflict of interest transactions in the past one (1) year.

NAME : HANS T. SY
AGE : 62 YRS.
DESIGNATION : Non-Executive Director

EDUCATION/ EXPERIENCE : Mr. Hans T. Sy is the Chairman of the Executive Committee of SM Prime and has been a Director of the Company since 1994. He previously held the position of President of SM Prime until September 2016. He also held key positions in several companies engaged in banking, real estate development, mall operations, as well as leisure and entertainment. He is currently Adviser to the Board of SM Investments Corporation, Chairman of China Banking Corporation, and Chairman of National University. Mr. Sy holds a B.S. Mechanical Engineering degree from De La Salle University.

POSITIONS IN OTHER PLCs :

China Banking Corporation	Chairman
SM Investments Corp.	Adviser to the Board

BOARD ATTENDANCE : 100%; 6 of 6 Board Meetings
DATE OF FIRST APPOINTMENT : April 1994
NO. OF YEARS ON THE BOARD : 24 YRS.
SHAREHOLDINGS : 2.35%
OTHER INFORMATION : No conflict of interest transactions in the past one (1) year.

NAME : HERBERT T. SY
AGE : 61 YRS.
DESIGNATION : Non-Executive Director

EDUCATION/ EXPERIENCE : Mr. Herbert T. Sy has served as Director of SM Prime since 1994. He is an Adviser to the Board of SM Investments Corporation and is currently the Vice Chairman of Supervalue Inc., Super Shopping Market Inc. and Sanford Marketing Corporation, and Director of China Banking Corporation. He also sits in the Board of several companies within the SM Group. He has worked for more than 30 Years in companies within the SM Group engaged in food retailing, rubber manufacturing, car service and car accessories and banking. He is actively involved in the SM Group's Supermarket Operations, which include acquisition, evaluation and negotiation for potential sites. He holds a Bachelor’s Degree in Management from De La Salle University.

POSITIONS IN OTHER PLCs :

China Banking Corporation	Director
SM Investments Corp.	Adviser to the Board

BOARD ATTENDANCE : 100%; 6 of 6 Board Meetings
DATE OF FIRST APPOINTMENT : April 1994
NO. OF YEARS ON THE BOARD : 24 YRS.
SHAREHOLDINGS : 2.29%
OTHER INFORMATION : No conflict of interest transactions in the past one (1) year.

NAME : JORGE T. MENDIOLA
AGE : 58 YRS.
DESIGNATION : Non-Executive Director

EDUCATION/ EXPERIENCE : Mr. Jorge T. Mendiola has served as a Director of the SM Prime since 2012. He is currently the President of SM Retail, Inc. He started his career with The SM Store as a Special Assistant to the Senior Branch Manager in 1989 and rose to become its President in 2011. He is also currently the Vice Chairman for Advocacy of the Philippine Retailers Association. He received his Masters in Business Management from the Asian Institute of Management. He holds an A.B. Economics degree from Ateneo de Manila University.

POSITIONS IN OTHER PLCs : None
BOARD ATTENDANCE : 100%; 6 of 6 Board Meetings
100%; 4 of 4 Audit Committee Meetings
100%; 4 of 4 Board Risk Oversight Committee Meetings
100%; 1 of 1 Related Party Transactions Committee Meetings
DATE OF FIRST APPOINTMENT : December 2012
NO. OF YEARS ON THE BOARD : 5 YRS.
SHAREHOLDINGS : 0.00%
OTHER INFORMATION : No conflict of interest transactions in the past one (1) year.

NAME	:	GREGORIO U. KILAYKO
AGE	:	62 YRS.
DESIGNATION	:	Independent Director

EDUCATION/ EXPERIENCE : Mr. Gregorio U. Kilayko served as an Independent Director of SM Prime since 2008. He is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Baring's stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He was a director of the Philippine Stock Exchange in 2003. He took his Masters in Business Administration at the Wharton School of the University of Pennsylvania.

POSITIONS IN OTHER PLCs :

Belle Corporation	Independent Director

BOARD ATTENDANCE :
100%; 6 of 6 Board Meetings
100%; 2 of 2 Corporate Governance Committee Meetings
100%; 4 of 4 Board Risk Oversight Committee Meetings
100%; 1 of 1 Related Party Transactions Committee Meetings

DATE OF FIRST APPOINTMENT	:	April 2008
NO. OF YEARS ON THE BOARD	:	10 YRS.
SHAREHOLDINGS	:	0.00%
OTHER INFORMATION	:	No conflict of interest transactions in the past one (1) year.

NAME	:	JOSELITO H. SIBAYAN
AGE	:	59 YRS.
DESIGNATION	:	Independent Director

EDUCATION/ EXPERIENCE : Mr. Joselito H. Sibayan has served as an Independent Director of the Company since 2011. He has spent the past 30 years of his career in investment banking. From 1987 to 1994, and after taking his Master of Business Administration from University of California in Los Angeles, he served as Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operations. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status.

POSITIONS IN OTHER PLCs :

Apex Mining Corporation	Independent Director
A Brown Company, Inc.	Regular Director

BOARD ATTENDANCE :
100%; 6 of 6 Board Meetings
100%; 4 of 4 Audit Committee Meetings
100%; 2 of 2 Corporate Governance Committee Meetings

		100%; 1 of 1 Related Party Transactions Committee Meetings
DATE OF FIRST APPOINTMENT	:	April 2011
NO. OF YEARS ON THE BOARD	:	7 YRS.
SHAREHOLDINGS	:	0.00%
OTHER INFORMATION	:	No conflict of interest transactions in the past one (1) year.

NAME	:	JEFFREY C. LIM
AGE	:	56 YRS.
DESIGNATION	:	Executive Director

EDUCATION/ EXPERIENCE : Mr. Jeffrey C. Lim was elected President of SM Prime on October 2016. He is a member of the Company's Executive Committee. He also serves as President of SM Development Corporation. He was elected to the Board of Directors of SM Prime in April 2016. He is also a Director of Pico de Loro Beach and Country Club Inc. and holds various board and executive positions in other SM Prime's subsidiaries. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from the University of the East. Prior to joining the Company in 1994, he worked for a multi-national company and for SGV & Co.

POSITIONS IN OTHER PLCs	:	None
BOARD ATTENDANCE	:	100%; 6 of 6 Board Meetings
DATE OF FIRST APPOINTMENT	:	April 2016
NO. OF YEARS ON THE BOARD	:	2 YRS.
SHAREHOLDINGS	:	0.00%
OTHER INFORMATION	:	No conflict of interest transactions in the past one (1) year.

Note:

Directors of SM Prime are involved in certain legal proceedings solely in connection with their directorship in SM Prime. In 2017, the City Government of Cebu filed two complaints against directors and officers of the Company in their official capacities for alleged misrepresentations and non-disclosures of information in connection with the real property tax assessments for SM Seaside City Cebu. Both complaints were dismissed due to insufficiency of evidence. The Cebu City Government filed motions for reconsideration with the Department of Justice-Manila, one of which is pending resolution, while the other has been denied.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [ ] Preliminary Information Statement

   [✓] Definitive Information Statement

2. Name of Registrant as specified in its charter **SM PRIME HOLDINGS, INC.**

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

4. SEC Identification Number **AS094-000088**

5. BIR Tax Identification Code **003-058-789**

6. **10th floor, Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines 1300**
   Address of principal office Postal Code

7. Registrant's telephone number, including area code **(632) 831-1000**

8. **April 24, 2018, 2:30 P.M., Forbes Ballroom 1 & 2, Conrad Manila, Seaside Boulevard corner Coral Way, Mall of Asia Complex, Pasay City 1300**
   Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders:
   April 02, 2018

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common shares	**28,879,231,694**

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

    Yes __✓__ No _______

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

PART I.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. BUSINESS AND GENERAL INFORMATION

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

(a)	Date	:	April 24, 2018
	Time	:	2:30 p.m.
	Place	:	Forbes Ballroom 1 & 2 Conrad Manila Seaside Boulevard corner Coral Way, Mall of Asia Complex Pasay City
	Mailing Address of Registrant	:	**SM Prime Holdings, Inc.** 10th Floor, Mall of Asia Arena Annex Building Coral Way cor. J.W. Diokno Blvd. Mall of Asia Complex Brgy. 76, Zone 10, CBP-1A, Pasay City 1300

(b) Approximate date on which the Information Statement will be sent or given to the stockholders is on **April 2, 2018**.

<u>Statement that proxies are not solicited</u>

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

Voting Securities

The record date for purposes of determining the stockholders entitled to vote is March 28, 2018. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 28,879,231,694 shares (net of 4,287,068,381 treasury shares). Stockholders are entitled to cumulative voting in the election of the board of directors, as provided by the Corporation Code.

ITEM 2. Dissenters' Right of Appraisal

SM Prime Holdings, Inc. (SMPH or the "Company") respects the inherent rights of shareholders under the law. SMPH recognizes that all shareholders should be treated fairly and equally whether they be controlling, majority or minority, local or foreign.

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

(a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any shares of any class, or of extending or shortening the term of corporate existence.

(b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and,

(c) In case of merger or consolidation.

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

(a) A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right.

(b) The dissenting stockholder shall make a written demand on the corporation within 30 days after the date on which the vote was taken for payment for the fair value of his shares.

    The failure of the stockholder to make the demand within the 30-day period shall be deemed a waiver on his appraisal right.

(c) If the proposed corporate action is implemented or effected, the Company shall pay to such stockholder, upon surrender of corresponding certificate(s) of stock within 10 days after demanding payment for his shares (Sec. 86), the fair value of the shareholder's shares in the Company as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of a merger, if such be the corporate action involved. Failure by the dissenting shareholder to surrender his shares within said 10-day period shall, at the option of SMPH, terminate his appraisal rights.

(d) If within sixty (60) days from the date the corporate action was approved by the stockholders, the dissenting stockholder and SMPH cannot agree on the fair value of the shares, it shall be appraised and determined by three (3) disinterested persons, one of whom shall be named by the stockholder, another by SMPH, and the third by the two (2) thus chosen.

(e) The findings of a majority of the appraisers shall be final, and their award shall be paid by SMPH within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless SMPH has unrestricted retained earnings in its books to cover such payment.

(f) Upon payment of the agreed or awarded price, the stockholder shall transfer his shares to the Company.

There are no matters to be discussed in the Annual Stockholders' Meeting which would give rise to the exercise of the dissenter's right of appraisal.

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

(a) No director or Executive Officer of SMPH since the beginning of the last fiscal year, or any nominee for election as director, nor any of their associates, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the meeting, other than election to office.

(b) No director of SMPH has informed SMPH in writing that he intends to oppose any matter to be acted upon at this year's Annual Stockholders' Meeting.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities and Principal Holders Thereof

(1) Number of Common Shares Outstanding

The Company has 28,879,231,694 (net of 4,287,068,381 treasury shares) common shares outstanding as of February 28, 2018. Out of the aforesaid outstanding common shares, 6,932,474,989 common shares are held by foreigners.

(2) Record Date

All stockholders of record as at March 28, 2018 are entitled to notice of, and to vote at, the Annual Stockholders' Meeting.

(3) Manner of Voting and Election of Directors (Cumulative Voting)

Each common share of SMPH owned by a shareholder as of March 28, 2018 is entitled to one (1) vote (each, a "**Voting Share/s**") except in the election of directors where one share is entitled to as many votes as there are Directors to be elected. The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him, for as many persons as there are to be elected as Directors, or he may cumulate or give to one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. Thus, since there are eight (8) directors to be elected, each Voting Share is entitled to eight (8) votes.

The shareholder holding Voting Shares may nominate directors and vote in person or by proxy. If he chooses to vote through proxy, SMPH's By-Laws require the submission of a proxy form to the Corporate Secretary no later than 2:30 p.m. on April 21, 2018 at the Office of the Corporate Secretary at the 33rd Floor The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City. A suggested format for the proxy form is available at SMPH's website and attached here as Annex A.

A forum for the validation of proxies, chaired by the Corporate Secretary or Assistant Corporate Secretary and attended by SMPH's stock and transfer agent, shall be convened on April 23, 2018, 11:00 a.m., at the 10th Floor, Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City, Philippines. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be resolved by the Corporate Secretary at that forum. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the meeting.

(4) Security Ownership of Certain Record and Beneficial Owners as of February 28, 2018

The following are the owners of the Company common stock in excess of 5% of total outstanding shares:

Title of Securities	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Amount and Nature of Direct Record/Beneficial Ownership ("r" or "b")	Percent of Class (%)
Common	**SM Investments Corporation (SMIC)** ***(Parent Company)***[1] One Ecom Center, Harbor Drive, Mall of Asia Complex, CBP-1A, Pasay City	**SMIC**[2]	Filipino	14,353,464,952 (b)	49.70
-do-	**PCD Nominee Corp.** [3] MSE Bldg., Ayala Ave., Makati City	**PCD Participants**[4]	Filipino – 3.87% Non-Filipino – 20.04%	6,907,495,339 (r)	23.92

1. The following are the individuals holding the direct beneficial ownership of SMIC: Felicidad T. Sy-3.20%, Henry T. Sy, Jr.-7.26%, Hans T. Sy-8.20%, Herbert T. Sy-8.20%, Harley T. Sy-7.27%, Teresita T. Sy-7.09% and Elizabeth T. Sy-5.90%.

2. Jose T. Sio is the Chairman of SMIC and Teresita T. Sy and Henry Sy, Jr. are the Vice Chairmen of SMIC and they have the power to vote the common shares of SMIC in SMPH.

3. The PCD participants have the power to decide how their shares are to be voted. There are no other individual shareholders which own more than 5% of the Company.

4 The PCD is not related to the Company.

(5) Security Ownership of Management as of February 28, 2018

Title of Securities	Name of Beneficial Owner of Common Stock	Citizenship Filipino (F)	Amount and Nature of Beneficial Ownership (D) Direct (I) Indirect	Class of Securities Voting (V)	Percent of Class
Common	Henry Sy, Sr.	F	82,795,579 (I)	V	0.29
-do-	Jose L. Cuisia, Jr.	F	497,661 (D&I)	V	0.00
-do-	Teresita T. Sy	F	666,708,532 (D&I)	V	2.31
-do-	Henry T. Sy, Jr.	F	687,953,713 (D&I)	V	2.38
-do-	Hans T. Sy	F	679,811,914 (D&I)	V	2.35
-do-	Herbert T. Sy	F	661,037,924 (D&I)	V	2.29
-do-	Elizabeth T. Sy	F	654,115,892 (D&I)	V	2.27
-do-	Gregorio U. Kilayko	F	202,580 (D&I)	V	0.00
-do-	Joselito H. Sibayan	F	1,375 (D)	V	0.00
-do-	Jorge T. Mendiola	F	703,167 (D&I)	V	0.00
-do-	Jeffrey C. Lim	F	50,000 (I)	V	0.00
-do-	Christopher S. Bautista	F	37,500 (I)	V	0.00
-do-	Teresa Cecilia H. Reyes	F	220,000 (I)	V	0.00
-do-	All directors and executive officers as a group		3,434,135,837		11.89

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

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

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

ITEM 5. Directors and Executive Officers of the Registrant

DIRECTORS AND EXECUTIVE OFFICERS

Office	Name	Citizenship	Age
Chairman Emeritus	Henry Sy, Sr.	Filipino	93
Chairman	Henry T. Sy, Jr.	Filipino	64
Vice Chairman and Lead Independent Director	Jose L. Cuisia, Jr.	Filipino	74
Independent Director	Gregorio U. Kilayko	Filipino	63
Independent Director	Joselito H. Sibayan	Filipino	59
Director and President	Jeffrey C. Lim	Filipino	56
Director	Hans T. Sy	Filipino	62
Director	Herbert T. Sy	Filipino	61
Director	Jorge T. Mendiola	Filipino	59
Adviser to the Board of Directors	Teresita T. Sy	Filipino	67
Adviser to the Board of Directors	Elizabeth T. Sy	Filipino	66
Corporate Secretary/Alternate Compliance Officer	Elmer B. Serrano	Filipino	50
Assistant Corporate Secretary and Alternate Corporate Information Officer	Arthur A. Sy	Filipino	48
Chief Finance Officer/Compliance Officer/Corporate Information Officer	John Nai Peng C. Ong	Filipino	47
Vice President – Internal Audit	Christopher S. Bautista	Filipino	58
Vice President-Finance/Chief Risk Officer/Alternate Compliance Officer/Alternate Corporate Information Officer	Teresa Cecilia H. Reyes	Filipino	43
Head, Malls	Anna Maria S. Garcia	Filipino	62
Head, Residential (Primary)	Jose Mari H. Banzon	Filipino	57
Head, Residential (Leisure)	Shirley C. Ong	Filipino	56
Head, Commercial	Russel T. Sy	Filipino	45
Head, Hotels and Convention Centers	Ma. Luisa E. Angeles	Filipino	59

Board of Directors

Henry Sy, Sr. is the Chairman Emeritus of the Board of Directors of SMPH. He was the Chairman of the Board of Directors of SMPH since 1994 until April 2014. He is the founder of the SM Group and is currently, Chairman Emeritus of SM Investments Corporation (SMIC), SM Development Corporation (SMDC), Highlands Prime, Inc. (HPI) and BDO Unibank, Inc. and Honorary Chairman of China Banking Corporation. He opened the first ShoeMart store in 1958 and has been at the forefront of SM Group's diversification into five lines of businesses – shopping malls, retail, financial services, real estate development and tourism oriented entities such as but not limited to hotels and convention centers. Mr. Sy earned his Associate of Arts Degree in Commerce Studies at Far Eastern University and was conferred an Honorary Doctorate in Business Management by De La Salle University.

Henry T. Sy, Jr. has served as Director since 1994. 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. At present, he is Vice Chairman of SM Investments Corporation, Chairman and Chief Executive Officer of SM Development Corporation, Chairman of Highlands Prime Inc., Chairman of Pico de Loro Beach and Country Club Inc., and President of The National Grid Corporation of the Philippines. He holds a Bachelor's Degree in Management from De La Salle University.

Jose L. Cuisia, Jr.* has served as Vice Chairman and Independent Director of the Board of Directors of SM Prime since 1994. He was appointed Lead Independent Director of the Company in February 2017. From 2011 to 2016, he took his official diplomatic post as Ambassador Extraordinary and Plenipotentiary to the United States of America. He was the former President and Chief Executive Officer of the Philippine American Life and General Insurance Company from 1993 to 2009. Mr. Cuisia also served as Governor of the Bangko Sentral ng Pilipinas from 1990 to 1993, and as Administrator of the Social Security System from 1986 to 1990. He was also the former Chairman of the Board of Far East Bank and Trust Co. and Union Bank, and President of Insular Bank of Asia & America. He graduated with a Bachelor's Degree in Commerce, Major in Accounting and Bachelor of Arts, Major in Social Sciences from De La Salle University and took his Masters in Business Administration at the prestigious Wharton School of the University of Pennsylvania. Mr. Cuisia is a recipient of numerous awards and accolades. In February 2016, he was conferred the Order of the Sikatuna with the rank of Grand Cross by President Benigno S. Aquino III. Before returning to the Philippines, he was recognized with the 2016 Carlos P. Romulo award by the US-Philippines Society. In 2016, Mr. Cuisia was recognized as one of the Ten Outstanding Filipino (TOFIL) Awardee by the JCI Senate and ZAZ Foundation. In 2015, he was awarded the Lifetime Contributor Award by the Asia CEO Forum. In 2011, he received the "Joseph Wharton Award for Lifetime Achievement" by the prestigious Wharton Club of Washington, DC. He was recognized as the 2007 Management Man of the Year awardee of the Management Association of the Philippines; a Distinguished La Sallian Awardee and the Manuel L. Quezon Awardee for Exemplary Governance in 2006; the Asia Insurance Personality of the Year awardee in 2005; and the Raul Locsin CEO of the Year awardee in 2004. He was also cited as one of the Ten Most Outstanding Young Men of the Philippines in 1982.

Gregorio U. Kilayko* has served as an Independent Director of SM Prime since 2008. He is the former Chairman of ABN Amro's banking operations in the Philippines. He was the founding head of ING Baring's stockbrokerage and investment banking business in the Philippines and a Philippine Stock Exchange Governor in 1996 and 2000. He was a director of the Philippine Stock Exchange in 2003. He took his Masters in Business Administration at the Wharton School of the University of Pennsylvania.

Joselito H. Sibayan* has served as an Independent Director of the Company since 2011. He has spent the past 30 years of his career in investment banking. From 1987 to 1994, and after taking his Master of Business Administration from University of California in Los Angeles, he served as Head of International Fixed Income Sales at Deutsche Bank in New York and later moved to Natwest Markets to set up its International Fixed Income and Derivatives Sales/Trading operations. He then moved to London in 1995 to run Natwest Market's International Fixed Income Sales Team. He is currently the President and CEO of Mabuhay Capital Corporation (MC2), an independent financial advisory firm. Prior to forming MC2 in 2005, he was Vice Chairman, Investment Banking - Philippines and Country Manager for Credit Suisse First Boston (CSFB). He helped establish CSFB's Manila representative office in 1998, and later oversaw the transition of the office to branch status.

* *Independent director – The Independent Directors of the Company are Messrs.* ***Jose L. Cuisia, Jr., Gregorio U. Kilayko and Joselito H. Sibayan****. The Company has complied and will comply with the Guidelines set forth by Securities Regulation Code (SRC) Rule 38, as amended, regarding the Nomination and Election of Independent Directors. The Company's By-Laws incorporate the procedures for the nomination and election of independent director/s in accordance with the requirements of the said Rule.*

Jeffrey C. Lim was elected President of SM Prime on October 2016. He is a member of the Company's Executive Committee. He also serves as President of SM Development Corporation. He was elected to the Board of Directors of SM Prime in April 2016. He is also a Director of Pico de Loro Beach and Country Club Inc. and holds various board and executive positions in other SM Prime's subsidiaries. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from the University of the East. Prior to joining the Company in 1994, he worked for a multi-national company and for SGV & Co.

Hans T. Sy is the Chairman of the Executive Committee of SM Prime and has been a Director of the Company since 1994. He previously held the position of President of SM Prime until September 2016. He also held key positions in several companies engaged in banking, real estate development, mall operations, as well as leisure and entertainment. He is currently Adviser to the Board of SM Investments Corporation, Chairman of China Banking Corporation, and Chairman of National University. Mr. Sy holds a B.S. Mechanical Engineering degree from De La Salle University.

Herbert T. Sy has served as Director of SM Prime since 1994. He is an Adviser to the Board of SM Investments Corporation and is currently the Vice Chairman of Supervalue Inc., Super Shopping Market Inc. and Sanford Marketing Corporation, and Director of China Banking Corporation. He also sits in the Board of several companies within the SM Group. He has worked for more than 30 Years in companies within the SM Group engaged in food retailing, rubber manufacturing, car service and car accessories and banking. He is actively involved in the SM Group's Supermarket Operations, which include acquisition, evaluation and negotiation for potential sites. He holds a Bachelor's Degree in Management from De La Salle University.

Jorge T. Mendiola has served as a Director of the SM Prime since 2012. He is currently the President of SM Retail, Inc. He started his career with The SM Store as a Special Assistant to the Senior Branch Manager in 1989 and rose to become its President in 2011. He is also currently the Vice Chairman for Advocacy of the Philippine Retailers Association. He received his Masters in Business Management from the Asian Institute of Management. He holds an A.B. Economics degree from Ateneo de Manila University.

Teresita T. Sy has served as an Adviser to the Board since May 2008. She was a Director from 1994 up to April 2008. She has worked with the Group for over 20 years and has varied experiences in retail merchandising, mall development and banking businesses. A graduate of Assumption College, she was actively involved in ShoeMart's development. At present, she is Chairperson of BDO Unibank, Inc. and Vice Chairperson of SMIC. She also holds board positions in several companies within the SM Group. She is the Philippine representative to the ASEAN Business Advisory Council.

Elizabeth T. Sy was elected as an Adviser to the Board in April 2012. She serves as a member of the Executive Committee and Trust Committee of the Board of Directors of BDO Private Bank, Inc. She is also the Chairperson and President of SM Hotels and Conventions Corporation where she steers SM's continuous growth in the tourism, leisure and hospitality industry. Ms. Sy likewise serves as Adviser to the Board of SM Investments Corporation and Co-Chairperson of Pico De Loro Beach and Country Club. She graduated with a degree in Business Administration from Maryknoll College.

Members of the Board of Directors are given a standard per diem of P10,000 per Board meeting, except for the Chairman and Vice Chairman which are given P20,000 per Board meeting.

Elmer B. Serrano is the Corporate Secretary of the SMPH and of SMIC since November 2014. He is Senior Partner of the law firm of Martinez Vergara Gonzalez & Serrano and has been practicing law for over two decades. Atty. Serrano is currently the President of Landbridge Home Dev. & Realty Corp. and Chairman and President of Three Angels Holding Corporation. He is also the Corporate Information Officer of BDO Unibank, Inc and BDO Leasing and Finance, Inc. Atty. Serrano is also the Corporate Information Officer and Corporate Secretary of Premium Leisure Corp. and Crown Equities, Inc. He is a director and corporate secretary of the 2GO Group, Negros Navigation Company, Inc., DFNN Inc., and KGLI-NM Holdings, Inc. He is also the Corporate Secretary of BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Securities Corporation, Bankers Association of the Philippines, BAP Credit Bureau, Inc., Philippine Payments Management, Inc., Philippine Dealing System Holdings Corp., Philippine Dealing & Exchange Corp., Philippine Depository & Trust Corp., Philippine Securities Settlement Corp., Premium Leisure and Amusement, Inc., Enderun Colleges, Inc., ADF Enderun 101, Inc., BDO Life Assurance Company, Inc., MMPC Auto Financial Services Corporation, Foundation Capital Resources, Inc., Sinophil Leisure and Resorts Corporation, Healthcare Systems of Asia Philippines, Inc., e*HERMES, Inc., FortMED Medical Clinics Makati, Inc., and Parkfield Land Holdings, Inc. He was previously a director of OCLP Holdings, Inc. until November 2014. He is a graduate of the Ateneo Law School and Trust Institute of the Philippines, a Certified Associate Treasury Professional, and holds a degree of B.S. Legal Management from the Ateneo de Manila University.

Atty. Arthur A. Sy is the Assistant Corporate Secretary of SMPH. He is the Vice President for Corporate Legal Affairs of SMIC, where he also serves as the Assistant Corporate Secretary. He is likewise the currently appointed Assistant Corporate Secretary of Belle Corporation and Premium Leisure Corp. and the Corporate Secretary of various leading companies within the SM Group and the National University. A member of the New York Bar, Atty. Sy holds a Bachelor of Arts degree in Philosophy from the University of Santo Tomas and a Juris Doctor degree from the Ateneo de Manila University, School of Law.

Executive Officers

John Nai Peng C. Ong is the Chief Finance Officer, Compliance Officer and a member SMPH's Executive Committee. He holds various board and executive positions in other SMPH's subsidiaries. He is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from Ateneo de Zamboanga University. He received his Master in Management from the Asian Institute of Management. Prior to joining the Company in 2014, he was an assurance partner in SGV & Co.

Christopher S. Bautista is the Vice President for Internal Audit (Chief Audit Executive). Prior to joining the Company in 1998, he was the Chief Finance Officer of a large palm oil manufacturer based in Jakarta, Indonesia and was a partner (principal) for several years of an audit and management consulting firm based also in Jakarta. He started his professional career as staff auditor of SGV & Co.

Teresa Cecilia H. Reyes is the Vice President for Finance and the Chief Risk Officer. Prior to her joining the Company in June 2004 as a Senior Manager in the Finance Group, she was an Associate Director in the business audit and advisory group of SGV & Co. She graduated from De La Salle University with degrees in Bachelor of Science in Accountancy and Bachelor of Arts in Economics and placed 16th in the 1997 Certified Public Accountants board examinations.

Anna Maria S. Garcia is the Business Unit Head for Malls as President of Shopping Center Management Corp. (SCMC) since 2006. She is the Chairman of Mercantile Stores Group Inc., Chief Executive Officer of Henfels Investments Inc., Board of Director of the Gifts and Graces Fair Trade Foundation Inc. and a member of International Council of Shopping Centers and Philippine Retailers Association of the Philippines. She graduated from University of the Philippines with a degree of BS Foreign Service. Prior to joining SCMC in 1998, she worked as Assistant Vice-President for Department Store Operations, SM Inc.

Jose Mari H. Banzon is the Business Unit Head for Residential (Primary). He holds a Bachelor of Arts degree in Economics and a Bachelor of Science degree in Management of Financial Institutions from De La Salle University. Prior to joining SMDC in 2013, he was executive vice president and general manager of Federal Land, Inc. He had also worked in the corporate banking department of various financial institutions in the Philippines and Hong Kong.

Shirley C. Ong is the Business Unit Head for Residential (Leisure) since 2013. She was the Senior Vice President for Operations of Highlands Prime, Inc. from 2010 to 2013. She is also the Director of the Midlands Golf and Country Club. Before joining the Company, she was First Vice President for Business Development of Filinvest Alabang, Inc from 1995 to 2009. She brings with her over 26 years of experience, 21 years of which has been in various areas of real estate from city development, office/residential, high rise development, residential village development including finance, marketing, sales and property management. She graduated cum laude with a bachelor's degree in Arts, Major in Economics from the University of Sto. Tomas.

Russell T. Sy is the Business Unit Head for Commercial. He holds a Bachelor of Science degree in Management Engineering from Ateneo de Manila University. He received his MBA from International Institute for Management Development (IMD) in Lausanne, Switzerland. Prior to joining the Company in 2014, he was Chief Strategy Officer at TECOM Investments in Dubai, United Arab Emirates.

Ma. Luisa E. Angeles is the Business Unit Head for Hotels and Convention Centers. She is the Executive Vice President of SM Hotels and Conventions Corporation since 2014. She holds a Bachelor of Science degree in Hotel and Restaurant Administration from the University of the Philippines. She has 37 years of work expertise in the hotel management industry specifically in sales and marketing.

The Directors of the Company are elected at the Annual Stockholders' Meeting, to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified. The Directors possess all the qualifications and none of the disqualifications provided for in the SRC and its Implementing Rules and Regulations.

Procedure for Nomination of Directors:

- Any stockholder of record, including a minority stockholder, entitled to notice of and to vote at the regular or special meeting of the stockholders for the election of directors may be nominated for election to the Board of Directors of SMPH.

- The Corporate Governance Committee passes upon , and deliberates on, the qualifications of all persons nominated to be elected to the Board of Directors of SMPH, and pre-screens nominees from the pool of candidates submitted by the nominating stockholders in accordance with the Company's By-Laws and Manual of Corporate Governance. The Corporate Governance Committee shall prepare a Final List of Candidates containing information of the listed nominees, from the candidates who have passed the Guidelines, Screening Policies and Parameters for the nomination of directors. Only nominees qualified by the Corporate Governance Committee and whose names appear on the Final List of Candidates shall be eligible for election as director of the Company. No other nomination shall be entertained after the Final List of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

- In case of resignation, disqualification or cessation of independent directorship, the vacancy shall be filled by the vote of at least a majority of the remaining directors, provided, the Board of Directors still constituting a quorum and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation of independent directorship, upon the nomination of the Corporate Governance Committee; otherwise, the vacancy shall be filled by stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his or her predecessor in office.

All new directors undergo an orientation program soon after date of election. This is intended to familiarize the new directors on their statutory/fiduciary roles and responsibilities in the Board and its Committees, SMPH's strategic plans, enterprise risks, group structures, business activities, compliance programs, Code of Business Conduct and Ethics, Insider Trading Policy and Corporate Governance Manual.

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

Aside from the Directors and Executive Officers enumerated above, there are no other employees expected to hold significant executive/officer position in the Company.

All directors shall exercise due discretion in accepting and holding directorships outside of the Company. All directors shall notify the Board where he/she is an incumbent before accepting a directorship in another company. The following are directorships held by Directors and Executive Officers in other reporting companies at least, in the last five years:

Henry Sy, Sr.

Name of Corporation	***Position***
SM Investments Corporation.	Chairman Emeritus
China Banking Corporation.	Honorary Chairman
BDO Unibank, Inc...	Chairman Emeritus

Henry T. Sy, Jr.

Name of Corporation	***Position***
SM Investments Corporation	Vice Chairman

Jose L. Cuisia, Jr.

Name of Corporation	***Position***
PHINMA Corporation...	Regular Director
Manila Water Company, Inc…………………………	Independent Director
Century Properties Group, Inc...	Independent Director

Gregorio U. Kilayko

Name of Corporation	***Position***
Belle Corporation...	Independent Director

Joselito H. Sibayan

Name of Corporation	***Position***
Apex Mining Corporation.	Independent Director
A Brown Company, Inc	Regular Director

Hans T. Sy

Name of Corporation	***Position***
China Banking Corporation	Chairman
SM Investments Corporation.	Adviser to the Board

Herbert T. Sy

Name of Corporation	***Position***

China Banking Corporation	Director
SM Investments Corporation	Adviser to the Board

Teresita T. Sy

Name of Corporation	***Position***
BDO Unibank, Inc.	Chairperson
SM Investments Corporation.	Vice Chairperson

Elizabeth T. Sy

Name of Corporation	***Position***
SM Investments Corporation...	Adviser to the Board

Elmer B. Serrano

Name of Corporation	***Position***
2Go Group, Inc..	Director
DFNN, Inc..	Director

The members of the Audit Committee are:

JOSE L. CUISIA, JR.	-	Chairman (Independent Director)
JOSELITO H. SIBAYAN	-	Member (Independent Director)
JORGE T. MENDIOLA	-	Member

The members of the Corporate Governance Committee are:

JOSELITO H. SIBAYAN	-	Chairman (Independent Director)
GREGORIO U. KILAYKO	-	Member (Independent Director)
JOSE L. CUISIA, JR.	-	Member (Independent Director)

The members of the Risk Oversight Committee are:

GREGORIO U. KILAYKO	-	Chairman (Independent Director)
JOSE L. CUISIA, JR.	-	Member (Independent Director)
JORGE T. MENDIOLA	-	Member

The members of the Related Party Transactions Committee are:

JOSELITO H. SIBAYAN	-	Chairman (Independent Director)
GREGORIO U. KILAYKO	-	Member (Independent Director)
JORGE T. MENDIOLA	-	Member

The members of the Executive Committee are:

HANS T. SY	-	Chairman
HENRY T. SY, JR.	-	Member
HERBERT T. SY	-	Member
ELIZABETH T. SY	-	Member
JEFFREY C. LIM	-	Member
JOHN NAI PENG C. ONG	-	Member

Jose L. Cuisia, Jr. is the Company's Lead Independent Director.

The Corporate Governance Committee, with the confirmation by the Board, qualified the following for election as members of Board of Directors for 2018-2019 at the forthcoming Annual Stockholders' Meeting:

Henry T. Sy, Jr.	-	Chairman
Jose L. Cuisia, Jr.	-	Vice-Chairman (Lead Independent Director)
Gregorio U. Kilayko	-	Independent Director
Joselito H. Sibayan	-	Independent Director
Hans T. Sy	-	Director
Herbert T. Sy	-	Director
Jorge T. Mendiola	-	Director
Jeffrey C. Lim	-	Director

Ms. Gizelle C. Mendoza nominated to the Board for inclusion in the Final List of Candidates for Independent Directors the following stockholders:

Jose L. Cuisia, Jr.
Gregorio U. Kilayko
Joselito H. Sibayan

Ms. Gizelle C. Mendoza is not related to Jose L. Cuisia, Jr., Gregorio U. Kilayko and Joselito H. Sibayan.

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

The following will be nominated as officers of the Company for 2018-2019 at the organizational meeting of the Board of Directors:

Henry T. Sy, Jr.	Chairman
Jose L. Cuisia, Jr.	Vice Chairman and Lead Independent Director
Elmer B. Serrano	Corporate Secretary/Alternate Compliance Officer
Arthur A. Sy	Assistant Corporate Secretary/Alternate Corporate Information Officer
Jeffrey C. Lim	President
John Nai Peng C. Ong	Chief Finance Officer/Compliance Officer/Corporate Information Officer
Marvin Perrin L. Pe	Chief Risk Officer
Teresa Cecilia H. Reyes	Alternate Corporate Information Officer/Alternate Compliance Officer
Christopher S. Bautista	Vice President – Internal Audit
Anna Maria S. Garcia	President, Malls
Steven T. Tan	EVP and Chief Operating Officer, Malls
Jose Mari H. Banzon	EVP, Residential (Primary)
Shirley C. Ong	EVP, Residential (Leisure)
Russel T. Sy	VP, Commercial
Ma. Luisa E. Angeles	EVP, Hotels and Convention Centers

Family Relationships

Mr. Henry Sy, Sr. is the father of Teresita T. Sy, Elizabeth T. Sy, Henry T. Sy, Jr., Hans T. Sy, Herbert T. Sy and Harley T. Sy. All other directors and officers are not related either by consanguinity or affinity.

Involvement in Legal Proceedings

The Company is not aware of any of the following events having occurred during the past five (5) years up to the date of this report that are material to an evaluation of the ability or integrity of any director or any member of senior management of the Company:

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

ITEM 6. Compensation of Directors and Executive Officers

Aside from regular standard per diems, all directors do not receive regular annual salaries from the Company. The following are the most highly compensated executive officers:

Name and Position
Jeffrey C. Lim President
John Nai Peng C. Ong Chief Finance Officer
Anna Maria S. Garcia Head, Malls
Jose Mari H. Banzon Head, Residential (Primary)
Shirley C. Ong Head, Residential (Leisure)

Summary Compensation Table

	Year	Salary	Bonus
President & 4 Most	2018 (estimate)	₱123,000,000	₱21,000,000
Highly Compensated	2017 (actual)	112,000,000	19,000,000
Executive Officers	2016 (actual)	101,000,000	17,000,000

All other officers* as a group unnamed	2018 (estimate)	₱345,000,000	₱57,000,000
	2017 (actual)	314,000,000	52,000,000
	2016 (actual)	286,000,000	48,000,000

**Managers & up*

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

Certain Relationships and Related Transactions

The Company, in the regular course of trade or business, enters into transactions with affiliates/ related companies principally consisting of leasing agreements, management fees and cash placements. Generally, leasing and management agreements are renewed on an annual basis and are made at normal market prices. In addition, the Company also has outstanding borrowings/ placements from/ to related banks. Outstanding balances at year-end are unsecured, noninterest-bearing and generally settled within 30 to 90 days. There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the year ended December 31, 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

There are no other transactions undertaken or to be undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or will be involved or had or will have a direct or indirect material interest.

Please refer to Note 21 of the attached 2017 consolidated financial statements of the Company.

ITEM 7. Independent Public Accountants

SGV & Co. is the external auditor for the current year, and is being recommended by the Audit Committee and the Board of Directors for re-appointment as the Company's external auditor for 2018, for approval by the stockholders at the scheduled Annual Stockholders' Meeting. Representatives of SGV & Co. are expected to be present at the stockholders' meeting, where they are given the opportunity to make a statement should they desire to do so, and to respond to questions from stockholders.

Pursuant to the Charter of the Audit Committee, the Audit Committee recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. Also part of the Committee's duties and responsibilities is to ensure that there is an . Prior to commencement of audit, the Committee is mandated to discuss with the external auditor the nature, scope and approach, of the audit including coordination of audit effort with internal audit. The Manual on Corporate Governance also provides that the Committee shall pre-approve all audit plans, scope and frequency one month before the conduct of external audit.

The Committee also evaluates the performance of the external auditor and recommends to the Board the appointment, re-appointment or removal of the external auditor. The Committee further reviews the independence of the external auditor and meets with the latter separately to discuss any matters that either party believes should be discussed privately.

Pursuant to SRC Rule 68, Paragraph 3(b) (iv) and (ix) (Rotation of External Auditors) which states that the signing partner shall be rotated after every five (5) years of engagement with a two-year cooling off period for the re-engagement of the same signing partner, the Company engaged Ms. Belinda T. Beng Hui of SGV & Co. starting year 2011 and Mr. Sherwin V. Yason of SGV & Co. starting year 2016.

The Company and its subsidiaries paid SGV & Co. ₱9.0 million for external audit services for the years 2017 and 2016. In 2017, SGV & Co. did cut off procedures for the issuance of Comfort Letter related to the proposed issuance of the fixed rate Series G Bonds due 2024, which is the second tranche issuance under the ₱60 billion fixed rate bonds shelf registration by the Company. In 2016, SGV & Co. did the review of the Interim Condensed Consolidated Financial Statements as at March 31, 2016 and for the three-month periods ended March 31, 2016 and 2015. There were no other significant professional services rendered by SGV & Co. during the period. Tax consultancy services are secured from entities other than the external auditor.

ITEM 8. Employee Compensation Plans

There are no existing or planned stock options granted to the Company's employees. No action is to be taken at the Annual Stockholders' Meeting with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

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

ITEM 10. Modification or Exchange of Securities

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

ITEM 11. Financial and Other Information

The Company's consolidated financial statements for the years ended December 31, 2017, 2016 and 2015 are attached as Annex B incorporated herein by reference.

Brief Description of the General Nature and Scope of the Registrant's Business and Its Subsidiaries

SMPH was incorporated under Philippine laws on January 6, 1994.

SMPH consolidates all of the SM Group's real estate subsidiaries and real estate assets under one single listed entity, SMPH and its subsidiaries ("**SM Prime**"). SM Prime has four business units, namely, malls, residential, commercial and hotels and convention centers.

Its registered office and principal place of business is 10th Floor, Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300.

The subsidiaries of the Company are as follows:

Company	Country of Incorporation	Percentage of Ownership 2017	2016
Malls			
First Asia Realty Development Corporation (FARDC)	Philippines	**74.2**	74.2
Premier Central, Inc.	- do -	**100.0**	100.0
Consolidated Prime Dev. Corp.	- do -	**100.0**	100.0
Premier Southern Corp. (PSC)	- do -	**100.0**	100.0
San Lazaro Holdings Corporation	- do -	**100.0**	100.0
Southernpoint Properties Corp.	- do -	**100.0**	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.0**	50.0
CHAS Realty and Development Corporation and Subsidiaries	- do -	**100.0**	100.0
Affluent Capital Enterprises Limited and Subsidiaries	British Virgin Islands (BVI)	**100.0**	100.0
Mega Make Enterprises Limited and Subsidiaries	- do -	**100.0**	100.0
Springfield Global Enterprises Limited	- do -	**100.0**	100.0
Simply Prestige Limited and Subsidiaries	- do -	**100.0**	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	**100.0**	100.0
Rushmore Holdings, Inc.**	Philippines	**100.0**	100.0
Prime_Commercial Property Management Corporation and Subsidiaries (PCPMC)*	- do -	**100.0**	100.0
Magenta Legacy, Inc.	- do -	**100.0**	100.0
Associated Development Corporation	- do -	**100.0**	100.0
Prime Metroestate, Inc. and Subsidiary	- do -	**60.0**	60.0
SM Arena Complex Corporation	- do -	**100.0**	100.0
Mindpro Incorporated (Mindpro)	- do -	**70.0**	70.0
A. Canicosa Holdings, Inc.**	- do -	**100.0**	70.0
AD Canicosa Properties, Inc.**	- do -	**100.0**	70.0
Cherry Realty Development Corporation***	- do -	**65.0**	–
Residential			
SM Development Corporation and Subsidiaries (SMDC)	- do -	**100.0**	100.0
Highlands Prime Inc. (HPI)	- do -	**100.0**	100.0
Costa del Hamilo, Inc. and Subsidiary (Costa)	- do -	**100.0**	100.0
Commercial			
Tagaytay Resort Development Corporation	- do -	**100.0**	100.0
MOA Esplanade Port, Inc.	- do -	**100.0**	100.0
Hotels and Convention Centers			
SM Hotels and Conventions Corp. and Subsidiaries	- do -	**100.0**	100.0

**Acquired in 2016 which was accounted for as common control business combination using pooling of interest method (see Note 5).*
***Acquired in 2016 which were accounted for as acquisition of assets - single-asset entity (see Note 14).*
****Acquired in 2017 which was accounted for as acquisition of assets - single-asset entity (see Note 14)*

Malls

SM Prime's mall business unit operates and maintains modern commercial shopping malls and is involved in all related businesses, such as the operation and maintenance of shopping spaces for rent, amusement centers and cinema theaters. Its main sources of revenues include rental income from leases in mall and food court, cinema ticket sales and amusement income from bowling and ice skating. The mall business unit has sixty-seven shopping malls in the Philippines with 8.0 million square meters of gross floor area and seven shopping malls in China with 1.3 million square meters of gross floor area.

In 2017, SM Prime's mall business unit opened seven malls in the Philippines namely, SM City Cagayan de Oro Downtown Premier, S Maison, SM Cherry Antipolo, SM City Puerto Princesa in Palawan, SM Tuguegarao Downtown in Cagayan, SM Center Pulilan in Bulacan and SM Center Lemery in Batangas. The new malls added 377,763 sq. m. to the mall business unit's total gross floor area. For 2018, SM Prime is slated to open six new malls in the Philippines. By the end of 2018, the malls business unit will have seventy-three malls in the Philippines and seven malls in China with an estimated combined gross floor area of 9.7 million square meters.

Residential

SM Prime's revenue from residential operations is derived largely from the sale of condominium units. As of December 31, 2017, residential business unit has thirty-eight residential projects in the market, thirty-one of which are in Metro Manila and seven are outside Metro Manila. For 2018, SM Prime is scheduled to launch 12,000 to 15,000 residential units that includes high-rise, mid-rise and single detached housing. These projects will be located in Metro Manila and other key cities in the provinces.

SM Prime also owns leisure and resort developments including properties located within the vicinity of Tagaytay Highlands and Tagaytay Midlands golf clubs in Laguna, Tagaytay City and Batangas.

In addition, SM Prime is the developer of Pico de Loro Cove, the first residential community within Hamilo Coast, a master planned coastal resort township development in Nasugbu, Batangas, encompassing 13 coves and 31 kilometers of coastline.

Commercial

SM Prime's commercial business unit is engaged in the development and leasing of office buildings in prime locations in Metro Manila, as well as the operations and management of such buildings and other land holdings.

As of December 31, 2017, SM Prime's commercial business unit has seven office buildings with a combined gross floor area of 456,000 square meters. Three E-Com and Four E-Com Centers are currently under construction with an estimated gross floor area of 320,000 square meters and scheduled for completion by 2Q 2018 and 2020, respectively.

Hotels and Convention Centers

SM Prime's hotels and convention centers business unit develops and manages the various hotel and convention center properties of the Company. As of December 31, 2017, the hotels and convention centers business unit is composed of six hotels located in Tagaytay City, Batangas, Pampanga, Cebu City, Davao City and Pasay City with over 1,500 saleable rooms; four convention centers located in MOA Complex, SM Lanang Premier, SM Aura Premier and SM City Bacolod, and three trade halls located in SM Megamall, SM City Cebu and SM Seaside City Cebu with a total leasable space of 37,480 sq. m.

Management's Discussion and Analysis or Plan of Operation

2017

SM Prime's Net Income up 16% in 2017 to P27.6 billion

Financial and Operational Highlights
(In Million Pesos, except for financial ratios and percentages)

	Twelve months ended Dec 31				
	2017	**% to Revenues**	**2016**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	90,922	100%	79,816	100%	14%
Costs and expenses	50,293	55%	44,551	56%	13%
Operating Income	40,629	45%	35,265	44%	15%
Net Income	27,574	30%	23,806	30%	16%
EBITDA	49,037	54%	42,517	53%	15%

	Dec 31 2017	**% to Total Assets**	**Dec 31 2016**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	538,615	100%	465,560	100%	16%
Investment Properties	273,084	51%	251,499	54%	9%
Total Debt	193,598	36%	164,378	35%	18%
Net Debt	148,495	28%	138,258	30%	7%
Total Equity	258,957	48%	231,481	50%	12%

	Dec 31	
Financial Ratios	**2017**	**2016**
Debt to Equity	0.43 : 0.57	0.42 : 0.58
Net Debt to Equity	0.36 : 0.64	0.37 : 0.63
Return on Equity	0.11	0.11
Debt to EBITDA	3.95	3.87
Interest Coverage Ratio	8.96	9.64
Operating Income to Revenues	0.45	0.44
EBITDA Margin	0.54	0.53
Net Income to Revenues	0.30	0.30

Revenue

SM Prime recorded consolidated revenues of ₱90.92 billion in the year ended 2017, an increase of 14% from ₱79.82 billion in the year ended 2016, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱51.41 billion in 2017, an increase of 13% from ₱45.69 billion in 2016. The increase in rental revenue was primarily due to the new malls and expansions opened in 2016 and 2017, namely, SM City San Jose Del Monte, SM City Trece Martires, SM City East Ortigas, SM CDO Downtown Premier, S Maison at the Conrad Manila, SM City Puerto Princesa, SM Center Tuguegarao Downtown, SM City San Pablo Expansion, SM City Sucat Expansion and SM Center Molino Expansion with a total gross floor area of 0.63 million square meters. Out of the total rental revenues, 88% is contributed by the malls and the rest from office and hotels and convention centers. Excluding the new malls and expansions, same-store rental growth is at 7%. Room rentals from hotels and convention centers likewise increased due to the opening of Conrad Manila in June 2016 and the improvement in average room rates and occupancy rates of the hotels and convention centers as a result of ASEAN-related events held throughout 2017.

Real Estate Sales

SM Prime recorded an 18% increase in real estate sales in 2017 from ₱25.00 billion to ₱29.43 billion primarily due to higher construction accomplishments of projects launched in 2013 up to 2016 namely Shore, Shore 2, Air, Fame, S Residences and Silk Residences in China and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects due to strong demand fueled by OFW remittances, sustained growth of the BPO sector, government spending and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized in the books based on percentage of completion.

Cinema and Event Ticket Sales

SM Prime cinema and event ticket sales increased to ₱4.77 billion in 2017 from ₱4.67 billion in 2016 due to decrease in both local and international blockbuster movies shown in 2017 compared to 2016. The major blockbusters screened in 2017 were "Beauty and the Beast", "Justice League", "Wonder Woman", "Thor: Ragnarok" and "The Revenger Squad" accounting for 23% of gross ticket sales.

Other Revenues

Other revenues increased by 19% to ₱5.31 billion in 2017 from ₱4.46 billion in 2016. The increase was mainly due to opening of new amusement attractions as a result of new malls and expansions and increase in hotels' food and beverages income due to the opening of Conrad Manila. This account includes amusement income from rides, bowling and ice skating operations, merchandise sales from snackbars and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱50.29 billion for the year ended 2017, an increase of 13% from ₱44.55 billion in 2016, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate increased by 16% to ₱15.15 billion in 2017 from ₱13.12 billion in 2016 primarily due to costs related to higher recognized real estate sales offset by result of improving cost efficiencies, tighter monitoring and control of construction costs hence, leading to improved gross profit margin on real estate sales from 48% in 2016 to 49% in 2017.

Operating Expenses

SM Prime's consolidated operating expenses increased by 12% to ₱35.14 billion in 2017 compared to last year's ₱31.43 billion. Out of the total operating expenses, 71% is contributed by the malls where same-store mall growth in operating expenses is 3%. Operating expenses include depreciation and amortization, taxes and licenses, marketing and selling expenses, utilities and manpower including agency costs in line with related increase in revenues from same-store as well as the opening of new malls and expansions.

Other Income (Charges)

Interest Expense

SM Prime's consolidated interest expense increased by 24% to ₱5.47 billion in 2017 compared to ₱4.41 billion in 2016 due to the ₱10.0 billion retail bond issued in July 2016, ₱20.0 billion retail bond issued in May 2017 and new bank loans availed for working capital and capital expenditure requirements, net of the capitalized interest on proceeds spent for construction and development of investment properties.

Interest and Dividend Income

Interest and dividend income increased by 9% to ₱1.21 billion in 2017 from ₱1.11 billion in 2016. This account is mainly composed of interest and dividend income received from cash and cash equivalents, investments held for trading and AFS investments. The increase in interest income is due to higher average balance of cash and cash equivalents in 2017 as compared to last year. The increase in dividend income is due to higher dividends received in 2017 on available-for-sale investments compared to last year.

Other income (charges) - net

Other charges – net decreased by 57% to ₱0.42 billion in 2017 from ₱0.98 billion in 2016 due to increase in equity in net earnings of associates and joint ventures and others.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 18% to ₱7.82 billion in 2017 from ₱6.62 billion in 2016.

Net income

SM Prime's consolidated net income in the year ended December 31, 2017 increased by 16% to ₱27.57 billion as compared to ₱23.81 billion in 2016.

Balance Sheet Accounts

SM Prime's total assets amounted to ₱538.42 billion as of December 31, 2017, an increase of 16% from ₱465.56 billion as of December 31, 2016.

Cash and cash equivalents increased by 76% from ₱25.20 billion to ₱44.37 billion as of December 31, 2016 and 2017, respectively. This account includes the remaining proceeds from debt drawn in 2017.

Investments held for trading decreased by 20% from ₱919 million to ₱731 million as of December 31, 2016 and 2017, respectively, mainly due to scheduled maturities of investments in Philippine government and corporate bonds.

Receivables increased by 4% from ₱32.83 billion to ₱34.28 billion as of December 31, 2016 and 2017, respectively, due to increase in rental receivables from new malls and expansions and increase in sales of residential projects.

Condominium and residential units for sale increased by 12% from ₱7.79 billion to ₱8.73 billion as of December 31, 2016 and 2017, respectively, mainly due to completion of condominium towers in Trees, Breeze, Cool and Grace Residences.

Land and development increased by 33% from ₱44.12 billion to ₱58.67 billion as of December 31, 2016 and 2017, respectively, due to landbanking and construction accomplishments for the period, net of cost of sold units and transfers of RFO units to condominium and residential units for sale.

Prepaid expenses and other current assets increased by 20% from ₱11.90 billion to ₱14.30 billion as of December 31, 2016 and 2017, respectively, due to deposits and advances to contractors related to construction projects and increase in input and creditable withholding taxes.

Investments in associates and joint ventures increased by 8% from ₱22.83 billion to ₱24.57 billion as of December 31, 2016 and 2017, respectively, due to increase in equity in net earnings of associates and joint ventures.

AFS investments increased by 47% from ₱21.21 billion to ₱31.11 billion as of December 31, 2016 and 2017, respectively, due to additional investments and changes in fair values under this portfolio.

Investment properties increased by 9% from ₱251.50 billion to ₱273.08 billion as of December 31, 2016 and 2017, respectively, primarily due to ongoing new mall projects located in Pangasinan, Pampanga, Zambales and Albay and the ongoing redevelopment of SM Mall of Asia. Also, the increase is attributable to landbanking and construction costs incurred for ongoing projects, including the Commercial group's Three E-Com and Four E-Com buildings.

The changes in the derivative assets and derivative liabilities mainly resulted from the net fair value changes on the principal only swap transaction and cross currency swap transaction entered into in 2017 and 2016.

Other noncurrent assets, which includes the noncurrent portion of receivable from sale of real estate, increased by 8% from ₱39.40 billion to ₱42.42 billion as of December 31, 2016 and 2017, due to construction accomplishments of sold units as well as new sales for the period.

Loans payable decreased by 11% from ₱0.84 billion to ₱0.74 billion as of December 31, 2016 and 2017, respectively, due to payment of maturing loans.

Accounts payable and other current liabilities increased by 27% from ₱40.32 billion to ₱51.08 billion as of December 31, 2016 and 2017, respectively, mainly due to payables to contractors and suppliers related to ongoing projects and customers' deposits from residential buyers.

Long-term debt increased by 18% from ₱163.54 billion to ₱192.85 billion as of December 31, 2016 and 2017, respectively, mainly due to issuance of ₱20.00 billion bonds in May 2017 to fund capital expenditures requirements.

Tenants' and customers' deposits increased by 11% from ₱14.81 billion to ₱16.38 billion as of December 31, 2016 and 2017, respectively, mainly due to the new malls and expansions.

Liability for purchased land increased by 79% from ₱1.21 billion to ₱2.17 billion as of December 31, 2016 and 2017, respectively, due to landbanking. Deferred tax liabilities increased by 13% from ₱2.55 billion to ₱2.88 billion as of December 31, 2016 and 2017, respectively, mainly due to unrealized gross profit on sale of real estate for tax purposes.

Other noncurrent liabilities increased by 31% from ₱5.82 billion to ₱7.62 billion as of December 31, 2016 and 2017, respectively, due to increase in retention payable and output VAT on residential sales.

The Company's key performance indicators are measured in terms of the following: (1) debt to equity which measures the ratio of interest bearing liabilities to equity; (2) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment held for trading to equity; (3) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (4) earnings before interest expense, income taxes, depreciation and amortization (EBITDA); (5) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (6) interest coverage ratio which measures the ratio of EBITDA to interest expense; (7) operating income to revenues which basically measures the gross profit ratio; (8) EBITDA margin which measures the ratio of EBITDA to gross revenues and (9) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key financial indicators of the Company.

Interest-bearing debt to equity slightly increased to 0.43:0.57 as of December 31, 2017 from 0.42:0.58 as of December 31, 2016 due to additional borrowings while net interest-bearing debt to equity slightly decreased to 0.36:0.64 as of December 31, 2017 from 0.37:0.63 as of December 31, 2016.

ROE remains steady at 11% as of December 31, 2017 and 2016.

Debt to EBITDA increased to 3.95:1 as of December 31, 2017 from 3.87:1 as of December 31, 2016 due to issuance of bonds in May 2017. Interest coverage ratio decreased to 8.96:1 as of December 31, 2017 from 9.64:1 as of December 31, 2016 as a result of increase in interest expense from additional borrowings. EBITDA margin slightly improved to 54% as of December 31, 2017 from 53% as of December 31, 2016.

Consolidated operating income to revenues improved to 45% as of December 31, 2017 from 44% as of December 31, 2016. Consolidated net income to revenues remains steady at 30% as of December 31, 2017 and 2016.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of balance sheet date.

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

As at December 31, 2017 and 2016, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to P42,200 million. This represents a continuing appropriation for land banking activities and planned construction projects. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company.

For the year 2018, the Company expects to incur capital expenditures of approximately ₱60 billion. This will be funded with internally generated funds and external borrowings.

SM Prime's malls business unit has sixty-seven shopping malls in the Philippines with 8.0 million square meters of gross floor area and seven shopping malls in China with 1.3 million square meters of gross floor area. For 2018, SM Prime is slated to open six new malls in the Philippines. By the end of 2018, the malls business unit will have seventy-three malls in the Philippines and seven malls in China with an estimated combined gross floor area of 9.7 million square meters.

SM Prime currently has thirty-eight residential projects in the market, thirty-one of which are in Metro Manila and seven are outside Metro Manila. For 2018, SM Prime is scheduled to launch 12,000 to 15,000 residential units that includes high-rise, mid-rise and single detached housing. These projects will be located in Metro Manila and other key cities in the provinces.

SM Prime's Commercial Properties Group has seven office buildings with a combined gross floor area of 456,000 square meters. Three E-Com and Four E-Com Centers are currently under construction with an estimated gross floor area of 320,000 square meters and scheduled for completion by 2Q 2018 and 2020, respectively.

SM Prime's hotels and convention centers business unit currently has a portfolio of six hotels with over 1,500 rooms, four convention centers and three trade halls.

2016

SM Prime's Recurring Net Income up by 14% in 2016 to P23.8 billion from P20.9 billion

Financial and Operational Highlights
(In Million Pesos, except for financial ratios and percentages)

	Twelve months ended Dec 31				
	2016	**% to Revenues**	**2015**	**% to Revenues**	**% Change**
Profit & Loss Data					
Revenues	79,816	100%	71,511	100%	12%
Costs and expenses	44,551	56%	40,072	56%	11%
Operating Income	35,265	44%	31,439	44%	12%
Net Income	23,806	30%	20,892	29%	14%
EBITDA	42,517	53%	37,815	53%	12%

	Dec 31 2016	**% to Total Assets**	**Dec 31 2015**	**% to Total Assets**	**% Change**
Balance Sheet Data					
Total Assets	465,560	100%	434,966	100%	7%
Investment Properties	251,499	54%	230,340	53%	9%
Total Debt	164,378	35%	155,668	36%	6%
Net Debt	138,258	30%	128,955	30%	7%
Total Equity	231,481	50%	212,489	49%	9%

	Dec 31	
Financial Ratios	**2016**	**2015**
Debt to Equity	0.42 : 0.58	0.42 : 0.58
Net Debt to Equity	0.37 : 0.63	0.38 : 0.62
Return on Equity	0.11	0.10
Debt to EBITDA	3.87	4.12
Interest Coverage Ratio	9.64	11.19
Operating Income to Revenues	0.44	0.44
EBITDA Margin	0.53	0.53
Net Income to Revenues*	0.30	0.29

** Above financial data reflects core operating income and excludes one-time trading gain on sale of marketable securities amounting to P7.41 billion in 2015.*

Revenue

SM Prime recorded consolidated revenues of ₱79.82 billion in the year ended 2016, an increase of 12% from ₱71.51 billion in the year ended 2015, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱45.69 billion in 2016, an increase of 12% from ₱40.74 billion in 2015. The increase in rental revenue was primarily due to the new malls and expansions opened in 2015 and 2016, namely, SM Seaside City Cebu, SM City Cabanatuan, SM City San Mateo, SM Center Sangandaan, SM San Jose Del Monte, SM Trece Martires, SM City Iloilo Expansion, S Maison in SM Mall of Asia and SM Center Molino Expansion with a total gross floor area of 1 million square meters. In addition, retail podiums of Light, Shine, Shell and Green Residences also opened in 2015 and 2016. Out of the total rental revenues, 90% is contributed by the malls and the rest from office and hotels and convention centers. Excluding the new malls and expansions, same-store rental growth is at 7%. Rent from commercial operations also increased due to the opening of Five E-Com Center, and the expansion of SM Clark office tower in 2015. Room rentals from hotels and convention centers contributed to the increase due to the opening of Park Inn Clark in December 2015 and Conrad Manila in June 2016 and the improvement in average room rates and occupancy rates.

Real Estate Sales

SM Prime recorded a 13% increase in real estate sales in 2016 from ₱22.19 billion to ₱25.00 billion primarily due to higher construction accomplishments of projects launched in 2013 up to 2015 namely Shore 2, Grass, Air and South Residences and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects namely Princeton, Jazz, M Place and Mezza II Residences due to sales promotions. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized in the books based on percentage of completion.

Cinema and Event Ticket Sales

SM Prime cinema and event ticket sales slightly decreased to ₱4.67 billion in 2016 from ₱4.80 billion in 2015 due to fewer local blockbuster movies shown in 2016 compared to 2015. The major blockbusters screened in 2016 were “Captain America: Civil War”, “The Super Parental Guardians”, “Batman vs. Superman: Dawn of Justice”, “X-Men: Apocalypse” and “Suicide Squad“ accounting for 23% of gross ticket sales. The major blockbusters shown in 2015 were “Avengers: Age of Ultron”, “Jurassic World”, ”A Second Chance“, “Fast & Furious 7”, and “Star Wars: The Force Awakens” accounting for 23% of gross ticket sales.

Other Revenues

Other revenues increased by 18% to ₱4.46 billion in 2016 from ₱3.79 billion in 2015. The increase was mainly due to opening of new amusement centers as a result of new malls and expansions, increase in merchandise sales and hotels’ food and beverages income due to opening of Park Inn Clark and Conrad Manila. This account is mainly composed of amusement income from rides, bowling and ice skating operations, merchandise sales from snackbars and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱44.55 billion for the year ended 2016, an increase of 11% from ₱40.07 billion in 2015, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate increased by 9% to ₱13.12 billion in 2016 from ₱12.04 billion in 2015 primarily due to costs related to higher recognized real estate sales. Gross profit margin for residential improved to 48% in 2016 compared to 46% in 2015 as a result of improving cost efficiencies, tighter monitoring and control of construction costs.

Operating Expenses

SM Prime's consolidated operating expenses increased by 12% to ₱31.43 billion in 2016 compared to last year's ₱28.03 billion. Out of the total operating expenses, 73% is contributed by the malls where same-store mall growth in operating expenses is 1%. Contributors to the increase are administrative expenses, depreciation and amortization, taxes and licenses and marketing and selling expenses, in line with related increase in revenues from same-store as well as the opening of new malls and expansions.

Other Income (Charges)

Gain on Sale of Available-for-Sale (AFS) Investments

In 2015, SM Prime recorded a ₱7.41 billion realized gain on sale of AFS investments.

Interest Expense

SM Prime's consolidated interest expense increased by 30% to ₱4.41 billion in 2016 compared to ₱3.38 billion in 2015 due to the ₱20.0 billion retail bond issued in November 2015, ₱10.0 billion retail bond issued in July 2016 and new bank loans availed for working capital and capital expenditure requirements net of the capitalized interest on proceeds spent for construction of investment properties.

Interest and Dividend Income

Interest and dividend income decreased by 5% to ₱1.11 billion in 2016 from ₱1.17 billion in 2015. This account is mainly composed of dividend and interest income received from cash and cash equivalents, investments held for trading and AFS investments. The increase in interest income is due to higher average balance of cash and cash equivalents in 2016 as compared to last year which was offset by the decrease in dividend income due to less dividends received on available-for-sale investments held compared to last year.

Other income (charges) - net

Other charges – net decreased by 43% to ₱0.98 billion in 2016 from ₱1.73 billion in 2015 due to increase in unrealized mark-to-market gain on investments held for trading, income from forfeitures of residential units and other incidental income.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 10% to ₱6.62 billion in 2016 from ₱6.02 billion in 2015 due to the related increase in taxable income.

Net income

SM Prime's consolidated net income in the year ended December 31, 2016 increased by 14% to ₱23.81 billion in 2016 as compared to ₱20.89 billion in 2015 as a result of the foregoing and excluding one-time gain on sale of AFS in 2015.

Balance Sheet Accounts

Cash and cash equivalents decreased by 3% from ₱25.87 billion to ₱25.20 billion as of December 31, 2015 and 2016, respectively, mainly due to payments for capital expenditure projects during the period, net of proceeds from the retail bond issuance and loans drawn in 2016.

Investments held for trading increased by 9% from ₱843 million to ₱919 million as of December 31, 2015 and 2016, respectively, mainly due to increase in market prices of the listed shares.

Receivables slightly increased from ₱32.49 billion to ₱32.83 billion as of December 31, 2015 and 2016, respectively, mainly due to increase in rental receivables due to new malls and expansions in 2016 and increase in sales of residential projects. Out of the total receivables, 73% pertains to sale of real estate and 22% from leases of shopping mall and commercial spaces.

Condominium and residential units for sale decreased by 5% from ₱8.16 billion to ₱7.79 billion as of December 31, 2015 and 2016, respectively, mainly due to sales take up of RFO units.

Land and development increased by 3% from ₱42.92 billion to ₱44.12 billion as of December 31, 2015 and 2016, respectively, mainly due to landbanking and construction accomplishments for the period, net of cost of sold units and transfers of RFO units to condominium and residential units for sale.

Prepaid expenses and other current assets increased by 5% from ₱11.30 billion to ₱11.90 billion as of December 31, 2015 and 2016, respectively, mainly due to deposits and advances to contractors related to construction projects and various prepayments.

Investment properties increased by 9% from ₱230.34 billion to ₱251.50 billion as of December 31, 2015 and 2016, respectively, primarily due to ongoing new mall projects located in Cagayan de Oro, Puerto Princesa, Olongapo and Tuguegarao in the Philippines and the ongoing expansions and renovations of SM Mall of Asia, SM City Sucat and SM Xiamen. Also, the increase is attributable to landbanking and construction costs incurred for ongoing projects, including the Commercial group's Three E-Com and Four E-Com Centers and the recently opened Conrad Manila.

AFS investments increased by 4% from ₱20.33 billion to ₱21.21 billion as of December 31, 2015 and 2016, respectively, due to unrealized gain on changes in fair values under this portfolio.

Derivative assets increased by 96% from ₱2.60 billion to ₱5.10 billion as of December 31, 2015 and 2016, respectively, to hedge the Company's foreign exchange and interest rate risk. These are the $270 million interest rate swap transaction and $380 million principal only swap transaction entered into in 2016 and the $350 million cross currency swap transaction in 2013.

Deferred tax assets increased by 34% from ₱0.85 billion to ₱1.14 billion as of December 31, 2015 and 2016, respectively, mainly due to NOLCO.

Other noncurrent assets, which includes the noncurrent portion of receivable from sale of real estate, increased by 11% from ₱35.49 billion to ₱39.40 billion as of December 31, 2015 and 2016, due to additional bonds and deposits for real estate acquisitions and construction accomplishments of sold units as well as new sales for the period.

Loans payable decreased by 82% from ₱4.68 billion to ₱0.84 billion as of December 31, 2015 and 2016, respectively, due to payment of maturing loans.

Long-term debt increased by 8% from ₱150.99 billion to ₱163.54 billion as of December 31, 2015 and 2016, respectively, due to net loan availments to fund capital expenditures and for working capital requirements.

Tenants' and customers' deposits increased by 12% from ₱13.22 billion to ₱14.81 billion as of December 31, 2015 and 2016, respectively, due to the new malls and expansions and increase in customers' deposits from residential buyers.

Liability for purchased land decreased by 42% from ₱2.08 billion to ₱1.21 billion as of December 31, 2015 and 2016, respectively, due to payments made. Other noncurrent liabilities increased by 22% from ₱4.75 billion to ₱5.82 billion as of December 31, 2015 and 2016, respectively, due to increase in retention payable and output VAT on residential sales.

The Company's key performance indicators are measured in terms of the following: (1) debt to equity which measures the ratio of interest bearing liabilities to equity; (2) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment held for trading to equity; (3) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (4) earnings before interest expense, income taxes, depreciation and amortization (EBITDA); (5) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (6) interest coverage ratio which measures the ratio of EBITDA to interest expense; (7) operating income to revenues which basically measures the gross profit ratio; (8) EBITDA margin which measures the ratio of EBITDA to gross revenues and (9) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key financial indicators of the Company.

Interest-bearing debt to equity remains steady at 0.42:0.58 as of December 31, 2016 and 2015 while net interest-bearing debt to equity slightly decreased to 0.37:0.63 as of December 31, 2016 from 0.38:0.62 as of December 31, 2015.

ROE increased to 11% as of December 31, 2016 from 10% as of December 31, 2015.

Debt to EBITDA improved to 3.87:1 as of December 31, 2016 from 4.12:1 as of December 31, 2015 due to increase in consolidated operating income. Interest coverage ratio decreased to 9.64:1 as of December 31, 2016 from 11.19:1 as of December 31, 2015 as a result of increase in interest expense from additional borrowings. EBITDA margin is steady at 53% as of December 31, 2016 and 2015.

Consolidated operating income to revenues remains steady at 44% as of December 31, 2016 and 2015. Consolidated net income to revenues improved to 30% as of December 31, 2016 from 29% as of December 31, 2015.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of balance sheet date.

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

For the year 2017, the Company expects to incur capital expenditures of approximately ₱50 billion. This will be funded with internally generated funds and external borrowings.

SM Prime's malls business unit has sixty shopping malls in the Philippines with 7.7 million square meters of gross floor area and seven shopping malls in China with 1.3 million square meters of gross floor area. For 2017, SM Prime will open at least four new mall in the Philippines. By end 2017, the malls business unit will have at least sixty four malls in the Philippines and seven malls in China, with an estimated combined gross floor area of 9.3 million square meters.

SM Prime currently has twenty seven residential projects in the market, twenty six of which are in Metro Manila and one in Tagaytay. For 2017, SM Prime's residential unit will launch between 15,000 to 18,000 residential condominium units in total located in Metro Manila (Parañaque, Makati, Pasay, Quezon City) and Provincial (Cainta, Cavite, Pampanga, Bacolod, Iloilo, Davao, Laguna, Bulacan, Tagaytay). This is a combination of new projects and expansion of existing projects.

SM Prime's Commercial Properties Group has six office buildings with an estimated gross floor area of 371,000 square meters. Currently, Three E-Com and Four E-Com Centers are under construction and scheduled for completion in 2017 and 2020, respectively.

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

<u>2015</u>

SM Prime's net income up by 54% to P28.3 billion from P18.4 billion last year; excluding one-time trading gain on sale of marketable securities, core net income up by 14% to P20.9 billion

Financial and Operational Highlights
(In Million Pesos, except for financial ratios and percentages)

	Twelve months ended Dec 31				
	2015	% to Revenues	2014	% to Revenues	% Change
Profit & Loss Data					
Revenues	71,511	100%	66,240	100%	8%
Costs and Expenses	40,072	56%	38,554	58%	4%
Operating Income	31,439	44%	27,687	42%	14%
Net Income	20,892	29%	18,390	28%	14%
EBITDA	37,815	53%	33,760	51%	12%

	Dec 31 2015	% to Total Assets	Dec 31 2014	% to Total Assets	% Change
Balance Sheet Data					
Total Assets	433,828	100%	388,840	100%	12%
Investment Properties	230,340	53%	192,639	50%	20%
Total Debt	155,668	36%	129,283	33%	20%
Net Debt	128,955	30%	93,070	24%	39%
Total Equity	212,489	49%	199,088	51%	7%

	Dec 31	
Financial Ratios	2015	2014
Debt to Equity	0.42 : 0.58	0.39 : 0.61
Net Debt to Equity	0.38 : 0.62	0.32 : 0.68
Return on Equity	0.10	0.10
Debt to EBITDA	4.12	3.83
Interest Coverage Ratio	11.19	8.24
Operating Income to Revenues	0.44	0.42
EBITDA Margin	0.53	0.51
Net Income to Revenues	0.29	0.28

** Above financial data reflects core operating income and excludes one-time trading gain on sale of marketable securities amounting to ₱7.41 billion.*

Revenue

SM Prime recorded consolidated revenues of ₱71.51 billion in the year ended 2015, an increase of 8% from ₱66.24 billion in the year ended 2014, primarily due to the following:

Rent

SM Prime recorded consolidated revenues from rent of ₱40.74 billion in 2015, an increase of 12% from ₱36.50 billion in 2014. The increase in rental revenue was primarily due to the new malls and expansions opened in 2013, 2014 and 2015, namely, SM Aura Premier, SM City BF Parañaque, Mega Fashion Hall in SM Megamall, SM City Cauayan, SM Center Angono, SM City Bacolod Expansion and SM City San Mateo, with a total gross floor area of 728,000 square meters. Out of the total rental revenues, 87% is contributed by the malls. Excluding the new malls and expansions, same-store rental growth is at 7%. Rent from commercial operations also increased due to the opening of SM Cyber West and Five E-Com Center which enjoy an average occupancy rate of 98%. Also, rentals from hotels and convention centers contributed to the increase due to improvement in average room rates and occupancy rates.

Real Estate Sales

SM Prime's real estate sales registered ₱22.19 billion almost the same level in 2014. The flat performance was attributed to lesser revenue recognition from the completed high-residential projects that were launched in 2010 and 2011. Gross profit of the real estate group slightly improved to 46% from 45% allowing an uptick on net income margin to 22% from 21% the previous year. This allowed the group to post a net income growth of 8% to ₱5.06 billion from ₱4.69 billion in 2014. Actual construction of the high-rise condominium projects usually starts twelve months to eighteen months from the launch date and management expect that projects that were successfully sold in 2013 and 2014 should start significantly contributing to overall sales and income beginning 2016 due to the percentage of completion method.

Cinema and Event Ticket Sales

SM Prime cinema and event ticket sales increased by 12% to ₱4.80 billion in 2015 from ₱4.27 billion in 2014. The major blockbusters screened in 2015 were "Avengers – Age of Ultron", "Jurassic World", "A Second Chance", "Fast and Furious 7" and "Star Wars: The Force Awakens". The major blockbusters shown in 2014 were "Transformers: Age of Extinction", "The Amazing Spiderman 2", "Starting Over Again", "Maleficent" and "Bride for Rent".

Other Revenues

Other revenues increased by 14% to ₱3.79 billion in 2015 from ₱3.32 billion in 2014. The increase was due to the opening of Sky Ranch Pampanga, increase in hotels' food and beverages income as well as increase in sponsorship income. Other revenues include amusement income from rides, bowling and ice skating operations, merchandise sales from snackbars and sale of food and beverages in hotels.

Costs and Expenses

SM Prime recorded consolidated costs and expenses of ₱40.07 billion in 2015, an increase of 4% from ₱38.55 billion in 2014, as a result of the following:

Costs of Real Estate

Consolidated costs of real estate decreased by 2% to ₱12.04 billion in 2015 from ₱12.26 billion in 2014. The decrease is the result of improving cost efficiencies, tighter monitoring and control of construction costs.

Operating Expenses

SM Prime's consolidated operating expenses increased by 7% to ₱28.03 billion in 2015 compared to last year's ₱26.30 billion. Out of the total operating expenses, 70% is contributed by the malls where same-store mall growth in operating expenses is 3%. Contributors to the increase are administrative expenses, depreciation and amortization, business taxes and licenses and marketing and selling expenses, in line with related increase in revenues as well as the opening of new malls and expansions.

Other Income (Charges)

Gain on Sale of Available-for-Sale (AFS) Investments

In 2015, SM Prime recorded a ₱7.41 billion realized gain on sale of AFS investments.

Interest Expense

SM Prime's consolidated interest expense decreased by 18% to ₱3.38 billion in 2015 compared to ₱4.10 billion in 2014 due to the ₱20.0 billion retail bond availed in September 2014 and new bank loans availed during 2015 for working capital and capital expenditure requirements offset by capitalized interest related to the construction of investment properties.

Interest and Dividend Income

Interest and dividend income increased by 60% to ₱1.17 billion in 2015 from ₱0.73 billion in 2014. This account is mainly composed of dividend and interest income received from cash and cash equivalents, investments held for trading and AFS investments. The increase in interest income is due to higher average balance of cash and cash equivalents in 2015 as compared to last year. The increase in dividend income is due to higher dividends received in 2015 on AFS investments compared to last year.

Equity in net earnings of associates and joint ventures

SM Prime's equity in net earnings of associates and joint ventures increased by 78% to ₱543 million in 2015 from ₱304 million in 2014 due to increase in net income of associates and joint ventures and 2015 share in net income of OCLP Holdings, Inc. not present in 2014.

Provision for income tax

SM Prime's consolidated provision for income tax increased by 26% to ₱6.02 billion in 2015 from ₱4.78 billion in 2014 due to the related increase in taxable income.

Net income

As a result of the foregoing, consolidated net income in the year ended 2015 increased by 54% to ₱28.30 billion from ₱18.39 billion in the year ended 2014. Excluding gain on sale of AFS, core net income increased by 14% to ₱20.89 billion.

Balance Sheet Accounts

Cash and cash equivalents significantly decreased by 27% from ₱35.25 billion to ₱25.87 billion as of December 31, 2014 and 2015, respectively, mainly due to payments for capital expenditure projects during the period net of proceeds from the retail bond issuance amounting to ₱20.0 billion last November 2015.

Investments held for trading decreased by 13% from ₱968 million to ₱843 million as of December 31, 2014 and 2015, respectively, mainly due to decrease in market prices of the listed shares and scheduled maturities of investments in bonds.

Receivables increased by 6% from ₱30.69 billion to ₱32.49 billion as of December 31, 2014 and 2015, respectively, due to increase in construction accomplishments of sold units and from tenants due to new malls and expansions in 2015. Out of the total receivables, 75% pertains to sale of real estate and 22% from leases of shopping mall and commercial spaces.

Condominium and residential units increased by 8% from ₱7.58 billion to ₱8.16 billion as of December 31, 2014 and 2015, respectively, mainly due to completion of condominium towers in M Place @ South Triangle, Jazz, Mezza II and Shell Residences.

Prepaid expenses and other current assets increased by 22% from ₱9.29 billion to ₱11.30 billion as of December 31, 2014 and 2015, respectively, mainly due to deposits and advances to contractors related to residential projects and various prepayments.

Investment properties increased by 20% from ₱192.64 billion to ₱230.34 billion as of December 31, 2014 and 2015, respectively, primarily because of ongoing new mall projects located in Cagayan de Oro, Cavite City and Bulacan in the Philippines and Tianjin in China and the ongoing expansions of SM Mall of Asia and SM Xiamen. Also, the increase is attributable to landbanking and construction costs incurred for ongoing projects of the commercial and hotel groups namely, Three E-Com Center and Conrad Manila.

AFS investments decreased by 31% from ₱29.67 billion to ₱20.33 billion as of December 31, 2014 and 2015, respectively, mainly due to sale of AFS shares to SM Investments Corporation and lower market prices of remaining listed shares held under this portfolio.

Derivative assets increased by 59% from ₱1.63 billion to ₱2.60 billion as of December 31, 2014 and 2015, respectively, mainly resulting from net fair value changes on a $350 million cross currency swap transaction designated as a cash flow hedge. While derivative liabilities composed of various interest rate swaps amounting to ₱59 million as of December 31, 2014 matured in March, June and November 2015.

Deferred tax assets increased by 30% from ₱650 million to ₱846 million as of December 31, 2014 and 2015, respectively, mainly due to NOLCO. Deferred tax liabilities increased by 29% from ₱1.93 billion to ₱2.49 billion as of December 31, 2014 and 2015, respectively, mainly due to unrealized gross profit on sale of real estate for tax purposes.

Investments in associates and joint ventures increased by 265% from ₱6.05 billion to ₱22.08 billion as of December 31, 2014 and 2015, respectively, mainly due to acquisition of an equity stake in OCLP Holdings, Inc. and increase in equity in net earnings of associates and joint ventures.

Other noncurrent assets increased by 19% from ₱29.71 billion to ₱35.49 billion as of December 31, 2014 and 2015, respectively, mainly due to additional bonds and deposits for real estate acquisitions.

Loans payable increased by 75% from ₱2.67 billion to ₱4.68 billion as of December 31, 2014 and 2015, respectively, due to availment of loans for general corporate purposes.

Accounts payable and other current liabilities increased by 10% from ₱36.38 billion to ₱39.96 billion as of December 31, 2014 and 2015, respectively, mainly due to increase in payable to contractors and customers' deposits from residential buyers.

Long-term debt increased by 19% from ₱126.61 billion to ₱150.99 billion as of December 31, 2014 and 2015, respectively, due to issuance of bonds in November 2015 and drawdown on an existing loan facility amounting to US$90 million loan last January 2015 to fund capital expenditures and for working capital requirements.

Liability for purchased land increased by 78% from ₱1.17 billion to ₱2.08 billion as of December 31, 2014 and 2015, respectively, due to landbanking. Similarly, other noncurrent liabilities increased by 26% from ₱3.78 billion to ₱4.75 billion as of December 31, 2014 and 2015, respectively, due to increase in non-trade payable.

The Company's key performance indicators are measured in terms of the following: (1) debt to equity which measures the ratio of interest bearing liabilities to equity; (2) net debt to equity which measures the ratio of interest bearing liabilities net of cash and cash equivalents and investment held for trading to equity; (3) return on equity (ROE) which measures the ratio of net income to capital provided by stockholders; (4) earnings before interest expense, income taxes, depreciation and amortization (EBITDA); (5) debt to EBITDA which measures the ratio of EBITDA to total interest-bearing liabilities; (6) interest coverage ratio which measures the ratio of EBITDA to interest expense; (7) operating income to revenues which basically measures the gross profit ratio; (8) EBITDA margin which measures the ratio of EBITDA to gross revenues and (9) net income to revenues which measures the ratio of net income to gross revenues. The following discuss in detail the key financial indicators of the Company.

Interest-bearing debt to equity increased to 0.42:0.58 as of December 31, 2015 from 0.39:0.61 as of December 31, 2014 due to additional borrowings. Likewise, net interest-bearing debt to equity increased to 0.38:0.62 as of December 31, 2015 from 0.32:0.68 as of December 31, 2014 due to additional borrowings net of payments for capital expenditure projects and working capital.

In terms of profitability, ROE is steady at 10% as of December 31, 2015 and 2014.

Debt to EBITDA increased to 4.12:1 as of December 31, 2015 from 3.83:1 as of December 31, 2014 due to issuance of bonds in November 2015. Interest coverage ratio also increased to 11.19:1 as of December 31, 2015 from 8.24:1 as of December 31, 2014 as a result of decrease in interest expense. EBITDA margin improved to 53% as of December 31, 2015 from 51% as of December 31, 2014.

Consolidated operating income to revenues improved to 44% as of December 31, 2015 from 42% as of December 31, 2014. Net income to revenues likewise improved to 29% as of December 31, 2015 from 28% as of December 31, 2014.

The Company has no known direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There were no contingent liabilities or assets in the Company's balance sheet. The Company has no off-balance sheet transactions, arrangements, obligations during the reporting year as of balance sheet date.

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

For the year 2016, the Company expects to incur capital expenditures of at least ₱60 billion. This will be funded with internally generated funds and external borrowings.

SM Prime's malls business unit has fifty six shopping malls in the Philippines with 7.3 million square meters of gross floor area and six shopping malls in China with 0.9 million square meters of gross floor area. For 2016, SM Prime will open new five malls in the Philippines, as well as expansions of SM City Calamba and SM City Naga. By end 2016, the malls business unit will have 61 malls in the Philippines and six malls in China with an estimated combined gross floor area of 8.6 million square meters.

SM Prime currently has twenty seven residential projects in the market, twenty five of which are in Metro Manila and two in Tagaytay. For 2016, SM Prime's residential unit will launch between 11,000 to 14,000 residential condominium units in total in the cities of Quezon, Bicutan, Sucat, Las Piñas and Pasay. SM Prime is also set to launch new mixed-use developments in Bulacan, Pampanga and Cavite.

SM Prime's Commercial Properties Group has five office buildings with an estimated gross leasable area of 205,000 square meters. Currently, Three E-Com and Four E-Com Centers are under construction and scheduled for completion in 2017 and 2019, respectively.

For hotels and convention centers, Conrad Manila in the Mall of Asia Complex in Pasay City is expected to open by second half of 2016.

<u>Changes in and disagreements with accountants on accounting and financial disclosure</u>

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

ITEM 12. Mergers, Consolidations Acquisitions and Similar Matters

No action will be presented for stockholders' approval at this year's annual meeting in respect of (i) the merger or consolidation of SMPH into or with any other person, or of any other person into or with SMPH, (ii) acquisition by SMPH or any of its shareholders of securities of another person, (iii) acquisition by SMPH of any other going business or of the assets thereof, (iv) the sale or transfer or all or any substantial part of the assets of SMPH, or (v) liquidation or dissolution of SMPH.

ITEM 13. Acquisition or Disposition of Property

In the normal course of business, the Company and its subsidiaries are engaged in land banking activities for future business sites.

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

ITEM 14. Restatement of Account

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

D. OTHER MATTERS

ITEM 15. Action with Respect to Reports

The following are to be submitted for approval during the stockholders' meeting:

(a) Minutes of the annual meeting of stockholders held on April 25, 2017.

(b) General ratification of the acts of the Board of Directors and the management from the date of the last annual stockholders' meeting up to the date of this meeting.

These acts are covered by Resolutions of the Board of Directors duly adopted in the normal course of trade or business, like:

(a) Approval of projects and land acquisitions;
(b) Treasury matters related to opening of accounts and transactions with banks;
(c) Appointments of signatories and amendments thereof.

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

ITEM 16. Matters not Required to be Submitted

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

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

Stockholders have the right to vote in favor or against any proposed amendment to the Articles of Incorporation and By-laws of the Company.

No action will be presented for stockholders' approval at this year's annual meeting with respect to the amendment of the Company's Articles of Incorporation or By-Laws.

ITEM 18. Other Proposed Action

The following items are subject to stockholders' approval during the this year's annual meeting:

(a) Approval of Annual Report for 2017;
(b) Election of directors for 2018-2019;
(c) Appointment of external auditor for 2018.

Other than the matters indicated in the Notice and Agenda included in this Information Statement, there are no other actions proposed to be taken at this year's Annual Stockholders' Meeting.

ITEM 19. Voting Procedures

<u>Vote required for approval</u>

Matters subject to shareholder vote, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present. Each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him. All matters to be brought for approval of the shareholders of SMPH at this year's Annual Stockholders' Meeting, including election of directors, require for approval only a majority of the stockholders present or by proxy provided a quorum is present.

<u>Methods by which votes will be counted</u>

The Company's By-Laws does not prescribe a manner of voting. However, election of directors will be conducted by ballot if so requested by voting stockholders.

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

The Corporate Secretary is tasked and authorized to count and tabulate votes by stockholders. For this year's annual meeting, SGV & Co. has been engaged and appointed to validate tabulation of stockholder votes when necessary.

ITEM 20. Market for Registrant's Common Equity and Related Stockholder Matters

CASH DIVIDEND PER SHARE - ₱0.26 in 2017, ₱0.23 in 2016 and ₱0.21 in 2015.

As of the date of this report, final dividends for 2017 have not yet been declared. This will be discussed in the next board meeting.

	2017		2016	
Stock Prices	High	Low	High	Low
First Quarter	₱ 31.50	₱ 27.40	₱ 22.80	₱ 18.70
Second Quarter	35.20	28.20	28.40	21.05
Third Quarter	35.15	32.70	31.00	26.50
Fourth Quarter	38.25	34.55	29.35	24.50

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

As of February 28, 2018, the closing price of the Company's shares of stock is ₱35.30/share. For the two months ending February 28, 2018, stock prices of SMPH were at a high of ₱39.70 and a low of ₱34.30.

The number of shareholders of record as of February 28, 2018 was 2,412. Capital stock issued and outstanding as of February 28, 2018 was 28,879,231,694.

The Company targets a dividend payout of 30 to 35 percent of the previous year's net income. As of December 31, 2017, there are no restrictions that would limit the ability of the Company to pay dividends to the common stockholders, except with respect to Note 20 of the consolidated financial statements.

The top 20 stockholders as of February 28, 2018 are as follows:

	Name	No. of Shares Held	% to Total
1.	SM Investments Corporation	14,353,464,952	49.70
2.	PCD Nominee Corp. (Non-Filipino)	5,788,485,265	20.04
3.	PCD Nominee Corp. (Filipino)	1,119,010,074	3.87
4.	Harley T. Sy	695,399,846	2.41
5.	Henry Sy, Jr.	687,953,713	2.38
6.	Hans T. Sy	679,811,914	2.35
7.	Teresita T. Sy	666,708,532	2.31
8.	Herbert T. Sy	661,037,924	2.29
9.	Elizabeth T. Sy	654,115,892	2.27
10.	Felicidad Sy	397,750,971	1.38
11.	Syntrix Holdings, Inc.	317,827,673	1.10
12.	Sysmart Corporation	317,775,948	1.10
13.	Henry Sy, Sr.	82,795,579	0.29
14.	Belle Corporation	61,795,413	0.21
15.	Sybase Equity Investments Corp.	52,365,500	0.18
16.	Cutad, Inc.	19,694,544	0.07
17.	HSBB, Inc.	19,694,400	0.07
18.	Lucky Securities, Inc.	3,000,000	0.01
19.	Philippine Air Force Educational Fund, Inc.	2,140,923	0.01
20.	Jose T. Tan &/or Pacita L. Tan	892,126	0.00

As discussed in Note 19 of the consolidated financial statements, the Company registered with the Securities and Exchange Commission the ₱20 billion retail bonds issued on May 18, 2017. The issue consists of the seven-year or Series G Bonds amounting to ₱20 billion with a fixed interest rate equivalent to 5.1683% per annum due on May 18, 2024.

There are no other recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exemption transaction. The Company has no other registered debt securities. There are no existing or planned stock options. There are no registered securities subject to redemption or call. There are no existing or planned stock warrant offerings.

ITEM 21. Corporate Governance

The Board of Directors, officers and Management of SMPH have committed themselves to the principles and best practices in corporate governance as reflected in the Company's Corporate Governance Manual, acknowledging that these principles and practices help in the achievement of corporate goals.

The Manual institutionalizes the principles of good corporate governance. It recognizes that adherence with the principles of good corporate governance should emanate from the Board of Directors. To this end, a director must act in a manner characterized by transparency, accountability and fairness. The Manual describes the general responsibilities and specific duties and functions of the Board, as well as those of the Board Committees, Corporate Secretary, and external and internal auditors.

The Manual also provides for the regular conduct of orientation and training programs on corporate governance. It further establishes the rights of all shareholders and the protection of the interests of minority stockholders. The Manual likewise sets the penalties for non-compliance with its provisions.

The Company also adopted policies and guidelines to govern conflicts of interest, acceptance of gifts, insider trading and related party transactions, to name a few. In accordance with the Conflict of Interest Policy, all directors, officers and employees are required to disclose any financial or personal interest or benefit in any transaction involving the Company to ensure that potential conflicts of interest are immediately brought to the attention of Management. The Company also issued a policy to prohibit its directors, officers and employees from soliciting or accepting gifts in any form from any business partner, except for corporate giveaways, tokens or promotional items of nominal value, and adopted guidelines to prohibit its directors, officers and employees from buying or selling shares of stock of listed SM companies while in possession of material and confidential information. Furthermore, through the Related Party Transactions Policy, the Company is committed to transparency by practicing full disclosure of the details, nature, extent, and all other material information on transactions with related parties in the Company's financial statements and quarterly and annual reports to the SEC and PSE. These rules supplement the existing corporate governance policies in the Manual on Corporate Governance and Code of Ethics.

In accordance with the requirements of the SEC Revised Code of Corporate Governance, SMPH has revised its Manual on Corporate Governance to incorporate the additions and changes introduced in the new Code to increase the responsibilities of the Board, strengthen the protection of minority shareholders, and increase transparency in both financial and non-financial reporting. The Company's Revised Manual on Corporate Governance was approved by the Board last February 20, 2017 and is now publicly-available in the PSE and corporate websites.

NOTE: The Company will provide without charge a copy of the Company's Annual Report on SRC Form 17-A to its stockholders upon receipt of a written request addressed to Mr. John Nai Peng C. Ong, Chief Finance Officer, at 10th Floor, Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300.

PART III.

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasay on March 9, 2018.

By: **SM PRIME HOLDINGS, INC.**

John Nai Peng C. Ong

John Nai Peng C. Ong
Chief Finance Officer

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017

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

Statement of Management's Responsibility for Financial Statements

The management of SM Prime Holdings, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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

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

The Board of Directors reviews and approves the 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 SM Prime Holdings, Inc. and Subsidiaries in accordance with the 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

Henry T. Sy, Jr.
Chairman

Jeffrey C. Lim
President

John Nai Peng C. Ong
Chief Finance Officer

Signed this 19th of February, 2018

SUBSCRIBED AND SWORN to before me this FEB 20 2018 at MAKATI CITY, affiants exhibiting to me their Philippine passports, as follows:

NAME	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
HENRY T. SY, JR.	[redacted]	August 15, 2015	Manila
JEFFREY C. LIM		March 5, 2017	Manila
JOHN NAI PENG C. ONG		September 7, 2014	Manila

DOC. No. 317
PAGE No. 64
BOOK No. I
SERIES OF 2018

ATTY. ARTHUR A. SY
NOTARY PUBLIC
UNTIL DECEMBER 31, 2019
PTR NO. 6629154 / 01.11.18 / MAKATI CITY
IBP NO. 548832 / 01.07.02 / PPLM
TIN 174-674-196 ROLL NO. 40024
MCLE NO. V - 0011465 / 11.02.15

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

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2017 and 2016 in accordance with Philippine Financial Reporting Standards and reports as required by accounting and auditing standards.

In discharging this responsibility, I hereby declare that, I am the Assistant Manager for Finance of SM Prime Holdings, Inc.

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

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

Donna Jane A. Miras
Assistant Manager- Finance
CPA Certificate No. 0146863
valid until November 02, 2018
BOA Accreditation No. 0399
valid until November 02, 2019

February 19, 2018

SUBSCRIBED AND SWORN to before this FEB 20 2018 at MAKATI CITY affiants exhibiting to me her Philippine Passport No.[redacted] issued at Alabang, Muntinlupa City on September 12, 2014.

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Page No. 64
Book No. I
Series of 2018

ATTY. ARTHUR A. SY
NOTARY PUBLIC
UNTIL DECEMBER 31, 2019
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SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
10th Floor Mall of Asia Arena Annex Building
Coral Way cor. J.W. Diokno Blvd.
Mall of Asia Complex
Brgy. 76, Zone 10, CBP-1A, Pasay City 1300

Opinion

We have audited the consolidated financial statements of SM Prime Holdings, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated balance sheets of the Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the 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.

Revenue recognition on sale of real estate units

The Company applies the percentage of completion (POC) method in determining real estate revenue and costs. The POC is based on physical completion of the real estate project. The cost of real estate sales is determined on the basis of the total estimated costs applied with the POC of the project. The Company's real estate revenue and costs accounts for 32% of total consolidated revenue and 30% of the total consolidated costs and expenses, respectively, for the year ended December 31, 2017. The assessment of the physical stage of completion and the total estimated costs requires technical determination by project engineers. In addition, the Company requires a certain percentage of buyer's payments of total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. Reaching this level of collection is an indication of buyer's continuing commitment and the probability that economic benefits will flow to the Company. This matter is significant to our audit because the assessment of the stage of completion, total estimated costs and level of buyer's equity involves significant management judgment. Refer to Note 2 to the consolidated financial statements for the disclosures on revenue recognition.

Audit response

We obtained an understanding of the Company's processes for determining the POC, and for determining and updating of total estimated costs, and performed tests of the relevant controls of these processes. We obtained the certified POC reports prepared by the third party project managers and assessed their competence and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and obtained the supporting details of POC reports showing the completion of the major activities of the project construction. For selected projects, we obtained the approved total estimated costs and any revisions thereto and the supporting details such as project authorization order for the total estimated costs and budget supplement, change orders and budget transfer for the revisions. We likewise performed inquiries with the project engineers for the revisions. We evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20‑IS (Definitive Information Statement), SEC Form 17‑A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20‑IS (Definitive Information Statement), SEC Form 17‑A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the 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 Company's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company 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 Company 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 Sherwin V. Yason.

SYCIP GORRES VELAYO & CO.

Sherwin V. Yason
Partner
CPA Certificate No. 104921
SEC Accreditation No. 1514-A (Group A),
October 6, 2015, valid until October 5, 2018
Tax Identification No. 217-740-478
BIR Accreditation No. 08-001998-112-2015,
March 4, 2015, valid until March 3, 2018
PTR No. 6621349, January 9, 2018, Makati City

February 19, 2018

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 21, 28 and 29)	**₱44,371,534**	₱25,200,982
Investments held for trading (Notes 7, 21, 28 and 29)	**731,076**	918,702
Receivables (Notes 8, 15, 16, 21, 28 and 29)	**34,277,281**	32,833,330
Condominium and residential units for sale (Notes 2 and 9)	**8,733,299**	7,787,549
Land and development (Notes 2 and 10)	**22,518,138**	24,646,487
Available-for-sale investments (Notes 11, 21, 28 and 29)	**641,300**	664,606
Prepaid expenses and other current assets (Notes 12, 21, 28 and 29)	**14,303,412**	11,898,900
Total Current Assets	**125,576,040**	103,950,556
Noncurrent Assets		
Investments in associates and joint ventures (Note 15)	**24,566,239**	22,833,079
Available-for-sale investments - net of current portion (Notes 11, 21, 28 and 29)	**30,464,845**	20,548,119
Property and equipment - net (Note 13)	**1,493,427**	1,619,601
Investment properties - net (Notes 14 and 19)	**273,084,146**	251,499,064
Land and development - net of current portion (Note 10)	**36,148,036**	19,472,641
Derivative assets (Notes 28 and 29)	**3,546,694**	5,102,735
Deferred tax assets - net (Note 26)	**1,114,291**	1,137,729
Other noncurrent assets (Notes 16, 21, 25, 28 and 29)	**42,423,880**	39,396,608
Total Noncurrent Assets	**412,841,558**	361,609,576
	₱538,417,598	₱465,560,132
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Notes 17, 21, 28 and 29)	**₱744,400**	₱840,000
Accounts payable and other current liabilities (Notes 18, 21, 28 and 29)	**51,084,082**	40,324,504
Current portion of long-term debt (Notes 19, 21, 28 and 29)	**25,344,035**	7,154,151
Income tax payable	**1,035,215**	1,102,621
Total Current Liabilities	**78,207,732**	49,421,276
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 21, 28 and 29)	**167,509,484**	156,383,534
Tenants' and customers' deposits - net of current portion (Notes 18, 27, 28 and 29)	**16,376,024**	14,812,280
Liability for purchased land - net of current portion (Notes 18, 28 and 29)	**2,170,998**	1,211,658
Deferred tax liabilities - net (Note 26)	**2,877,971**	2,552,812
Derivative liabilities (Notes 28 and 29)	**777,408**	–
Other noncurrent liabilities (Notes 16, 18, 25, 28 and 29)	**7,624,067**	5,815,028
Total Noncurrent Liabilities	**197,335,952**	180,775,312
Total Liabilities *(Carried Forward)*	**275,543,684**	230,196,588

	December 31	
	2017	2016
Total Liabilities *(Brought Forward)*	**₱275,543,684**	₱230,196,588
Equity Attributable to Equity Holders of the Parent		
Capital stock (Notes 20 and 30)	**33,166,300**	33,166,300
Additional paid-in capital - net (Notes 5 and 20)	**39,662,168**	39,545,625
Cumulative translation adjustment	**2,110,745**	1,400,373
Net unrealized gain on available-for-sale investments (Note 11)	**25,489,705**	17,502,410
Net fair value changes on cash flow hedges (Note 29)	**(311,429)**	811,625
Remeasurement gain (loss) on defined benefit obligation (Note 25)	**(199,126)**	39,687
Retained earnings (Note 20):		
Appropriated	**42,200,000**	42,200,000
Unappropriated	**120,125,945**	100,170,486
Treasury stock (Notes 20 and 30)	**(3,287,087)**	(3,355,474)
Total Equity Attributable to Equity Holders of the Parent	**258,957,221**	231,481,032
Non-controlling Interests (Note 20)	**3,916,693**	3,882,512
Total Equity	**262,873,914**	235,363,544
	₱538,417,598	₱465,560,132

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Rent (Notes 21 and 27)	**₱51,406,294**	₱45,693,269	₱40,742,657
Sales:			
Real estate	**29,434,050**	24,999,811	22,185,915
Cinema and event ticket	**4,767,364**	4,666,686	4,797,510
Others (Notes 21 and 22)	**5,314,142**	4,456,465	3,785,205
	90,921,850	79,816,231	71,511,287
COSTS AND EXPENSES (Note 23)	**50,293,058**	44,551,175	40,072,460
INCOME FROM OPERATIONS	**40,628,792**	35,265,056	31,438,827
OTHER INCOME (CHARGES)			
Interest expense (Notes 21, 24, 28 and 29)	**(5,474,422)**	(4,409,614)	(3,379,104)
Interest and dividend income (Notes 7, 11, 21 and 24)	**1,214,347**	1,114,931	1,168,610
Gain on sale of available-for-sale-investments (Notes 11 and 21)	**–**	–	7,410,711
Others - net (Notes 7, 15, 19, 21 and 29)	**(420,856)**	(981,696)	(1,728,205)
	(4,680,931)	(4,276,379)	3,472,012
INCOME BEFORE INCOME TAX	**35,947,861**	30,988,677	34,910,839
PROVISION FOR INCOME TAX (Note 26)			
Current	**7,531,782**	6,335,370	5,698,086
Deferred	**291,616**	285,683	320,160
	7,823,398	6,621,053	6,018,246
NET INCOME	**₱28,124,463**	₱24,367,624	₱28,892,593
Attributable to			
Equity holders of the Parent (Notes 20 and 30)	**₱27,573,866**	₱23,805,713	₱28,302,092
Non-controlling interests (Note 20)	**550,597**	561,911	590,501
	₱28,124,463	₱24,367,624	₱28,892,593
Basic/Diluted earnings per share (Note 30)	**₱0.956**	₱0.826	₱0.982

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱28,124,463**	₱24,367,624	₱28,892,593
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income transferred to profit or loss (net of tax):			
Realized gain on sale of available-for-sale investments (Note 11)	**–**	–	(7,410,711)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (net of tax):			
Unrealized gain (loss) due to changes in fair value of available-for-sale investments (Note 11)	**7,987,295**	880,863	(1,873,182)
Net fair value changes on cash flow hedges (Note 29)	**(1,123,054)**	382,826	179,467
Cumulative translation adjustment	**710,372**	394,395	165,548
	7,574,613	1,658,084	(8,938,878)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax) - Remeasurement gain (loss) on defined benefit obligation (Note 25)	**(244,103)**	82,202	91,277
TOTAL COMPREHENSIVE INCOME	**₱35,454,973**	₱26,107,910	₱20,044,992
Attributable to			
Equity holders of the Parent (Notes 20 and 30)	**₱34,906,622**	₱25,542,289	₱19,454,280
Non-controlling interests (Note 20)	**548,351**	565,621	590,712
	₱35,454,973	₱26,107,910	₱20,044,992

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent											
	Capital Stock (Notes 20 and 30)	Additional Paid-in Capital - Net (Notes 5 and 20)	Cumulative Translation Adjustment	Net Unrealized Gain on Available-for-Sale Investments (Note 11)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 25)	Retained Earnings (Note 20) Appropriated	Retained Earnings (Note 20) Unappropriated	Treasury Stock (Notes 20 and 30)	Total	Non-controlling Interests (Note 20)	Total Equity
At January 1, 2017, as previously reported	**₱33,166,300**	**₱39,545,625**	**₱1,400,373**	**₱17,502,410**	**₱811,625**	**₱39,687**	**₱42,200,000**	**₱100,170,486**	**(₱3,355,474)**	**₱231,481,032**	**₱3,882,512**	**₱235,363,544**
Effect of common control business combination (Note 5)	–	–	–	–	–	**(3,046)**	–	–	–	**(3,046)**	**(585)**	**(3,631)**
At January 1, 2017, as adjusted	**33,166,300**	**39,545,625**	**1,400,373**	**17,502,410**	**811,625**	**36,641**	**42,200,000**	**100,170,486**	**(3,355,474)**	**231,477,986**	**3,881,927**	**235,359,913**
Net income for the year	–	–	–	–	–	–	–	**27,573,866**	–	**27,573,866**	**550,597**	**28,124,463**
Other comprehensive (loss) income	–	–	**710,372**	**7,987,295**	**(1,123,054)**	**(241,857)**	–	–	–	**7,332,756**	**(2,246)**	**7,330,510**
Total comprehensive income (loss) for the year	–	–	**710,372**	**7,987,295**	**(1,123,054)**	**(241,857)**	–	**27,573,866**	–	**34,906,622**	**548,351**	**35,454,973**
Cash dividends (Note 20)	–	–	–	–	–	–	–	**(7,708,600)**	–	**(7,708,600)**	–	**(7,708,600)**
Cash dividends received by a subsidiary	–	–	–	–	–	–	–	**11,862**	–	**11,862**	–	**11,862**
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	**(580,791)**	**(580,791)**
Sale of treasury shares held by subsidiary	–	**89,929**	–	–	–	–	–	–	**68,387**	**158,316**	–	**158,316**
Acquisition of subsidiary (Note 14)	–	–	–	–	–	–	–	–	–	–	**327,729**	**327,729**
Sale (acquisition) of non-controlling interests (Notes 2 and 5)	–	**26,614**	–	–	–	**6,090**	–	**78,331**	–	**111,035**	**(260,523)**	**(149,488)**
At December 31, 2017	**₱33,166,300**	**₱39,662,168**	**₱2,110,745**	**₱25,489,705**	**(₱311,429)**	**(₱199,126)**	**₱42,200,000**	**₱120,125,945**	**(₱3,287,087)**	**₱258,957,221**	**₱3,916,693**	**₱262,873,914**
At January 1, 2016	₱33,166,300	₱39,304,027	₱1,005,978	₱16,621,547	₱428,799	(₱50,458)	₱42,200,000	₱83,168,103	(₱3,355,474)	₱212,488,822	₱3,354,025	₱215,842,847
Effect of common control business combination (Note 5)	–	241,598	–	–	–	11,653	–	(171,600)	–	81,651	38,382	120,033
At January 1, 2016	33,166,300	39,545,625	1,005,978	16,621,547	428,799	(38,805)	42,200,000	82,996,503	(3,355,474)	212,570,473	3,392,407	215,962,880
Net income for the year	–	–	–	–	–	–	–	23,805,713	–	23,805,713	561,911	24,367,624
Other comprehensive income (loss)	–	–	394,395	880,863	382,826	78,492	–	–	–	1,736,576	3,710	1,740,286
Total comprehensive income (loss) for the year	–	–	394,395	880,863	382,826	78,492	–	23,805,713	–	25,542,289	565,621	26,107,910
Cash dividends (Note 20)	–	–	–	–	–	–	–	(6,642,223)	–	(6,642,223)	–	(6,642,223)
Cash dividends received by a subsidiary	–	–	–	–	–	–	–	10,493	–	10,493	–	10,493
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(505,291)	(505,291)
Acquisition of subsidiaries (Note 14)	–	–	–	–	–	–	–	–	–	–	429,775	429,775
At December 31, 2016	₱33,166,300	₱39,545,625	₱1,400,373	₱17,502,410	₱811,625	₱39,687	₱42,200,000	₱100,170,486	(₱3,355,474)	₱231,481,032	₱3,882,512	₱235,363,544

	Equity Attributable to Equity Holders of the Parent											
	Capital Stock (Notes 5, 20 and 30)	Additional Paid-in Capital - Net (Notes 5 and 20)	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 11)	Net Fair Value Changes on Cash Flow Hedges (Note 29)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 25)	Retained Earnings (Note 20) Appropriated	Retained Earnings (Note 20) Unappropriated	Treasury Stock (Notes 20 and 30)	Total	Non-controlling Interests (Note 20)	Total Equity
At January 1, 2015	₱33,166,300	₱39,302,194	₱840,430	₱25,905,440	₱249,332	(₱141,524)	₱42,200,000	₱60,921,048	(₱3,355,530)	₱199,087,690	₱3,150,513	₱202,238,203
Net income for the year	–	–	–	–	–	–	–	28,302,092	–	28,302,092	590,501	28,892,593
Other comprehensive income (loss)	–	–	165,548	(9,283,893)	179,467	91,066	–	–	–	(8,847,812)	211	(8,847,601)
Total comprehensive income (loss) for the year	–	–	165,548	(9,283,893)	179,467	91,066	–	28,302,092	–	19,454,280	590,712	20,044,992
Cash dividends (Note 20)	–	–	–	–	–	–	–	(6,064,618)	–	(6,064,618)	–	(6,064,618)
Cash dividends received by a subsidiary	–	–	–	–	–	–	–	9,581	–	9,581	–	9,581
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(387,200)	(387,200)
Acquisition of non-controlling interests (Note 20)	–	1,833	–	–	–	–	–	–	56	1,889	–	1,889
At December 31, 2015	₱33,166,300	₱39,304,027	₱1,005,978	₱16,621,547	₱428,799	(₱50,458)	₱42,200,000	₱83,168,103	(₱3,355,474)	₱212,488,822	₱3,354,025	₱215,842,847

See accompanying Notes to Consolidated Financial Statements.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱35,947,861**	₱30,988,677	₱34,910,839
Adjustments for:			
Depreciation and amortization (Note 23)	**8,959,170**	7,814,344	6,966,952
Interest expense (Note 24)	**5,474,422**	4,409,614	3,379,104
Interest and dividend income (Notes 7, 11 and 24)	**(1,214,347)**	(1,114,931)	(1,168,610)
Loss (gain) on:			
Unrealized foreign exchange	**(26,266)**	556,343	166,435
Mark-to-market on investments held for trading (Note 7)	**13,690**	(61,424)	101,087
Sale of available-for-sale investments (Note 11)	**–**	–	(7,410,711)
Maturity of derivatives - net	**–**	–	(40,691)
Disposal of investments held for trading (Note 7)	**10,096**	–	693
Equity in net earnings of associates and joint ventures (Note 15)	**(1,106,816)**	(471,081)	(542,905)
Operating income before working capital changes	**48,057,810**	42,121,542	36,362,193
Decrease (increase) in:			
Receivables	**(1,387,713)**	(231,996)	(695,616)
Condominium and residential units for sale	**4,744,813**	6,475,919	5,439,068
Land and development	**(18,984,963)**	(7,575,273)	(6,807,357)
Prepaid expenses and other current assets	**(2,368,411)**	(470,119)	(2,012,614)
Increase in:			
Accounts payable and other liabilities	**11,154,924**	1,669,684	3,652,508
Tenants' and customers' deposits	**1,476,602**	1,606,956	1,486,421
Cash generated from operations	**42,693,062**	43,596,713	37,424,603
Income tax paid	**(7,607,930)**	(6,186,690)	(5,486,465)
Net cash provided by operating activities	**35,085,132**	37,410,023	31,938,138
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale investments	**–**	2,529	7,466,528
Investments held for trading (Note 7)	**286,500**	–	35,000
Interest received	**823,686**	766,565	647,572
Dividends received	**603,011**	377,385	552,397
Additions to:			
Investment properties (Note 14)	**(26,658,723)**	(30,376,621)	(42,478,023)
Property and equipment (Note 13)	**(132,262)**	(337,071)	(235,913)
Available-for-sale investments (Note 11)	**(1,906,125)**	(2,045)	–
Investments held for trading	**(122,660)**	–	–
Investments in associates and joint ventures and acquisition of a subsidiary - net of cash acquired (Notes 5 and 15)	**(775,500)**	(331,000)	(15,443,151)
Increase in other noncurrent assets (Note 16)	**(2,437,637)**	(3,098,749)	(5,774,646)
Net cash used in investing activities	**(30,319,710)**	(32,999,007)	(55,230,236)

(*Forward*)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans (Notes 17 and 19)	**₱41,997,671**	₱34,380,938	₱45,993,435
Payments of:			
Long-term debt (Note 19)	**(9,811,140)**	(23,917,979)	(11,288,366)
Dividends (Note 20)	**(8,277,529)**	(7,137,021)	(6,442,237)
Interest	**(5,156,332)**	(4,049,935)	(3,159,806)
Bank loans (Note 17)	**(4,735,000)**	(4,880,000)	(11,100,000)
Proceeds from:			
Maturity of derivatives	**–**	–	12,468
Reissuance of treasury shares (Note 20)	**158,316**	–	–
Net cash provided by (used in) financing activities	**14,175,986**	(5,603,997)	14,015,494
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**229,144**	524,055	(98,694)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**19,170,552**	(668,926)	(9,375,298)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**25,200,982**	25,869,908	35,245,206
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱44,371,534**	₱25,200,982	₱25,869,908

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

SM Prime Holdings, Inc. (SMPH or the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on January 6, 1994. SMPH and its subsidiaries (collectively known as the "Company") are incorporated to acquire by purchase, exchange, assignment, gift or otherwise, and to own, use, improve, subdivide, operate, enjoy, sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, traffic, deal in and hold for investment or otherwise, including but not limited to real estate and the right to receive, collect and dispose of, any and all rentals, dividends, interest and income derived therefrom; the right to vote on any proprietary or other interest on any shares of stock, and upon any bonds, debentures, or other securities; and the right to develop, conduct, operate and maintain modernized commercial shopping centers and all the businesses appurtenant thereto, such as but not limited to the conduct, operation and maintenance of shopping center spaces for rent, amusement centers, movie or cinema theatres within the compound or premises of the shopping centers, to construct, erect, manage and administer buildings such as condominium, apartments, hotels, restaurants, stores or other structures for mixed use purposes.

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

As at December 31, 2017, SMPH is 49.70% and 25.85% directly-owned by SM Investments Corporation (SMIC) and the Sy Family, respectively. SMIC, the ultimate parent company, is a Philippine corporation which listed its common shares with the PSE in 2005. SMIC and all its subsidiaries are herein referred to as the "SM Group".

The registered office and principal place of business of the Parent Company is at 10th Floor Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City 1300.

The accompanying consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on February 19, 2018.

2. **Basis of Preparation**

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

<u>Statement of Compliance</u>
The accompanying consolidated financial statements have been prepared in compliance with PFRS.

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

Company	Country of Incorporation	Percentage of Ownership 2017	2016
Malls			
First Asia Realty Development Corporation	Philippines	**74.2**	74.2
Premier Central, Inc.	- do -	**100.0**	100.0
Consolidated Prime Dev. Corp.	- do -	**100.0**	100.0
Premier Southern Corp. (PSC)	- do -	**100.0**	100.0
San Lazaro Holdings Corporation	- do -	**100.0**	100.0
Southernpoint Properties Corp.	- do -	**100.0**	100.0
First Leisure Ventures Group Inc. (FLVGI)	- do -	**50.0**	50.0
CHAS Realty and Development Corporation and Subsidiaries	- do -	**100.0**	100.0
Affluent Capital Enterprises Limited and Subsidiaries	British Virgin Islands (BVI)	**100.0**	100.0
Mega Make Enterprises Limited and Subsidiaries	- do -	**100.0**	100.0
Springfield Global Enterprises Limited	- do -	**100.0**	100.0
Simply Prestige Limited and Subsidiaries	- do -	**100.0**	100.0
SM Land (China) Limited and Subsidiaries (SM Land China)	Hong Kong	**100.0**	100.0
Rushmore Holdings, Inc.**	Philippines	**100.0**	100.0
Prime_Commercial Property Management Corporation and Subsidiaries (PCPMC)*	- do -	**100.0**	100.0
Magenta Legacy, Inc.	- do -	**100.0**	100.0
Associated Development Corporation	- do -	**100.0**	100.0
Prime Metroestate, Inc. and Subsidiary	- do -	**60.0**	60.0
SM Arena Complex Corporation	- do -	**100.0**	100.0
Mindpro Incorporated (Mindpro)	- do -	**70.0**	70.0
A. Canicosa Holdings, Inc.**	- do -	**100.0**	70.0
AD Canicosa Properties, Inc.**	- do -	**100.0**	70.0
Cherry Realty Development Corporation***	- do -	**65.0**	–
Residential			
SM Development Corporation and Subsidiaries (SMDC)	- do -	**100.0**	100.0
Highlands Prime Inc. (HPI)	- do -	**100.0**	100.0
Costa del Hamilo, Inc. and Subsidiary (Costa)	- do -	**100.0**	100.0
Commercial			
Tagaytay Resort Development Corporation	- do -	**100.0**	100.0
MOA Esplanade Port, Inc.	- do -	**100.0**	100.0
Hotels and Convention Centers			
SM Hotels and Conventions Corp. and Subsidiaries	- do -	**100.0**	100.0

**Acquired in 2016 which was accounted for as common control business combination using pooling of interest method (see Note 5).*
***Acquired in 2016 which were accounted for as acquisition of assets - single-asset entity (see Note 14).*
****Acquired in 2017 which was accounted for as acquisition of assets - single-asset entity (see Note 14).*

FLVGI is accounted for as a subsidiary by virtue of control, as evidenced by the majority members of the BOD representing the Parent Company.

The individual financial statements of the Parent Company and its subsidiaries, which were prepared for the same reporting period using their own set of accounting policies, are adjusted to the accounting policies of the Company when the consolidated financial statements are prepared. All intracompany balances, transactions, income and expenses, and profits and losses resulting from intracompany transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and when the Company has the ability to affect those returns through its power over the investee. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences 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's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the consolidated statements of income and within equity section in the consolidated balance sheets, separately from equity attributable to equity holders of the parent.

Significant Accounting Judgments, Estimates and Assumptions
The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

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

Revenue Recognition. The Company's process of selecting an appropriate revenue recognition method for a particular real estate sales transaction requires certain judgments on the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments to honor its obligations, and the application of percentage of completion (POC) based on physical completion of the real estate project. The buyer's commitment is evaluated based on collections, credit standing of the buyer and location of the property while the completion of development is determined based on engineer's judgments and estimates on the physical portion of contract work done and the completion of development beyond the preliminary stage. Revenue from real estate sales amounted to ₱29,434 million, ₱25,000 million and ₱22,186 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Operating Lease Commitments - as Lessor. The Company has entered into commercial property leases in its investment property portfolio. Management has determined, based on an evaluation of the terms and conditions of the arrangements, that it 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.

Rent income amounted to ₱51,406 million, ₱45,693 million and ₱40,743 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 27).

Operating Lease Commitments - as Lessee. The Company has entered into various lease agreements as a lessee. Management has determined that all the significant risks and benefits of ownership of these properties, which the Company leases under operating lease arrangements, remain with the lessor. Accordingly, the leases were accounted for as operating leases.

Rent expense amounted to ₱1,598 million, ₱1,451 million and ₱1,317 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Notes 23 and 27).

Estimates and Assumptions

The key estimates and assumptions that may have significant risks of causing material adjustments to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Revenue and Cost Recognition. The Company's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's revenue and cost from real estate and construction contracts recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Revenue from sale of real estate amounted to ₱29,434 million, ₱25,000 million and ₱22,186 million for the years ended December 31, 2017, 2016 and 2015, respectively, while the cost of real estate sold amounted to ₱15,152 million, ₱13,117 million and ₱12,039 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 23).

Estimation of Allowance for Impairment on Receivables. The Company maintains an allowance for impairment loss at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Company on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the relationship with the customers and counterparties, average age of accounts and collection experience. The Company performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and to provide the appropriate allowance for impairment. The review is accomplished using a combination of specific and collective assessment. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment loss would increase the recorded costs and expenses and decrease assets.

Allowance for impairment amounted to ₱1,054 million and ₱966 million as at December 31, 2017 and 2016, respectively. Receivables, including noncurrent portion of receivables from sale of real estate, amounted to ₱50,131 million and ₱43,360 million as at December 31, 2017 and 2016, respectively (see Notes 8 and 16).

Net Realizable Value of Condominium and Residential Units for Sale and Land and Development. The Company writes down the carrying value of condominium and residential units for sale and land and development when the net realizable value becomes lower than the carrying value due to changes in market prices or other causes. The net realizable value is assessed with reference to market price at the balance sheet date for similar completed property, less estimate cost to complete the construction and estimated cost to sell. The carrying value is reviewed regularly for any decline in value.

The carrying values of condominium and residential units for sale and land and development amounted to ₱8,733 million and ₱58,666 million as at December 31, 2017, respectively, and ₱7,788 million and ₱44,119 million as at December 31, 2016, respectively (see Notes 9 and 10).

Impairment of AFS Investments - Calculation of Impairment Losses. The computation for the 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 Company expands its analysis to consider 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 investments.

The carrying values of AFS investments amounted to ₱31,106 million and ₱21,213 million as at December 31, 2017 and 2016, respectively (see Note 11).

Estimated Useful Lives of Property and Equipment and Investment Properties. The useful life of each of the Company'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. A reduction in the estimated useful life of any property and equipment and investment properties would increase the recorded costs and expenses and decrease noncurrent assets.

The aggregate carrying values of property and equipment and investment properties amounted to ₱274,578 million and ₱253,119 million as at December 31, 2017 and 2016, respectively (see Notes 13 and 14).

Impairment of Other Nonfinancial Assets. The Company assesses at each reporting date whether there is an indication that an item of property and equipment, investment properties, investments in associates and joint ventures and other noncurrent assets (excluding time deposits) may be impaired. Determining the value in use of the assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have a material impact on the consolidated financial position and performance.

The preparation of the estimated future cash flows involves judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges.

The aggregate carrying values of property and equipment, investment properties, investments in associates and joint ventures and other noncurrent assets (excluding time deposits) amounted to ₱337,767 million and ₱311,393 million as at December 31, 2017 and 2016, respectively (see Notes 13, 14, 15 and 16).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) and net operating loss carryover (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. Consequently, only a portion of the Company's deferred tax assets was recognized.

Deferred tax assets - net recognized in the consolidated balance sheets amounted to ₱1,114 million and ₱1,138 million as at December 31, 2017 and 2016, respectively (see Note 26).

Fair Value of Assets and Liabilities. The Company carries and discloses certain assets and liabilities at fair value, which requires extensive use of accounting judgments and estimates. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in the fair value of these assets and liabilities that are carried in the consolidated financial statements would directly affect consolidated profit or loss and consolidated other comprehensive income.

The fair value of assets and liabilities are discussed in Notes 14 and 29.

Contingencies. The Company is currently involved in various legal and administrative proceedings. The estimate of the probable costs for the resolution of these proceedings has been developed in consultation with in-house as well as outside legal counsel handling defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its consolidated financial position and performance. It is possible, however, that future consolidated financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No provisions were made in relation to these proceedings (see Note 32).

Reclassification of Accounts

The Company changed the presentation of its consolidated balance sheet as at December 31, 2016 to appropriately present condominium and residential units for sale and current portion of land and development. The Company did not present a consolidated balance sheet as at the beginning of the earliest comparative period since the reclassifications do not have any impact on the consolidated balance sheets as at December 31, 2016 and January 1, 2016.

3. Summary of Significant Accounting and Financial Reporting Policies

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

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

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*, require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

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

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

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

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

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

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

  The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's impairment of financial assets. The adoption will not have a significant impact on the Company's effective hedges since PFRS 9 does not change the general principles of how an entity accounts for effective hedges. The Company is currently assessing the impact of adopting this standard.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*, address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

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

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRS* 2014 - 2016 Cycle), clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. The Company is currently assessing the impact of adopting this standard.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) - 22, *Foreign Currency Transactions and Advance Consideration*, clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Company is currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*, allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Company is currently assessing the impact of adopting this standard.

- PFRS 16, *Leases*, 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 (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). 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 (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*, clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Company is currently assessing the impact of adopting this standard.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*, addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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

- How an entity considers changes in facts and circumstances

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

Deferred effectivity

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

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board 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.

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 from acquisition date and are subject to an insignificant risk of change in value.

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

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

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

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

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

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

Assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

"Day 1" Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset or liability. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition. The Company recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. Derivatives are recognized on a trade date basis.

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

The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, AFS investments and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

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 at FVPL.

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including any separated derivatives, are also classified under financial assets or liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Gains or losses on investments held for trading are recognized in the consolidated statements of income under “Others - net” account. Interest income on investments held for trading is included in the consolidated statements of income under the “Interest and dividend income” account. Instruments under this category are classified as current assets/liabilities if these are held primarily for the purpose of trading or expected to be realized/settled within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets/liabilities.

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 performances 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.

Classified as financial assets at FVPL are the Company’s investments held for trading and derivative assets. The aggregate carrying values of financial assets under this category amounted to ₱4,278 million and ₱6,021 million as at December 31, 2017 and 2016, respectively. Classified as financial liabilities at FVPL are the Company’s derivative liabilities amounting to ₱777 million and nil as at December 31, 2017 and 2016, respectively (see Note 29).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statements 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 from reporting period. Otherwise, these are classified as noncurrent assets.

Classified under this category are cash and cash equivalents, receivables (including noncurrent portion of receivables from sale of real estate), cash in escrow (included under “Prepaid expenses and other current assets" account) and time deposits (included under "Other noncurrent assets" account). Other than those loans and receivables whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial assets under this category amounted to ₱19,654 million and ₱14,482 million as at December 31, 2017 and 2016, respectively (see Note 29).

AFS Investments. AFS investments are nonderivative financial assets that are designated under this category or 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 sheets. Changes in the fair value of such assets are reported as net unrealized gain or loss on AFS investments in the consolidated statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in the consolidated statements of comprehensive income is transferred to the consolidated statements of income. Interest earned on holding AFS investments are recognized in the consolidated statements of income using the effective interest method. Assets under this category are classified as current assets if expected to be disposed of within twelve months from reporting period and as noncurrent assets if expected date of disposal is more than twelve months from reporting period.

Classified under this category are the investments in quoted and unquoted shares of stocks of certain companies. The carrying values of financial assets classified under this category amounted to ₱31,106 million and ₱21,213 million as at December 31, 2017 and 2016, respectively (see Note 29).

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the 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 statements of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent liabilities.

Classified under this category are loans payable, accounts payable and other current liabilities, long-term debt, tenants' and customers' deposits, liability for purchased land and other noncurrent liabilities (except for taxes payables and other payables covered by other accounting standards). Other than those other financial liabilities whose carrying values are reasonable approximation of fair values, the aggregate carrying values of financial liabilities under this category amounted to ₱191,183 million and ₱176,598 million as at December 31, 2017 and 2016, respectively (see Note 29).

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;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; 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 Company 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 Costs
Debt issue costs are presented as reduction in long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Derivative Financial Instruments
The Company uses various derivative financial instruments such as non-deliverable forwards and cross currency swaps to hedge the risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment or accounted for as derivative not designated as accounting hedges.

The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the consolidated statements of income. To qualify for hedge accounting, the hedging relationship must comply with strict requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company's derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges (see Note 29).

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 statements of income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as "Net fair value changes on cash flow hedges" in the consolidated statements of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in the consolidated statements of income under "Others - net" account (see Note 29).

Amounts taken to equity are transferred to the consolidated statements 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 other comprehensive income 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 “Net fair value changes on cash flow hedges” is retained in the other comprehensive income until the hedged transaction impacts the consolidated statements of income. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously reported in the consolidated statements of comprehensive income is recognized immediately in the consolidated statements of income.

Other Derivative Instruments Not Accounted for as Hedges. Certain freestanding derivative instruments that provide economic hedges under the Company’s policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately under “Others - net” account in the consolidated statements of income (see Note 29). Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivatives. An embedded derivative is a component of a hybrid instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. 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 instrument is not recognized at FVPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. 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 reassessment is required. The Company 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 flow on the contract.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company’s consolidated balance sheet) when:

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

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

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets
The Company 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 and only 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 Company 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 the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the impaired asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statements of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. 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 future write-off is later recovered, the recovery is recognized in the consolidated statements of income under "Others - net" account.

Financial Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred in 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. In the case of equity instruments classified as AFS investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its 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 statements of income - is removed from the consolidated statements of comprehensive income and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in the consolidated statements 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 and dividend income" account in the consolidated statements of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements 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 a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company 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 Company and all of the counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated balance sheet.

Land and Development and Condominium and Residential Units for Sale

Land and development and condominium and residential units for sale are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less costs to complete and the estimated cost to make the sale. Land and development and condominium and residential units for sale include properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation.

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

- Land cost;

- Amounts paid to contractors for construction and development; and
- Borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

Prepaid Expenses and Other Current Assets
Other current assets consist of advances to suppliers and contractors, advances for project development, input tax, creditable withholding taxes, deposits, cash in escrow, prepayments and others. Advances to contractors are carried at cost. These represent advance payments to contractors for the construction and development of the projects. These are recouped upon every progress billing payment depending on the percentage of accomplishment. Advances for project development represent advances made for the purchase of land and is stated initially at cost. Advances for project development are subsequently measured at cost, net of any impairment. Prepaid taxes and other prepayments are carried at cost less amortized portion. These include prepayments for taxes and licenses, rent, advertising and promotions and insurance. Deposits represent advances made for acquisitions of property for future development and of shares of stocks.

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 corporate 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. Otherwise, the acquisition is accounted for as a business combination.

Business combinations are accounted for using the acquisition method. Applying the acquisition method requires the (a) determination whether the Company will be identified as the acquirer, (b) determination of the acquisition date, (c) recognition and measurement of the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree and (d) recognition and measurement of goodwill or a gain from a bargain purchase.

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 Company measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in the costs and expenses.

When the Company 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 Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Company is 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 is recognized in accordance with PAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled and final difference is recognized within equity.

Common Control Business Combinations

Business combinations involving entities or businesses under common control are business combinations in which all of the entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for similar to pooling of interests method. Under the pooling of interests method:

- The assets, liabilities and equity of the acquired companies for the reporting period in which the common control business combinations occur and for the comparative periods presented, are included in the consolidated financial statements at their carrying amounts as if the consolidation had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the acquisition;
- No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination;
- The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired companies is considered as equity adjustment from business combinations, included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheets; and
- 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.

Acquisition of Non-controlling Interests

Changes in a parent'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 and included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheets.

Property and Equipment

Property and equipment, except land and construction in progress, is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. 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 on funds borrowed to finance the construction of the projects. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the item has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

Land improvements	5 years
Buildings	10–25 years
Leasehold improvements	5–10 years or term of the lease, whichever is shorter
Data processing equipment	5–8 years
Transportation equipment	5–6 years
Furniture, fixtures and 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 each reporting period.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

An item of property and equipment is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses arising on the retirement and disposal of an item of property and equipment are recognized in the consolidated statements of income in the period of retirement or disposal.

Investment Properties

Investment properties are measured initially at cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable costs. Subsequently, investment properties, except land and construction in progress, are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Property under construction or development for future use as an investment property is classified as investment property.

Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

Land improvements	5 years
Buildings and improvements	20–40 years
Building equipment, furniture and others	3–15 years
Building and leasehold improvements	5 years or term of 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 each reporting period.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction, property and equipment, and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and are ready for use.

Investment property is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of income in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or 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 Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investments in Associates and Joint Ventures

An associate is an entity over which the Company 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 type of 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 are similar to those necessary to determine control over subsidiaries.

The Company's investments in shares of stocks of associates and joint ventures are accounted for under the equity method of accounting.

Under the equity method, investment in an associate or a joint venture is carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share in the net asset of the associate or joint venture. The consolidated statements of income reflects the share in the result of operations of the associate or joint venture under "Others-net" account. Where there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share in any changes and discloses this, when applicable, in the consolidated statements of income. Profit and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate or joint venture. An investment in associate or joint venture is accounted for using the equity method from the date when it becomes an 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 identifiable assets, liabilities and contingent liabilities is accounted for as follow:

- 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 Company's share in the associate's or joint venture's profits or losses.

- Any excess of the Company's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share in the associate's or joint venture's profit or loss in the period in which the investment is acquired.

Also, appropriate adjustments to the Company'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.

The Company discontinues the use of equity method from the date when it ceases to have significant influence or joint control over an associate or joint venture and accounts for the investment in accordance with PAS 39, from that date, provided the associate or joint venture does not become a subsidiary. Upon loss of significant influence or joint control over the associate or joint venture, the Company measures and recognizes any remaining investment at its fair value. Any difference in the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in the consolidated statements of income. When the Company's interest in an investment in associate or joint venture is reduced to zero, additional losses are provided only to the extent that the Company has incurred obligations or made payments on behalf of the associate or joint venture to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate or joint venture subsequently reports profits, the Company resumes recognizing its share of the profits if it equals the share of net losses not recognized.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Company. The accounting policies of the associates and joint ventures conform to those used by the Company for like transactions and events in similar circumstances.

<u>Other Noncurrent Assets</u>
Other noncurrent assets consist of bonds and deposits, receivables from sale of real estate - net of current portion, land use rights, time deposits, deferred input tax and others. Other noncurrent assets are carried at cost. Land use rights are amortized over its useful life of 40 to 60 years.

<u>Impairment of Nonfinancial Assets</u>
The carrying values of property and equipment, investment properties, investments in associates and joint ventures and other noncurrent assets (excluding time deposits) are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, 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 cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements 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. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements 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.

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

Customers' Deposits
Customers' deposits mainly represent reservation fees and advance payments. These deposits will be recognized as revenue in the consolidated statements of income as the related obligations to the real estate buyers are fulfilled.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as "Additional paid-in capital - net" account.

Retained Earnings
Retained earnings represent accumulated net profits, net of dividend distributions and other capital adjustments.

Treasury Stock
Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at cost. No gain or loss is recognized in the consolidated statements of income on the purchase, sale, issuance or cancellation of own equity instruments.

Dividends
Dividends on common shares are recognized as liability and deducted from equity when approved by the BOD. Dividends for the year that are approved after balance sheet date are dealt with as an event after the reporting period.

Revenue
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company 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 Company assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Company has concluded that it is acting as principal in majority of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Real Estate. The Company assesses whether it is probable that the economic benefits will flow to the Company when the sales prices are collectible. Collectibility of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectibility is also assessed by considering factors such as collections, credit standing of the buyer and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Company 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' and customers' deposits" account in the consolidated balance sheets. If any of the criteria under the full accrual or percentage-of-completion 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 are presented under the "Tenants' and customers' deposits" account in the consolidated balance sheets.

Revenue from construction contracts included in the "Revenue from sale of real estate" account in the consolidated statements of income is recognized using the percentage-of-completion method, measured principally on the basis of the estimated physical completion of the contract work.

Rent. Revenue is recognized on a straight-line basis over the lease term or based on the terms of the lease as applicable.

Sale of Cinema, Event and Amusement Tickets and Merchandise. Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services or the delivery of merchandise. Revenue from sale of amusement tickets and merchandise are included in the "Revenue - Others" account in the consolidated statements of income.

Dividend. Revenue is recognized when the Company's right as a shareholder to receive the payment is established. These are included in the "Interest and dividend income" account in the consolidated statements of income.

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

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Room Rentals, Food and Beverage, and Others. Revenue from room rentals is recognized on actual occupancy, food and beverage sales when orders are served, and other operated departments when the services are rendered. Revenue from other operated departments include, among others, business center, laundry service, and telephone service. Revenue from food and beverage sales and other hotel revenue are included under the "Revenue - Others" account in the consolidated statements of income.

Management Fees
Management fees are recognized as expense in accordance with the terms of the agreements.

Cost and Expenses

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

The cost of inventory recognized in the consolidated statements 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 percentage of completion used for revenue recognition purposes.

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

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

Pension Benefits
The Company is a participant in the SM Corporate and Management Companies Employer Retirement Plan. The plan is a funded, noncontributory defined benefit retirement plan administered by a Board of Trustees covering all regular full-time employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries. 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, if any, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit pension costs comprise the following:

- Service cost
- Net interest on the net defined benefit obligation or asset
- Remeasurements of net defined benefit obligation or asset

Service cost which includes current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of "Costs and expenses" under "Administrative" account in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit obligation or asset is the change during the period in the net defined benefit obligation 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 obligation or asset is recognized as part of "Costs and expenses" under "Administrative" account in the consolidated statements of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Foreign Currency-denominated Transactions
The consolidated financial statements are presented in Philippine peso, which is SMPH's functional and presentation currency. 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 at reporting period. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial recognition. All differences are taken to the consolidated statements of income.

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

Company as Lessee. Finance leases, which transfer to the Company 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 statements of income.

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

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

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

Provisions

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

Borrowing Costs

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

Borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost. The Company limits exchange losses taken as amount of borrowing costs to the extent that the total borrowing costs capitalized do not exceed the amount of borrowing costs that would be incurred on functional currency equivalent borrowings. The amount of foreign exchange differences eligible for capitalization is determined for each period separately. Foreign exchange losses that did not meet the criteria for capitalization in previous years are not capitalized in subsequent years. All other borrowing costs are expensed as incurred.

Taxes

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

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on temporary differences at reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT and NOLCO can be utilized, except:

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

The carrying amount of deferred tax assets is reviewed at 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 each reporting period and are recognized to the extent that it has become probable that 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 at reporting period.

Income tax relating to items recognized directly in the consolidated statements of comprehensive income is recognized in the consolidated statements of comprehensive income and not in the consolidated statements 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 the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax (VAT). Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as part of "Accounts payable and other current liabilities" account in the consolidated balance sheets. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output

VAT), the excess is recognized as part of "Prepaid expenses and other current assets" account in the consolidated balance sheets to the extent of the recoverable amount.

Business Segments
The Company is organized and managed separately according to the nature of business. The four operating business segments are mall, residential, commercial and hotels and convention centers. These operating businesses are the basis upon which the Company reports its segment information presented in Note 4 to the consolidated financial statements.

Basic/Diluted Earnings Per Common Share (EPS)
Basic EPS is computed by dividing the net income for the period attributable to owners of the Parent by the weighted-average number of issued and outstanding common shares during 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 dilutive potential ordinary shares, if any.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to 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 consolidated financial statements when an inflow of economic benefits is probable.

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

4. Segment Information

For management purposes, the Company is organized into business units based on their products and services, and has four reportable operating segments as follows: mall, residential, commercial and hotels and convention centers.

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, or cinema theaters 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.

Hotels and convention centers segment engages in and carry on the business of hotel and convention centers and operates and maintains any and all services and facilities incident thereto.

Management, through the Executive Committee, monitors the operating results of its business units separately 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.

The amount of segment assets and liabilities and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets and liabilities and profit or loss in the consolidated financial statements, which is in accordance with PFRS.

Inter-segment Transactions
Transfer prices between business segments are set on an arm's length basis similar to transactions with nonrelated parties. Such transfers are eliminated in the consolidated financial statements.

Business Segment Data

	2017					
	Mall	**Residential**	**Commercial**	**Hotels and Convention Centers**	**Eliminations**	**Consolidated Balances**
	(In Thousands)					
Revenue:						
External customers	**₱53,102,361**	**₱30,039,222**	**₱2,998,731**	**₱4,781,536**	**₱–**	**₱90,921,850**
Inter-segment	**93,279**	**–**	**61,767**	**15,472**	**(170,518)**	**–**
	₱53,195,640	**₱30,039,222**	**₱3,060,498**	**₱4,797,008**	**(₱170,518)**	**₱90,921,850**
Segment results:						
Income before income tax	**₱24,669,099**	**₱7,932,778**	**₱2,471,844**	**₱1,156,616**	**(₱282,476)**	**₱35,947,861**
Provision for income tax	**(6,237,757)**	**(876,195)**	**(443,757)**	**(265,689)**	**–**	**(7,823,398)**
Net income	**₱18,431,342**	**₱7,056,583**	**₱2,028,087**	**₱890,927**	**(₱282,476)**	**₱28,124,463**
Net income attributable to:						
Equity holders of the Parent	**₱17,883,603**	**₱7,053,725**	**₱2,028,087**	**₱890,927**	**(₱282,476)**	**₱27,573,866**
Non-controlling interests	**547,739**	**2,858**	**–**	**–**	**–**	**550,597**
Segment assets	**₱354,773,934**	**₱136,663,121**	**₱36,930,208**	**₱11,714,059**	**(₱1,663,724)**	**₱538,417,598**
Segment liabilities	**₱204,608,715**	**₱68,954,662**	**₱2,577,233**	**₱1,066,798**	**(₱1,663,724)**	**₱275,543,684**
Other information:						
Capital expenditures	**₱23,635,417**	**₱29,951,127**	**₱3,937,079**	**₱761,980**	**₱–**	**₱58,285,603**
Depreciation and amortization	**7,814,104**	**191,829**	**397,705**	**555,532**	**–**	**8,959,170**

	2016					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
	(In Thousands)					
Revenue:						
External customers	₱48,527,870	₱25,418,929	₱2,668,059	₱3,201,373	₱–	₱79,816,231
Inter-segment	72,562	–	68,879	16,321	(157,762)	–
	₱48,600,432	₱25,418,929	₱2,736,938	₱3,217,694	(₱157,762)	₱79,816,231
Segment results:						
Income before income tax	₱22,389,603	₱6,455,501	₱2,096,048	₱579,574	(₱532,049)	₱30,988,677
Provision for income tax	(5,473,398)	(655,333)	(347,946)	(144,376)	–	(6,621,053)
Net income	₱16,916,205	₱5,800,168	₱1,748,102	₱435,198	(₱532,049)	₱24,367,624
Net income attributable to:						
Equity holders of the Parent	₱16,356,409	₱5,798,053	₱1,748,102	₱435,198	(₱532,049)	₱23,805,713
Non-controlling interests	559,796	2,115	–	–	–	561,911
Segment assets	₱311,310,987	₱110,461,400	₱33,195,556	₱11,748,400	(₱1,156,211)	₱465,560,132
Segment liabilities	₱176,037,532	₱52,504,057	₱2,190,109	₱621,101	(₱1,156,211)	₱230,196,588
Other information:						
Capital expenditures	₱24,126,694	₱14,421,200	₱3,921,999	₱1,200,868	₱–	₱43,670,761
Depreciation and amortization	6,847,363	178,205	384,758	404,018	–	7,814,344

	2015					
	Mall	Residential	Commercial	Hotels and Convention Centers	Eliminations	Consolidated Balances
			(In Thousands)			
Revenue:						
External customers	₱44,518,043	₱22,563,483	₱1,989,115	₱2,440,646	₱–	₱71,511,287
Inter-segment	27,504	–	78,577	5,690	(111,771)	–
	₱44,545,547	₱22,563,483	₱2,067,692	₱2,446,336	(₱111,771)	₱71,511,287
Segment results:						
Income before income tax	₱20,640,566	₱5,631,428	₱1,336,827	₱534,543	₱6,767,475	₱34,910,839
Provision for income tax	(5,033,854)	(582,125)	(236,920)	(165,347)	–	(6,018,246)
Net income	₱15,606,712	₱5,049,303	₱1,099,907	₱369,196	₱6,767,475	₱28,892,593
Net income attributable to:						
Equity holders of the Parent	₱15,016,211	₱5,049,303	₱1,099,907	₱369,196	₱6,767,475	₱28,302,092
Non-controlling interests	590,501	–	–	–	–	590,501
Segment assets	₱288,016,835	₱108,039,083	₱29,232,120	₱10,804,808	(₱1,126,561)	₱434,966,285
Segment liabilities	₱162,413,919	₱53,836,027	₱3,357,590	₱642,463	(₱1,126,561)	₱219,123,438
Other information:						
Capital expenditures	₱37,242,806	₱15,783,600	₱993,320	₱2,845,821	₱–	₱56,865,547
Depreciation and amortization	6,099,781	190,584	336,757	339,830	–	6,966,952

For the years ended December 31, 2017, 2016 and 2015, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

5. Business Combinations

Common Control Business Acquisitions

In January 2017, the Parent Company, through SM Lifestyle Entertainment Inc. (SMLEI), acquired 90% of the outstanding common stock of Family Entertainment Center, Inc.. The companies involved are all under common control by the Sy Family thus the acquisition was considered as common control business combinations and was accounted for using the pooling of interest method. Assets, liabilities and equity of the acquired businesses are included in the consolidated financial statements at their carrying amounts. No restatement of prior period was made as a result of the acquisitions due to immateriality. Had the Company restated its prior period financial statements, net income for the year ended December 31, 2016 would have decreased by ₱5 million.

In December 2016, the Parent Company, through PCPMC, acquired 90% each of the outstanding common stock of Shopping Center Management Corporation (SCMC) and SMLEI. The companies involved are all under the common control by the Sy Family. Thus, the acquisitions were considered as common control business combinations and were accounted for using the pooling of interest method. Assets, liabilities and equity of the acquired businesses are included in the consolidated financial statements at their carrying amounts. No restatement of prior period was made as a result of the acquisitions due to immateriality. Had the Company restated its prior period financial statements, net income for the year ended December 31, 2015 would have increased by ₱53 million. The excess of the cost of business combination over the net carrying amounts amounting to ₱242 million is included under "Additional paid-in capital - net" account in the equity section of the consolidated balance sheets.

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

<u>Other Business Acquisitions</u>
In September 2016, the Company entered into a Binding Share Purchases Agreement for the acquisition of 70% interest in Mindpro for a total purchase consideration of ₱550 million. Mindpro is engaged in the business of shopping mall operations which owns The Mindpro Citimall in Zamboanga.

Total identifiable assets acquired amounted to ₱843 million, which mainly consist of investment properties amounting to ₱750 million and cash and other assets amounting to ₱93 million. Total identifiable liabilities acquired amounted to ₱68 million. No goodwill is recognized upon completion of the acquisition. Non-controlling interest at acquisition date amounted to ₱225 million which represents its proportionate share in the recognized amounts of Mindpro's identifiable net assets. The net cash outflow and impact to the Company's consolidated revenue and net income for the year ended December 31, 2016 had the acquisition took place on January 1, 2016 are immaterial.

6. Cash and Cash Equivalents

This account consists of:

	2017	2016
	(In Thousands)	
Cash on hand and in banks (see Note 21)	**₱2,170,090**	₱1,657,565
Temporary investments (see Note 21)	**42,201,444**	23,543,417
	₱44,371,534	₱25,200,982

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective temporary investment rates.

Interest income earned from cash in banks and temporary investments amounted to ₱723 million, ₱652 million and ₱468 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 24).

7. Investments Held for Trading

This account consists of investments in Philippine and United States (U.S.) government and corporate bonds and listed common shares. The Philippine government and corporate bonds have yields ranging from 2.58% to 7.22% in 2016. These Philippine peso-denominated and U.S. dollar-denominated corporate bonds matured in 2017.

The movements in this account are as follows:

	2017	2016
	(In Thousands)	
At beginning of the year	**₱918,702**	₱843,256
Mark-to-market gain (loss) during the year	**(13,690)**	61,424
Unrealized foreign exchange gain	**–**	14,022
Disposals - net	**(173,936)**	–
At end of the year	**₱731,076**	₱918,702

Mark-to-market gain (loss) on changes in fair value of investments held for trading are included under “Others - net” account in the consolidated statements of income.

Interest income earned from investments held for trading amounted to ₱15 million, ₱18 million and ₱18 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 24).

Dividend income earned from investments held for trading amounted to ₱16 million, ₱15 million and ₱14 million for the years ended December 31, 2017, 2016 and 2015, respectively.

8. Receivables

This account consists of:

	2017	2016
	(In Thousands)	
Trade:		
Sale of real estate	**₱40,355,345**	₱34,390,089
Rent:		
Third parties	**5,162,398**	4,553,363
Related parties (see Note 21)	**2,716,458**	2,495,732
Others (see Note 21)	**136,580**	143,754
Receivable from a co-investor (see Note 15)	**286,603**	267,390
Nontrade	**145,151**	19,145
Accrued interest (see Note 21)	**135,831**	115,680
Due from related parties (see Note 21)	**130**	166,818
Others (see Note 21)	**2,246,437**	2,174,413
	51,184,933	44,326,384
Less allowance for impairment	**1,053,582**	966,427
	50,131,351	43,359,957
Less noncurrent portion of receivables from sale of real estate (see Note 16)	**15,854,070**	10,526,627
	₱34,277,281	₱32,833,330

The terms and conditions of the above receivables are as follows:

- Trade receivables from tenants are noninterest-bearing and are normally collectible on a 30 to 90 days’ term. Trade receivables from sale of real estate pertains to sold condominium and residential units at various terms of payments.

  The Company assigned receivables from sale of real estate on a without recourse basis to local banks amounting to ₱4,924 million and ₱3,297 million for the years ended December 31, 2017 and 2016, respectively (see Note 21).

  The Company also has assigned receivables from real estate on a with recourse basis to local banks with outstanding balance of ₱515 million and nil as at December 31, 2017 and 2016, respectively. The related liability from assigned receivables, which is of equal amount with the assigned receivables, bear interest rate of 3.50% in 2017. The fair value of the assigned receivables and liability from assigned receivables approximates its cost.

- Receivables from a co-investor represents the consideration receivable by Tennant Range Corporation (TRC), a BVI subsidiary holding company of SM Land China, in connection with the agreement with a third party (see Note 15).

- Accrued interest and other receivables are normally collected throughout the financial period.

Interest income earned from receivables totaled ₱57 million, ₱51 million and ₱70 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 24).

The movements in the allowance for impairment related to receivables from sale of real estate and other receivables are as follows:

	2017	2016
	(In Thousands)	
At beginning of the year	**₱966,427**	₱965,859
Provision for impairment - net	**87,155**	568
At end of the year	**₱1,053,582**	₱966,427

The aging analyses of receivables as at December 31 are as follows:

	2017	2016
	(In Thousands)	
Neither past due nor impaired	**₱42,445,512**	₱35,829,127
Past due but not impaired:		
Less than 30 days	**2,309,905**	2,260,969
31–90 days	**1,812,566**	1,696,319
91–120 days	**815,749**	550,941
Over 120 days	**2,747,619**	3,022,601
Impaired	**1,053,582**	966,427
	₱51,184,933	₱44,326,384

Receivables, except for those that are impaired, are assessed by the Company's management as not impaired, good and collectible.

9. Condominium and Residential Units for Sale

This account consists of:

	2017	2016
	(In Thousands)	
Condominium units for sale	**₱8,566,351**	₱7,505,117
Residential units and subdivision lots	**166,948**	282,432
	₱8,733,299	₱7,787,549

The movements in "Condominium units for sale" account are as follows:

	2017	2016
	(In Thousands)	
At beginning of the year	**₱7,505,117**	₱7,780,550
Transfer from land and development (see Note 10)	**5,380,827**	6,066,187
Cost of real estate sold (see Note 23)	**(4,319,593)**	(6,341,620)
At end of the year	**₱8,566,351**	₱7,505,117

Condominium units for sale pertains to completed projects and are stated at cost as at December 31, 2017 and 2016.

The movements in "Residential units and subdivision lots" account are as follows:

	2017	2016
	(In Thousands)	
At beginning of the year	**₱282,432**	₱384,431
Transfer from land and development (see Note 10)	**309,736**	32,300
Cost of real estate sold (see Note 23)	**(425,220)**	(134,299)
At end of the year	**₱166,948**	₱282,432

Residential units and subdivision lots for sale are stated at cost as at December 31, 2017 and 2016.

10. Land and Development

This account consists of:

	2017	2016
	(In Thousands)	
Land and development	**₱57,112,468**	₱42,273,373
Land held for future development	**1,553,706**	1,845,755
	58,666,174	44,119,128
Less noncurrent portion	**36,148,036**	19,472,641
	₱22,518,138	₱24,646,487

Land and Development

The movements in "Land and development" account are as follows:

	2017	2016
	(In Thousands)	
At beginning of the year	**₱42,273,372**	₱41,053,508
Development cost incurred	**16,792,977**	12,709,974
Land acquisitions	**13,111,730**	1,119,820
Capitalized borrowing cost	**38,240**	37,060
Cost of real estate sold (see Note 23)	**(10,406,991)**	(6,641,222)
Transfer to condominium and residential units for sale (see Note 9)	**(5,690,563)**	(6,098,487)
Reclassified from investment properties (see Note 14)	**349,045**	–
Reclassified from other noncurrent assets (see Note 16)	**247,925**	–
Others	**396,733**	92,720
At end of the year	**₱57,112,468**	₱42,273,373

The average rates used to determine the amount of borrowing costs eligible for capitalization range from 3.52% to 4.57% in 2017 and from 3.52% to 4.25% in 2016.

Estimated cost to complete the projects amounted to ₱53,324 million and ₱42,376 million as at December 31, 2017 and 2016, respectively.

Land Held for Future Development
This represents substantially parcels of land acquired by HPI from Belle Corporation (Belle). The movements in "Land held for future development" are as follows:

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

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

11. Available-for-sale Investments

This account consists of investments in:

	2017	2016
	(In Thousands)	
Shares of stock:		
Listed (see Note 21)	**₱31,090,564**	₱21,202,713
Unlisted	**15,581**	10,012
	31,106,145	21,212,725
Less noncurrent portion	**30,464,845**	20,548,119
	₱641,300	₱664,606

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

On February 25, 2015, the Company sold a portion of its listed shares of stock to SMIC based on a 5% discount to 30-day volume-weighted average price as of trade date resulting to a realized gain amounting to ₱7,410 million (see Note 21).

Dividend income from investments in listed and unlisted shares of stock amounted to ₱354 million, ₱327 million and ₱541 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 21).

The movements in the "Net unrealized gain on AFS investments" account are as follows:

	2017	2016
	(In Thousands)	
At beginning of the year	**₱17,502,410**	₱16,621,547
Unrealized gain due to changes in fair value	**7,987,295**	880,863
At end of the year	**₱25,489,705**	₱17,502,410

12. **Prepaid Expenses and Other Current Assets**

This account consists of:

	2017	2016
	(In Thousands)	
Advances and deposits	**₱6,035,736**	₱5,429,448
Input and creditable withholding taxes	**5,219,909**	3,292,430
Prepaid taxes and other prepayments	**2,619,209**	2,478,393
Supplies and inventories	**370,337**	478,415
Cash in escrow (see Notes 21 and 28)	**50,881**	209,974
Others	**7,340**	10,240
	₱14,303,412	₱11,898,900

- Advances and deposits pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of accomplishment. This account also includes construction bonds, rental deposits and deposits for utilities and advertisements.

- Input tax represents VAT paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription. Creditable withholding tax is the tax withheld by the withholding agents from payments to the Company which can be applied against the income tax payable.

- Prepaid taxes and other prepayments consist of prepayments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial period.

- Cash in escrow pertains to the amounts deposited in the account of an escrow agent as required by the Housing and Land Use Regulatory Board (HLURB) in connection with SMDC's temporary license to sell properties for specific projects prior to HLURB's issuance of a license to sell and certificate of registration. Under this temporary license to sell, all payments, inclusive of down payments, reservation and monthly amortization, among others, made by buyers within the selling period shall be deposited in the escrow account.

  Also included in cash in escrow are deposits made in 2017 and 2016 for payments of liability arising from acquisition of land.

  Interest income earned from the cash in escrow amounted to ₱2 million, ₱3 million and ₱8 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 24).

13. Property and Equipment

The movements in this account are as follows:

	Land and Improvements	Buildings and Leasehold Improvements	Data Processing Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Construction in Progress	Total
				(In Thousands)			
Cost							
Balance at December 31, 2015	₱217,524	₱1,623,641	₱169,714	₱247,536	₱618,188	₱–	₱2,876,603
Additions	1,368	156,730	28,532	105,158	66,090	–	357,878
Disposals	–	(1,512)	(287)	(1,224)	(28,891)	–	(31,914)
Reclassifications	–	(134,337)	–	–	–	–	(134,337)
Balance at December 31, 2016	218,892	1,644,522	197,959	351,470	655,387	–	3,068,230
Additions	1,323	95,147	21,676	2,808	26,824	312	148,090
Disposals/retirements	–	(174,933)	(280)	(1,004)	–	–	(176,217)
Reclassifications	–	208,684	67,958	(286,072)	9,430	–	–
Balance at December 31, 2017	₱220,215	₱1,773,420	₱287,313	₱67,202	₱691,641	₱312	₱3,040,103
Accumulated Depreciation and Amortization							
Balance at December 31, 2015	₱96	₱612,207	₱107,145	₱119,727	₱357,046	₱–	₱1,196,221
Depreciation and amortization (see Note 23)	142	101,421	33,812	41,653	88,008	–	265,036
Disposals/retirements	–	–	(55)	(1,224)	(9,828)	–	(11,107)
Reclassifications	–	(1,521)	–	–	–	–	(1,521)
Balance at December 31, 2016	238	712,107	140,902	160,156	435,226	–	1,448,629
Depreciation and amortization (see Note 23)	177	148,281	29,200	5,264	75,515	–	258,437
Disposals/retirements	–	(159,116)	(270)	(1,004)	–	–	(160,390)
Reclassifications	–	43,329	45,545	(105,406)	16,532	–	–
Balance at December 31, 2017	₱415	₱744,601	₱215,377	₱59,010	₱527,273	₱–	₱1,546,676
Net Book Value							
As at December 31, 2016	₱218,654	₱932,415	₱57,057	₱191,314	₱220,161	₱–	₱1,619,601
As at December 31, 2017	**219,800**	**1,028,819**	**71,936**	**8,192**	**164,368**	**312**	**1,493,427**

As at December 31, 2017 and 2016, the carrying amount of fully depreciated property and equipment still in use amounted to ₱312 million and ₱255 million, respectively.

14. Investment Properties

The movements in this account are as follows:

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
Balance as at December 31, 2015	₱59,205,015	₱161,396,681	₱29,014,566	₱31,964,876	₱281,581,138
Effect of common control business combination (see Note 5)	34,819	–	102,634	–	137,453
Additions	5,638,320	7,002,148	3,580,221	13,212,070	29,432,759
Reclassifications	(1,523,350)	21,476,766	354,248	(20,575,261)	(267,597)
Translation adjustment	(18,575)	(271,994)	(30,712)	(162,890)	(484,171)
Disposals	(173,291)	(10,535)	(29,063)	–	(212,889)
Balance as at December 31, 2016	63,162,938	189,593,066	32,991,894	24,438,795	310,186,693
Effect of common control business combination (see Note 5)	–	1,047	929	–	1,976
Additions	3,766,470	4,272,682	1,769,895	18,407,346	28,216,393
Reclassifications (see Note 10)	(2,926,085)	11,289,884	1,166,605	(9,879,449)	(349,045)
Translation adjustment	75,699	2,459,685	193,841	215,944	2,945,169
Disposals	(11,538)	(162,144)	(45,913)	–	(219,595)
Balance as at December 31, 2017	₱64,067,484	₱207,454,220	₱36,077,251	₱33,182,636	₱340,781,591

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Accumulated Depreciation, and Amortization					
Balance as at December 31, 2015	₱1,625,432	₱32,894,247	₱16,721,060	₱–	₱51,240,739
Effect of common control business combination (see Note 5)	20,972	89,402	–	–	110,374
Depreciation and amortization (see Note 23)	192,761	4,891,150	2,465,397	–	7,549,308
Reclassifications	(53,910)	82,369	(67,651)	–	(39,192)
Translation adjustment	(5,838)	(42,625)	(13,615)	–	(62,078)
Disposals	(78,986)	(10,535)	(22,001)	–	(111,522)
Balance as at December 31, 2016	1,700,431	37,904,008	19,083,190	–	58,687,629
Effect of common control business combination (see Note 5)	–	527	769	–	1,296
Depreciation and amortization (see Note 23)	194,050	5,845,746	2,660,937	–	8,700,733
Reclassifications	–	–	–	–	–
Translation adjustment	37,530	325,992	95,175	–	458,697
Disposals	(11,538)	(94,504)	(44,868)	–	(150,910)
Balance as at December 31, 2017	₱1,920,473	₱43,981,769	₱21,795,203	₱–	₱67,697,445
Net Book Value					
As at December 31, 2016	₱61,462,507	₱151,689,058	₱13,908,704	₱24,438,795	₱251,499,064
As at December 31, 2017	**62,147,011**	**163,472,451**	**14,282,048**	**33,182,636**	**273,084,146**

Consolidated rent income from investment properties amounted to ₱51,406 million, ₱45,693 million and ₱40,743 million for the years ended December 31, 2017, 2016 and 2015, respectively. Consolidated costs and expenses from investment properties, which generate income, amounted to ₱30,276 million, ₱26,906 million and ₱23,461 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company acquired several parcels of land through acquisition of certain single-asset entities totaling ₱937 million in 2017 and ₱1,239 million in 2016 (see Note 2).

Construction in progress includes shopping mall complex under construction and landbanking and commercial building constructions amounting to ₱33,183 million and ₱24,439 million as at December 31, 2017 and 2016, respectively.

In 2017, shopping mall complex under construction mainly pertains to cost of land amounting to ₱5,691 million, and costs incurred for the development of SM Urdaneta Central, SM Telebasatagan SM Legaspi, SM Olongapo 2 and SM Dagupan Arellano and the ongoing re-development of SM Mall of Asia.

In 2016, shopping mall complex under construction mainly pertains to cost of land amounting to ₱2,765 million, and costs incurred for the development of SM Cagayan de Oro Premier, SM Puerto Princesa, SM Olongapo 2, SM Center Tuguegarao Downtown and the ongoing redevelopment of SM Mall of Asia, SM Sucat and SM Xiamen.

Construction contracts with various contractors related to the construction of the above-mentioned projects amounted to ₱52,832 million and ₱39,206 million as at December 31, 2017 and 2016, 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 ₱17,631 million and ₱14,610 million as at December 31, 2017 and 2016, respectively.

Interest capitalized to the construction of investment properties amounted to ₱2,299 million, ₱2,921 million and ₱2,039 million for the years ended December 31, 2017, 2016 and 2015, respectively. Capitalization rates used range from 2.35% to 4.77%, from 2.35% to 4.82%, and from

2.06% to 6.07% for the years ended December 31, 2017, 2016 and 2015, respectively. Foreign exchange loss amounting to nil and ₱528 million were also capitalized to the construction of investment property for the years ended December 31, 2017 and 2016, respectively.

The fair value of investment properties amounted to ₱800,445 million as at December 31, 2015 as determined by an independent appraiser who holds a recognized and relevant professional qualification. The valuation of investment properties was based on market values using income approach. The fair value represents the amount at which the assets can be exchanged between a knowledgeable, willing seller and a knowledgeable, willing buyer in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards as set out by the International Valuation Standards Committee.

Below are the significant assumptions used in the valuation:

Discount rate	8.00%–11.00%
Capitalization rate	5.75%–8.50%
Average growth rate	2.34%–12.08%

Investment properties are categorized under Level 3 fair value measurement.

While fair value of the investment properties was not determined as at December 31, 2017 and 2016, the Company's management believes that there were no conditions present in 2017 and 2016 that would significantly reduce the fair value of the investment properties from that determined on December 31, 2015.

The Company has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop or for repairs, maintenance and enhancements.

15. Investments in Associates and Joint Ventures

Investments in Associates

This pertains mainly to investments in the following companies:

- OCLP Holdings, Inc. (OHI)
- Feihua Real Estate (Chongqing) Company Ltd. (FHREC)

On May 7, 2015, SMPH acquired 39.96% collective ownership interest in OHI, through acquisition of 100% interest in six (6) holding entities, for a total consideration of ₱15,433 million, which approximates the proportionate share of SMPH in the fair values of the identifiable net assets of OHI. OHI owns strategic residential, commercial and landbank areas in key cities in Metro Manila.

As at December 31, 2017, OHI's total assets, total liabilities and total equity amounted to ₱26,619 million, ₱21,167 million and ₱5,452 million, respectively. The carrying value of investment in OHI amounted to ₱16,193 million, which consists of its proportionate share in the net assets of OHI amounting to ₱1,661 million and fair value adjustments and others totaling ₱14,532 million.

As at December 31, 2016, OHI's total assets, total liabilities and total equity amounted to ₱22,017 million, ₱17,866 million and ₱4,151 million, respectively. The carrying value of investment in OHI amounted to ₱15,604 million, which consists of its proportionate share in the net assets of OHI amounting to ₱1,661 million and fair value adjustments and others totaling ₱13,943 million.

The share in profit of OHI amounted to ₱589 million, ₱144 million and ₱27 million for the years ended December 31, 2017, 2016 and 2015, respectively. There is no share in other comprehensive income for the years ended December 31, 2017, 2016 and 2015.

On April 10, 2012, SMPH, through TRC, entered into a Memorandum of Agreement with Trendlink Holdings Limited (THL), a third party, wherein Fei Hua Real Estate Company (FHREC), a company incorporated in China and 100% subsidiary of TRC, issued new shares to THL equivalent to 50% equity interest. In addition, THL undertakes to pay for the difference between cash invested and the 50% equity of FHREC and the difference between the current market value and cost of the investment properties of FHREC. Management assessed that FHREC is an associate of SMPH by virtue of the agreement with the shareholders of THL (see Note 8).

The carrying value of investment in FHREC amounted to ₱1,287 million and ₱1,156 million as at December 31, 2017 and 2016, respectively. This consists of the acquisition cost amounting to ₱294 million and ₱274 million as at December 31, 2017 and 2016, respectively, and cumulative equity in net earnings amounting to ₱993 million and ₱882 million as at December 31, 2017 and 2016, respectively. The share in profit amounted to ₱47 million, ₱60 million and ₱356 million for the years ended December 31, 2017, 2016 and 2015, respectively. There is no share in other comprehensive income for the years ended December 31, 2017, 2016 and 2015.

Investment in Joint Ventures
On January 7, 2013, SMPH entered into Shareholders Agreement and Share Purchase Agreement for the acquisition of 51% ownership interest in the following companies (collectively, Waltermart):

- Winsome Development Corporation
- Willin Sales, Inc.
- Willimson, Inc.
- Waltermart Ventures, Inc.
- WM Development, Inc.

On July 12, 2013, the Deeds of Absolute Sale were executed between SMPH and shareholders of Waltermart. Waltermart is involved in shopping mall operations and currently owns 26 malls across Metro Manila and Luzon. The investment in Waltermart is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

The aggregate carrying values of investment in Waltermart amounted to ₱5,977 million and ₱5,773 million as at December 31, 2017 and 2016, respectively. These consist of the acquisition costs totaling ₱5,145 million and cumulative equity in net earnings totaling ₱832 million and ₱628 million as at December 31, 2017 and 2016, respectively. The share in profit amounted to ₱204 million, ₱242 million and ₱199 million for the years ended December 31, 2017, 2016 and 2015, respectively. There is no share in other comprehensive income for the years ended December 31, 2017, 2016 and 2015.

In June 2016, SMDC entered into a shareholder's agreement through ST 6747 Resources Corporation (STRC) for the development of a high-end luxury residential project. Under the provisions of the agreement, each party shall have 50% ownership interest and is required to maintain each party's equal equity interest in STRC.

In 2017, SMDC paid the remaining ownership interest in STRC amounting to ₱750 million. The carrying value of investment in STRC amounted to ₱1,000 million and ₱250 million as at December 31, 2017 and 2016, respectively.

The investment in STRC is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control. As at December 31, 2017, the development of the high-end luxury residential project has not yet started.

In 2016, PSC entered into a joint venture agreement through Metro Rapid Transit Services, Inc. (MRTSI) for the establishment and operation of a high quality public transport system. The investment in MRTSI is accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

The carrying values of investment in MRTSI amounted to ₱31 million and ₱39 million as at December 31, 2017 and 2016, respectively. These consist of the acquisition costs totaling ₱51 million and cumulative equity in net loss totaling ₱20 million and ₱12 million as at December 31, 2017 and 2016, respectively. There is no share in other comprehensive income for the years ended December 31, 2017 and 2016.

The Company has no outstanding contingent liabilities or capital commitments related to its investments in associates and joint ventures as at December 31, 2017 and 2016.

16. Other Noncurrent Assets

This account consists of:

	2017	2016
	(In Thousands)	
Receivables from sale of real estate - net of current portion (see Note 8)	**₱15,854,070**	₱10,526,627
Land use rights (see Note 10)	**10,630,926**	9,727,575
Bonds and deposits	**9,518,290**	11,757,626
Time deposits (see Notes 21 and 29)	**3,800,809**	3,955,706
Deferred input tax	**1,399,343**	1,793,284
Others (see Note 25)	**1,220,442**	1,635,790
	₱42,423,880	₱39,396,608

Bonds and Deposits

Bonds and deposits consist of deposits to contractors and suppliers to be applied throughout construction and advances, deposits paid for leased properties to be applied at the last term of the lease and advance payments for land acquisitions which will be applied against the purchase price of the properties upon fulfillment by both parties of certain undertakings and conditions.

Land use rights

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 SMPH with Grand China International Limited (Grand China) and Oriental Land Development Limited (Oriental Land) in March 2007. The value of these real estate properties were not part of the consideration paid by SMPH to Grand China and Oriental Land. Accordingly, the assets were recorded at their carrying values under “Other noncurrent assets” account and a corresponding liability equivalent to the same amount, which is shown as part of “Other noncurrent liabilities” account in the consolidated balance sheets.

Portions of land use rights with carrying amount of ₱328 million and ₱313 million as at December 31, 2017 and 2016, respectively, are mortgaged as collaterals to secure the domestic borrowings in China (see Note 19). In 2017, portion of land use rights was reclassified to land and development for the ongoing residential development (see Note 10).

Time Deposits
Time deposits with various maturities within one year were used as collateral for use of credit lines obtained by the Company from related party banks. Interest income earned amounted to ₱46 million, ₱50 million and ₱49 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 24).

17. Loans Payable

This account consists of unsecured Philippine peso-denominated loans obtained from local banks amounting to ₱744 million and ₱840 million as at December 31, 2017 and 2016, respectively, with due dates of less than one year. These loans bear interest rates ranging from 3.00% to 3.50% in 2017 and 2.75% in 2016.

Interest expense incurred from loans payable amounted to ₱31 million, ₱22 million and ₱261 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 24).

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2017	2016
	(In Thousands)	
Trade:		
Third parties	**₱21,997,141**	₱18,307,072
Related parties (see Note 21)	**297,093**	66,577
Tenants' and customers' deposits (see Note 27)	**26,584,557**	20,751,201
Accrued operating expenses:		
Third parties	**8,566,372**	9,546,512
Related parties (see Note 21)	**593,097**	574,278
Liability for purchased land	**6,423,989**	4,279,327
Deferred output VAT	**2,345,506**	1,426,140
Accrued interest (see Note 21)	**1,355,403**	1,118,214
Payable to government agencies	**1,001,818**	570,947
Nontrade	**603,048**	370,827
Due to related parties (see Note 21)	–	66,356
Others	**1,921,682**	541,007
	71,689,706	57,618,458
Less noncurrent portion	**20,605,624**	17,293,954
	₱51,084,082	₱40,324,504

The terms and conditions of the above liabilities follow:

- Trade payables primarily consist of liabilities to suppliers and contractors, which are noninterest-bearing and are normally settled within a 30-day term.
- The terms and conditions relating to due to related parties are further discussed in Note 21.

- Accrued operating expenses pertain to accrued selling, general and administrative expenses which are normally settled throughout the financial period. Accrued operating expenses - third parties consist of:

	2017	2016
	(In Thousands)	
Utilities	**₱4,530,529**	₱4,572,637
Marketing and advertising	**606,729**	581,957
Payable to contractors and others	**3,429,114**	4,391,918
	₱8,566,372	₱9,546,512

- Tenants' deposits refers to security deposits received from various tenants upon inception of the respective lease contracts on the Company's investment properties. At the termination of the lease contracts, the deposits received by the Company are returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. Customers' deposits mainly represent excess of collections from buyers over the related revenue recognized based on the percentage of completion method. This also includes nonrefundable reservation fees by prospective buyers which are to be applied against the receivable upon recognition of revenue.

- Deferred output VAT represents output VAT on unpaid portion of recognized receivable from sale of real estate. This amount is reported as output VAT upon collection of the receivables.

- Liability for purchased land, payable to government agencies, accrued interest and other payables are normally settled throughout the financial period.

19. **Long-term Debt**

This account consists of:

	Availment Date	Maturity Date	Interest Rate	Condition	Outstanding Balance	
					2017	2016
					(In Thousands)	
Parent Company						
U.S. dollar-denominated loans	December 7, 2012 - September 3, 2013	August 30, 2017 - March 25, 2018	LIBOR + spread; semi-annual	Unsecured	**₱19,972,000**	₱27,346,000
Philippine peso-denominated loans	January 12, 2012 - May 18, 2017	January 13, 2017 - July 26, 2026	Floating PDST-R2 + margin; 4.20%–6.74%	Unsecured	**92,923,000**	77,201,000
Subsidiaries						
U.S. dollar-denominated loans	April 23, 2014 - October 16, 2017	April 14, 2019 - June 30, 2022	LIBOR + spread; semi-annual	Unsecured	**34,415,944**	27,895,172
Philippine peso-denominated loans	June 3, 2013 - December 19, 2017	December 18, 2018 - September 11, 2024	Floating PDST-R2 + margin; 3.15%–5.88%	Unsecured	**43,054,253**	31,612,567
China yuan renminbi-denominated loans	July 28, 2015 - October 16, 2017	December 31, 2019 - October 16, 2022	CBC rate less 10%; quarterly	Secured*	**3,445,302**	524,743
					193,810,499	164,579,482
Less debt issue cost					**956,980**	1,041,797
					192,853,519	163,537,685
Less current portion					**25,344,035**	7,154,151
					₱167,509,484	₱156,383,534

LIBOR – London Interbank Offered Rate
PDST-R2 – Philippine Treasury Reference Rates – PM
CBC – Central Bank of China
**Secured by portions of investment properties and land use rights located in China.*

Parent Company

U.S. Dollar-denominated Five-Year Term Loans
This includes the following:

- A US$300 million syndicated loan obtained on various dates in 2013. The loans bear an interest rate based on London Inter-Bank Offered Rate (LIBOR) plus spread, with a bullet maturity on March 25, 2018. A portion of the loan amounting to US$150 million is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 28 and 29).

- A US$200 million syndicated loan obtained on January 29, 2013. The loan bears an interest rate based on LIBOR plus spread, with a bullet maturity on January 29, 2018. This loan is hedged against interest rate and foreign exchange risks using cross currency swap contracts (see Notes 28 and 29).

Philippine Peso-denominated Seven-Year Retail Bonds

- This represents a ₱20 billion fixed rate bonds issued on May 18, 2017. The issue consists of the seven-year or Series G Bonds amounting to ₱20 billion with a fixed interest rate equivalent to 5.1683% per annum due on May 18, 2024.

Philippine Peso-denominated Ten-Year Retail Bonds

- This represents a ₱10 billion fixed rate bonds issued on July 26, 2016. The issue consists of the ten-year or Series F Bonds amounting to ₱10 billion with a fixed interest rate equivalent to 4.2005% per annum due on July 26, 2026.

Philippine Peso-denominated Five-Year and Ten-Year Retail Bonds

- This represents a ₱20 billion fixed rate bonds issued on November 25, 2015. The issue consists of the five-year and three months or Series D Bonds amounting to ₱17,969 million with a fixed interest rate equivalent to 4.5095% per annum due on February 25, 2021 and ten-year or Series E Bonds amounting to ₱2,031 million with a fixed interest rate equivalent to 4.7990% per annum due on November 25, 2025.

Philippine Peso-denominated Five-Year, Seven-Year and Ten-Year Retail Bonds

- This represents a ₱20 billion fixed rate bonds issued on September 1, 2014. The issue consists of the five-year and six months or Series A Bonds amounting to ₱15,036 million with a fixed interest rate equivalent to 5.1000% per annum due on March 1, 2020, seven-year or Series B Bonds amounting to ₱2,362 million with a fixed interest rate equivalent to 5.2006% per annum due on September 1, 2021, and ten-year or Series C Bonds amounting to ₱2,602 million with a fixed interest rate equivalent to 5.7417% per annum due on September 1, 2024.

Subsidiaries

U.S. Dollar-denominated Five-Year Term Loans

- This represents a US$270 million syndicated loan obtained on March 21, 2016. The loans bear an interest rate based on London Inter-Bank Offered Rate (LIBOR) plus spread, with maturity on January 29, 2021. Loan amounting to US$270 million is hedged against interest rate risks using interest rate swap contracts and a portion of the loan amounting to US$180 million is hedged against foreign exchange risks using principal only swap contracts (see Notes 28 and 29).

China Yuan Renminbi-denominated Five-Year Loans

- This represents a ¥142 million, out of ¥400 million loan facility obtained on July 28, 2015 to finance the construction of shopping malls. The loan is payable in quarterly installments until June 1, 2020. The loan has a floating rate with a quarterly re-pricing at prevailing rate dictated by People's Bank of China. The loan carries interest rates ranging from 4.75% to 5.25%. Portions of investment properties and land use rights located in China with total carrying value of ₱1,898 million and ₱1,828 million as at December 31, 2017 and 2016, respectively, are mortgaged as collaterals to secure the loan (see Notes 14 and 16).

The loan agreements of the Company provide certain restrictions and requirements principally with respect to maintenance of required financial ratios (i.e., current ratio of not less than 1.00:1.00, debt to equity ratio of not more than 0.70:0.30 to 0.75:0.25 and interest coverage ratio of not less than 2.50:1.00) and material change in ownership or control. As at December 31, 2017 and 2016, the Company is in compliance with the terms of its loan covenants.

The re-pricing frequencies of floating rate loans of the Company range from three to six months.

Interest expense incurred from long-term debt amounted to ₱5,251 million, ₱4,135 million and ₱3,038 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 24).

Debt Issue Cost

The movements in unamortized debt issue cost of the Company follow:

	2017	2016
	(In Thousands)	
Balance at beginning of the year	**₱1,041,797**	₱1,049,764
Additions	**297,730**	405,271
Amortization	**(382,547)**	(413,238)
Balance at end of the year	**₱956,980**	₱1,041,797

Amortization of debt issuance costs is recognized in the consolidated statements of income under "Others - net" account.

Repayment Schedule

The repayments of long-term debt are scheduled as follows:

	Gross Loan	Debt Issue Cost	Net
		(In Thousands)	
Within 1 year	₱25,344,035	(₱294,247)	₱25,049,788
More than 1 year to 5 years	115,043,864	(571,240)	114,472,624
More than 5 years	53,422,600	(91,493)	53,331,107
	₱193,810,499	(₱956,980)	₱192,853,519

20. **Equity**

Capital Stock
As at December 31, 2017 and 2016, the Company has an authorized capital stock of 40,000 million with a par value of ₱1 a share, of which 33,166 million shares were issued.

The movement of the outstanding shares of the Company are as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of the year	**28,833,608**	28,833,608
Reissuance of treasury shares	**4,206**	–
Balance at end of the year	**28,837,814**	28,833,608

The following summarizes the information on SMPH's registration of securities under the Securities Regulation Code:

Date of SEC Approval/ Notification to SEC	Authorized Shares	No. of Shares Issued	Issue/Offer Price
March 15, 1994	10,000,000,000	–	₱–
April 22, 1994	–	6,369,378,049	5.35
May 29, 2007	10,000,000,000	–	–
May 20, 2008	–	912,897,212	11.86
October 14, 2010	–	569,608,700	11.50
October 10, 2013	20,000,000,000	15,773,765,315	19.50

SMPH declared stock dividends in 2012, 2007, 1996 and 1995. The total number of shareholders is 2,424 and 2,451 as at December 31, 2017 and 2016, respectively.

Additional Paid-in Capital - Net
Following represents the nature of the consolidated "Additional paid-in capital - net":

	2017	2016
	(In Thousands)	
Paid-in subscriptions in excess of par value	**₱33,266,992**	₱33,177,063
Net equity adjustments from common control business combinations (see Note 5)	**9,309,730**	9,309,730
Arising from acquisition of non-controlling interests	**(2,914,554)**	(2,941,168)
As presented in the consolidated balance sheets	**₱39,662,168**	₱39,545,625

Retained Earnings
In 2017, the BOD approved the declaration of cash dividend of ₱0.26 per share or ₱7,509 million to stockholders of record as of May 12, 2017, ₱12 million of which was received by SMDC. This was paid on May 25, 2017. In 2016, the BOD approved the declaration of cash dividend of ₱0.23 per share or ₱6,642 million to stockholders of record as of April 29, 2016, ₱10 million of which was received by SMDC. This was paid on May 12, 2016. In 2015, the BOD approved the declaration of cash dividend of ₱0.21 per share or ₱6,065 million to stockholders of record as of May 14, 2015, ₱10 million of which was received by SMDC. This was paid on June 9, 2015.

As at December 31, 2017 and 2016, the amount of retained earnings appropriated for the continuous corporate and mall expansions amounted to ₱42,200 million. This represents a continuing appropriation for land banking activities and planned construction projects. The appropriation is being fully utilized to cover part of the annual capital expenditure requirement of the Company.

For the year 2018, the Company expects to incur capital expenditures of at least ₱60 billion.

The retained earnings account is restricted for the payment of dividends to the extent of ₱65,156 million and ₱56,724 million as at December 31, 2017 and 2016, respectively, representing the cost of shares held in treasury (₱3,287 million and ₱3,355 million as at December 31, 2017 and 2016, respectively) and accumulated equity in net earnings of SMPH subsidiaries, associates and joint ventures totaling ₱61,869 million and ₱53,369 million as at December 31, 2017 and 2016, respectively. The accumulated equity in net earnings of subsidiaries is not available for dividend distribution until such time that the Parent Company receives the dividends from its subsidiaries, associates and joint ventures.

Treasury Stock

As at December 31, 2017 and 2016, this includes reacquired capital stock and shares held by a subsidiary stated at acquisition cost of ₱3,287 million and ₱3,355 million, respectively. The movement of the treasury stock of the Company are as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**4,332,692**	4,332,692
Sale of treasury shares	**(4,206)**	−
Balance at end of year	**4,328,486**	4,332,692

21. Related Party Transactions

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. Related parties may be individuals or corporate entities.

Terms and Conditions of Transactions with Related Parties

There have been no guarantees/collaterals provided or received for any related party receivables or payables. For the years ended December 31, 2017 and 2016, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates. Settlement of the outstanding balances normally occur in cash.

The significant related party transactions entered into by the Company with its related parties and the amounts included in the accompanying consolidated financial statements with respect to these transactions follow:

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2017	2016	2015	**2017**	2016	Terms	Conditions
			(In Thousands)				
Ultimate Parent							
Rent income	**₱55,459**	₱47,870	₱48,344	**₱–**	₱–	Noninterest-bearing	
Rent receivable	–	–	–	**5,844**	57,942	Noninterest-bearing	Unsecured; not impaired
Service income	**48,000**	31,368	27,903	–	–	Noninterest-bearing	Unsecured; not impaired
Service fee receivable	–	–	–	**4,497**	35,827	Noninterest-bearing	Unsecured; not impaired
Rent expense	**102,231**	83,335	91,611	–	–	Noninterest-bearing	Unsecured
Accrued rent payable	–	–	–	**(2,875)**	(236)	Noninterest-bearing	Unsecured
Trade payable	**5,952**	–	37,831	**(10,266)**	(4,314)	Noninterest-bearing	Unsecured
AFS investments	–	–	–	**144,643**	95,698	Noninterest-bearing	Unsecured; not impaired
Dividend income	**1,135**	1,035	1,033	–	–	Noninterest-bearing	Unsecured
Gain on sale of AFS investments	–	–	7,410,301	–	–	Noninterest-bearing	Unsecured
Banking and Retail Group							
Cash and cash equivalents	**171,812,742**	339,752,362	116,720,058	**32,118,321**	17,172,824	Interest bearing based on prevailing rates	Unsecured; not impaired
Investments held for trading	**122,660**	–	–	**731,076**	622,106	Noninterest-bearing	Unsecured; not impaired
Rent income	**14,558,585**	13,600,314	12,419,414	–	–	Noninterest-bearing	Unsecured;
Rent receivable	–	–	–	**2,656,892**	2,410,997		not impaired
Service income	**30,023**	36,944	1,663	–	–	Noninterest-bearing	Unsecured; not impaired
Management fee income	**5,979**	4,164	6,533	–	–	Noninterest-bearing	Unsecured;
Management fee receivable	–	–	–	**23,933**	28,893		not impaired
Deferred rent income	–	–	–	**(23,548)**	(43,548)	Noninterest bearing	Unsecured
Interest income	**297,719**	164,128	260,183	–	–	Interest-bearing	Unsecured; not impaired
Accrued interest receivable	–	–	–	**51,829**	50,482	Noninterest-bearing	Unsecured; not impaired
Receivable financed	**4,923,847**	3,297,217	2,842,481	–	–	Without recourse	Unsecured
Time deposits	–	–	2,160,836	**3,709,270**	3,923,002	Interest-bearing	Unsecured
Loans payable and long-term debt	**386**	1,275,667	–	**(907,953)**	(1,068,167)	Interest-bearing	Combination of secured and unsecured
Interest expense	**139,292**	21,923	101,856	–	–	Interest-bearing; fixed and floating interest rates	Combination of secured and unsecured
Accrued interest payable	–	–	–	**(518)**	(4,404)	Noninterest-bearing	Unsecured
Rent expense	**1,004**	1,203	1,523	–	–	Noninterest-bearing	Unsecured
Trade payable	**47,803**	46,583	4,621	**(100,272)**	(52,469)	Noninterest-bearing	Unsecured
Management fee expense	**3,093**	2,748	3,452	–	–	Noninterest-bearing	Unsecured
Accrued management fee	–	–	–	**(17,030)**	(850)	Noninterest-bearing	Unsecured
AFS investments	–	–	–	**18,740,177**	11,819,503	Noninterest-bearing	Unsecured; not impaired
Cash in escrow	–	–	230,139	**50,881**	209,974	Interest bearing based on prevailing rates	Unsecured; not impaired
Dividend income	**212,740**	187,908	248,407	–	–	Noninterest-bearing	Unsecured

	Amount of Transactions			Outstanding Amount [Asset (Liability)]			
	2017	2016	2015	**2017**	2016	Terms	Conditions
			(In Thousands)				
Other Related Parties							
Rent income	**₱119,238**	₱62,743	₱50,472	**₱–**	₱–	Noninterest-bearing	
Rent receivable	**–**	–	–	**53,722**	26,793	Noninterest-bearing	Unsecured; not impaired
Service income	**92,943**	72,387	4,702	**–**	–	Noninterest-bearing	Unsecured; not impaired
Management fee income	**2,799**	3,532	–	**–**	–	Noninterest-bearing	Unsecured; not impaired
Management fee receivable	**–**	–	–	**7,939**	7,993		
Rent expense	**5,735**	5,164	4,962	**–**	–	–	–
Accrued expenses	**–**	–	–	**(573,192)**	(573,192)	Noninterest-bearing	Unsecured
Trade payable	**176,761**	–	–	**(186,555)**	(9,794)	Noninterest-bearing	Unsecured
AFS investments	**–**	–	–	**2,853,947**	2,353,772	Noninterest-bearing	Unsecured; not impaired
Dividend income	**87,885**	69,878	202,277	**–**	–	Noninterest-bearing	Unsecured

Due from related parties amounted to ₱0.13 million and ₱166.82 million as at December 31, 2017 and 2016, respectively, which are noninterest-bearing and are not impaired. Due to related parties amounted to nil and ₱66.34 million as at December 31, 2017 and 2016, respectively, which are noninterest-bearing and are unsecured. The amount of transactions with related parties amounted to ₱0.02 million, ₱66.20 million and nil for the years ended December 31, 2017, 2016 and 2015, respectively.

Affiliate refers to an entity that is neither a parent, subsidiary, nor an associate, with stockholders common to the SM Group or under common control.

Below are the nature of the Company's transactions with the related parties:

Rent
The Company has existing lease agreements for office and commercial spaces with related companies (SM Retail and Banking Groups and other affiliates).

Service Fees
The Company provides manpower and other services to affiliates.

Dividend Income
The Company's investment in AFS equity instruments of certain affiliates earn income upon the declaration of dividends by the investees.

Cash Placements and Loans
The Company has certain bank accounts and cash placements that are maintained with BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank) (Bank Affiliates). Such accounts earn interest based on prevailing market interest rates (see Notes 6, 7 and 11).

The Company also availed of bank loans and long-term debt from BDO and China Bank and pays interest based on prevailing market interest rates (see Notes 17 and 19).

The Company also entered into financing arrangements with BDO and China Bank. There were no assigned receivables on a with recourse basis to BDO and China Bank in 2017 and 2016 (see Note 8).

Others
The Company, in the normal course of business, has outstanding receivables from and payables to related companies as at reporting period which are unsecured and normally settled in cash.

Compensation of Key Management Personnel
The aggregate compensation and benefits related to key management personnel for the years ended December 31, 2017, 2016 and 2015 consist of short-term employee benefits amounting to ₱930 million, ₱712 million and ₱363 million, respectively, and post-employment benefits (pension benefits) amounting to ₱144 million, ₱98 million and ₱61 million, respectively.

22. Other Revenue

This account consists of:

	2017	2016	2015
		(In Thousands)	
Food and beverages	**₱1,620,269**	₱1,158,033	₱897,992
Amusement and others	**851,264**	844,394	733,742
Net merchandise sales	**740,356**	764,207	678,877
Bowling and ice skating fees	**219,378**	253,229	217,463
Advertising income	**202,000**	236,529	227,899
Others	**1,680,875**	1,200,073	1,029,232
	₱5,314,142	₱4,456,465	₱3,785,205

Others include service fees, parking terminal, sponsorships, commissions and membership revenue.

23. Costs and Expenses

This account consists of:

	2017	2016	2015
		(In Thousands)	
Cost of real estate sold (see Notes 9 and 10)	**₱15,151,804**	₱13,117,141	₱12,039,076
Administrative (see Notes 21 and 25)	**10,860,321**	9,607,265	8,463,483
Depreciation and amortization (see Notes 13 and 14)	**8,959,170**	7,814,344	6,966,952
Marketing and selling	**4,788,603**	4,644,125	3,668,214
Business taxes and licenses	**4,406,480**	3,803,376	3,465,807
Film rentals	**2,600,839**	2,567,038	2,597,433
Rent (see Notes 21 and 27)	**1,597,970**	1,450,981	1,317,443
Insurance	**475,732**	463,462	393,738
Others	**1,452,139**	1,083,443	1,160,314
	₱50,293,058	₱44,551,175	₱40,072,460

Others include bank charges, donations, dues and subscriptions, services fees and transportation and travel.

24. Interest Income and Interest Expense

The details of the sources of interest income and interest expense follow:

	2017	2016	2015
		(In Thousands)	
Interest income on:			
Cash and cash equivalents (see Note 6)	**₱723,235**	₱651,506	₱468,438
Time deposits (see Note 16)	**46,424**	50,130	49,403
Investments held for trading (see Note 7)	**14,891**	17,655	17,998
Others (see Notes 8 and 12)	**59,288**	53,955	77,854
	₱843,838	₱773,246	₱613,693
Interest expense on:			
Long-term debt (see Note 19)	**₱5,251,144**	₱4,134,944	₱3,038,426
Loans payable (see Note 17)	**30,737**	22,415	260,769
Others	**192,541**	252,255	79,909
	₱5,474,422	₱4,409,614	₱3,379,104

25. Pension Benefits

The Company has funded defined benefit pension plans covering all regular and permanent employees. The benefits are based on employees' projected salaries and number of years of service. The latest actuarial valuation report is as at December 31, 2017.

The following tables summarize the components of the pension plan as at December 31:

Net Pension Cost (included under "Costs and expenses" account under "Administrative")

	2017	2016	2015
		(In Thousands)	
Current service cost	**₱286,297**	₱175,449	₱106,465
Net interest cost (income)	**(32,062)**	(20,563)	804
	₱254,235	₱154,886	₱107,269

Net Pension Asset (included under "Other noncurrent assets" account)

	2017	2016
	(In Thousands)	
Fair value of plan assets	**₱1,822,755**	₱1,976,121
Defined benefit obligation	**(1,619,868)**	(1,448,067)
Effect of asset ceiling limit	**(28,759)**	(74,352)
Net pension asset	**₱174,128**	₱453,702

Net Pension Liability (included under "Other noncurrent liabilities" account)

	2017	2016
	(In Thousands)	
Defined benefit obligation	**₱544,951**	₱41,395
Fair value of plan assets	**(454,472)**	(9,655)
Net pension liability	**₱90,479**	₱31,740

The changes in the present value of the defined benefit obligation are as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of the year	**₱1,489,462**	₱609,572
Effect of common control business combination (see Note 5)	**17,133**	790,753
Current service cost	**286,297**	175,449
Actuarial loss (gain):		
Experience adjustments	**284,102**	44,625
Changes in financial assumptions	**81,882**	(199,054)
Changes in demographic assumptions	**(35,627)**	36,860
Interest cost	**92,538**	72,227
Benefits paid	**(49,745)**	(43,055)
Transfer to (from) the plan	**(1,223)**	2,085
Balance at end of the year	**₱2,164,819**	₱1,489,462

The above present value of defined benefit obligation are broken down as follows:

	2017	2016
	(In Thousands)	
Related to pension asset	**₱1,619,868**	₱1,448,067
Related to pension liability	**544,951**	41,395
	₱2,164,819	₱1,489,462

The changes in the fair value of plan assets are as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱1,985,776**	₱641,251
Effect of common control business combination (see Note 5)	**16,605**	1,179,772
Contributions	**260,810**	108,015
Interest income	**129,158**	95,869
Benefits paid from assets	**(47,745)**	(43,055)
Transfer to (from) the plan and others	**(1,223)**	2,085
Remeasurement gain (loss)	**(66,154)**	1,839
Balance at end of year	**₱2,277,227**	₱1,985,776

The changes in the fair value of plan assets are broken down as follows:

	2017	2016
	(In Thousands)	
Related to pension asset	**₱1,822,755**	₱1,976,121
Related to pension liability	**454,472**	9,655
	₱2,277,227	₱1,985,776

The changes in the effect of asset ceiling limit are as follows:

	2017	2016
	(In Thousands)	
Asset ceiling limit at beginning of year	**₱74,352**	₱10,613
Effect of common control business combination (see Note 5)	–	48,741
Remeasurement loss (gain)	**(50,151)**	11,919
Interest cost	**4,558**	3,079
	₱28,759	₱74,352

The carrying amounts and fair values of the plan assets as at December 31, 2017 and 2016 are as follows:

	2017		2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
		(In Thousands)		
Cash and cash equivalents	**₱151,181**	**₱151,181**	₱237,205	₱237,205
Investments in:				
Common trust funds	**825,023**	**825,023**	674,805	674,805
Debt and other securities	**629,506**	**629,506**	490,018	490,018
Government securities	**536,290**	**536,290**	499,912	499,912
Equity securities	**84,685**	**84,685**	71,147	71,147
Other financial assets	**50,542**	**50,542**	12,689	12,689
	₱2,277,227	**₱2,277,227**	₱1,985,776	₱1,985,776

- Cash and cash equivalents includes regular savings and time deposits;
- Investments in common trust funds pertain to unit investment trust fund;
- Investments in government securities consist of retail treasury bonds which bear interest ranging from 2.13% to 8.75% and have maturities ranging from 2018 to 2030;
- Investments in debt and other securities consist of short-term and long-term corporate loans, notes and bonds which bear interest ranging from 3.50% to 6.80% and have maturities ranging from 2019 to 2025;
- Investments in equity securities consist of listed and unlisted equity securities; and
- Other financial assets include accrued interest income on cash deposits held by the Retirement Plan.

Debt and other securities, equity securities and government securities have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse instruments and do not have any concentration of risk.

The following table summarizes the outstanding balances and transactions of the pension plan with BDO, an affiliate, as at and for the year ended December 31:

	2017	2016
	(In Thousands)	
Cash and cash equivalents	**₱151,181**	₱237,205
Interest income from cash and cash equivalents	**3,983**	2,191
Investments in common trust funds	**825,023**	674,805
Loss from investments in common trust funds	**(28,901)**	(29,864)

The principal assumptions used in determining pension obligations for the Company's plan are shown below:

	2017	2016	2015
Discount rate	**5.7%–5.8%**	5.4%–6.1%	4.9%–5.9%
Future salary increases	**4.0%–10.0%**	3.0%–9.0%	3.0%–9.0%

Remeasurement effects recognized in other comprehensive income at December 31 follow:

	2017	2016	2015
		(In Thousands)	
Actuarial loss (gain)	**₱396,511**	(₱119,406)	(₱126,723)
Remeasurement loss (gain) - excluding amounts recognized in net interest cost	**(50,151)**	11,919	33,227
	₱346,360	(₱107,487)	(₱93,496)

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

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
		(In Thousands)
Discount rates	50	(₱94,965)
	(50)	103,147
Future salary increases	100	183,672
	(100)	(159,152)

The Company and the pension plan has no specific matching strategies between the pension plan assets and the defined benefit obligation under the pension plan.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2017:

Year	Amount
	(In Thousands)
2018	₱278,502
2019	171,403
2020–2021	522,821
2022–2027	1,611,990

The Company expects to contribute about ₱340 million to its defined benefit pension plan in 2018.

The weighted average duration of the defined benefit obligation is 9 years and 18 years as of December 31, 2017 and 2016, respectively.

26. **Income Tax**

The details of the Company's deferred tax assets and liabilities are as follows:

	2017	2016
	(In Thousands)	
Deferred tax assets:		
Excess of fair value over cost of investment properties and others	**₱752,639**	₱690,533
NOLCO	**560,589**	614,549
Accrued marketing and rent expenses	**114,973**	210,673
Provision for impairment of receivables	**101,858**	104,246
Deferred rent income	**18,479**	25,285
Unamortized past service cost	**13,662**	8,091
MCIT	**8,370**	13,963
	1,570,570	1,667,340
Deferred tax liabilities:		
Undepreciated capitalized interest, unrealized foreign exchange gains and others	**(1,817,431)**	(1,803,405)
Unrealized gross profit on sale of real estate	**(1,339,441)**	(1,042,412)
Pension asset	**(34,041)**	(106,338)
Others	**(143,337)**	(130,268)
	(3,334,250)	(3,082,423)
Net deferred tax liabilities	**(₱1,763,680)**	(₱1,415,083)

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

	2017	2016
	(In Thousands)	
Deferred tax assets - net	**₱1,114,291**	₱1,137,729
Deferred tax liabilities - net	**(2,877,971)**	(2,552,812)
	(₱1,763,680)	(₱1,415,083)

As at December 31, 2017 and 2016, unrecognized deferred tax assets amounted to ₱69 million and ₱56 million, respectively, bulk of which pertains to NOLCO.

The reconciliation between the statutory tax rates and the effective tax rates on income before income tax as shown in the consolidated statements of income follows:

	2017	2016	2015
Statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Equity in net earnings of associates and joint ventures	**(0.9)**	(0.4)	(0.5)
Availment of income tax holiday	**(4.4)**	(3.4)	(3.2)
Interest income subjected to final tax and dividend income exempt from income tax	**(1.0)**	(0.7)	(0.6)
Nondeductible expenses and others	**(1.9)**	(4.1)	(8.5)
Effective tax rates	**21.8%**	21.4%	17.2%

27. **Lease Agreements**

Company as Lessor
The Company’s lease agreements with its mall tenants are generally granted for a term of one year, with the exception of some of the larger tenants operating nationally, which are granted initial lease terms of five years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay either a fixed monthly rent, which is calculated by reference to a fixed sum per square meter of area leased, or pay rent on a percentage rental basis, which comprises of a basic monthly amount and a percentage of gross sales or a minimum set amount, whichever is higher.

Also, the Company’s lease agreements with its commercial property tenants are generally granted for a term of one year, with the exception of some tenants, which are granted initial lease terms of 2 to 20 years, renewable on an annual basis thereafter. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants pay either a fixed monthly rent or a percentage of sales, depending on the terms of the lease agreements, whichever is higher.

The Company’s future minimum rent receivables for the noncancellable portions of the operating commercial property leases follow:

	2017	2016
	(In Millions)	
Within one year	**₱2,599**	₱1,977
After one year but not more than five years	**5,172**	6,924
After more than five years	**3,635**	3,915
	₱11,406	₱12,816

Consolidated rent income amounted to ₱51,406 million, ₱45,693 million and ₱40,743 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Company as Lessee
The Company also leases certain parcels of land where some of their malls are situated or constructed. The terms of the lease are for periods ranging from 15 to 50 years, renewable for the same period under the same terms and conditions. Rental payments are generally computed based on a certain percentage of the gross rental income or a certain fixed amount, whichever is higher.

Also, the Company has various operating lease commitments with third party and related parties. The noncancellable periods of the lease range from 2 to 30 years, mostly containing renewal options. Several lease contracts provide for the payment of additional rental based on certain percentage of sales of the tenants.

The Company's future minimum lease payables under the noncancellable operating leases as at December 31 are as follows:

	2017	2016
	(In Millions)	
Within one year	**₱983**	₱926
After one year but not more than five years	**4,080**	3,888
After five years	**26,964**	27,863
Balance at end of year	**₱32,027**	₱32,677

Consolidated rent expense included under "Costs and expenses" account in the consolidated statements of income amounted to ₱1,598 million, ₱1,451 million and ₱1,317 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 23).

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

The Company's principal financial instruments, other than derivatives, comprise of cash and cash equivalents, investments held for trading, accrued interest and other receivables, AFS investments and bank loans. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, principally, cross currency swaps, interest rate swaps, foreign currency call options, non-deliverable forwards and foreign currency range options. The purpose is to manage the interest rate and foreign currency risks arising from the Company's operations and its sources of finance (see Note 29).

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk. The Company's BOD and management review and agree on the policies for managing each of these risks and they are summarized in the following tables.

Interest Rate Risk
The Company's policy is to manage its interest cost using a mix of fixed and floating rate debts. To manage this mix in a cost-efficient manner, it enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to economically hedge underlying debt obligations. As at December 31, 2017 and 2016, after taking into account the effect of interest rate swaps, approximately 83% and 70%, respectively, of its long-term borrowings, are at a fixed rate of interest (see Note 29).

Interest Rate Risk

The following tables set out the carrying amount, by maturity, of the Company's long-term financial liabilities that are exposed to interest rate risk as at December 31, 2017 and 2016:

	2017						
	Interest Rate	**1–<2 Years**	**2–<3 Years**	**3–<4 Years**	**4–<5 Years**	**=>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated corporate notes	**5.25%–5.88%**	**₱8,700**	**₱8,700**	**₱5,708,520**	**₱499,460**	**₱2,440,320**	**₱8,665,700**
Philippine peso-denominated notes	**3.84%–6.74%**	**₱4,606,800**	**₱6,606,800**	**₱906,800**	**₱5,106,800**	**₱19,118,800**	**36,346,000**
Philippine peso-denominated retail bonds	**4.20%–5.74%**	**₱–**	**₱–**	**₱15,035,740**	**₱20,331,520**	**₱34,632,740**	**70,000,000**
Other bank loans	**3.13%–5.00%**	**₱25,093**	**₱49,907**	**₱375,000**	**₱263,553**	**₱250,000**	**963,553**
Floating Rate							
U.S. dollar-denominated five-year term loans	**LIBOR + spread**	**$400,000**	**$300,000**	**$–**	**$270,000**	**$100,000**	**54,387,944**
Philippine peso-denominated corporate notes	**PDST-R2+margin%**	**₱100,000**	**₱100,000**	**₱100,000**	**₱100,000**	**₱5,160,000**	**5,560,000**
Philippine peso-denominated notes	**PDST-R2+margin%**	**₱318,000**	**₱1,118,000**	**₱1,218,000**	**₱118,000**	**₱11,670,000**	**14,442,000**
China yuan renminbi-denominated five-year loan	**CBC rate less 10%**	**¥40,847**	**¥40,857**	**¥19,382**	**¥–**	**¥347,900**	**3,445,302**
							₱193,810,499
Less debt issue cost							**956,980**
							₱192,853,519

	2016						
	Interest Rate	1–<2 Years	2–<3 Years	3–<4 Years	4–<5 Years	=>5 Years	Total
Fixed Rate							
Philippine peso-denominated corporate notes	5.25%–5.88%	₱8,700	₱8,700	₱8,700	₱5,708,520	₱2,939,780	₱8,674,400
Philippine peso-denominated notes	3.84%–6.74%	₱778,000	₱4,586,800	₱6,586,800	₱886,800	₱13,105,600	25,944,000
Philippine peso-denominated retail bonds	4.20%–5.74%	₱–	₱–	₱–	₱15,035,740	₱34,964,260	50,000,000
Other bank loans	3.13%–5.00%	₱–	₱75,000	₱50,000	₱588,167	₱250,000	963,167
Floating Rate							
U.S. dollar-denominated five-year term loans	LIBOR + spread	$–	$500,000	$300,000	$–	$270,000	52,755,172
U.S. dollar-denominated bilateral loans	LIBOR + spread	$50,000	$–	$–	$–	$–	2,486,000
Philippine peso-denominated corporate notes	PDST-R2+margin%	₱100,000	₱100,000	₱100,000	₱100,000	₱5,260,000	5,660,000
Philippine peso-denominated notes	PDST-R2+margin%	₱3,630,000	₱318,000	₱1,118,000	₱1,218,000	₱11,288,000	17,572,000
China yuan renminbi-denominated five-year loan	CBC rate less 10%	¥21,155	¥21,155	¥21,165	¥9,822	¥–	524,743
							₱164,579,482
Less debt issue cost							1,041,797
							₱163,537,685

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

Interest Rate Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Company's income before income tax.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
		(In Thousands)
2017	**100**	**(₱73,686)**
	50	**(36,843)**
	(100)	**73,686**
	(50)	**36,843**
2016	100	(₱116,611)
	50	(58,306)
	(100)	116,611
	(50)	58,306

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

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's policy is to manage its foreign currency risk mainly from its debt issuances which are denominated in U.S. dollars and subsequently remitted to China to fund its capital expenditure requirements by entering into foreign currency swap contracts, cross-currency swaps, foreign currency call options, non-deliverable forwards and foreign currency range options aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flow.

The Company's foreign currency-denominated monetary assets amounted to US$97 million (₱4,864 million) as at December 31, 2017 and US$45 million (₱2,242 million) as at December 31, 2016. The Company's foreign currency-denominated monetary liabilities amounted to US$300 million (¥1,954 million) as at December 31, 2017 and US$391 million (₱19,460 million) as at December 31, 2016.

In translating the foreign currency-denominated monetary assets and liabilities to peso amounts, the exchange rates used were ¥6.51 to US$1.00, the China Yuan Renminbi to U.S. dollar exchange rate as at December 31, 2017 and ₱49.93 to US$1.00 and ₱49.42 to US$1.00, the Philippine peso to U.S. dollar exchange rate as at December 31, 2017 and 2016, respectively.

Foreign Currency Risk Sensitivity Analysis. The following table demonstrates the sensitivity to a reasonably possible change in U.S. dollar to Philippine peso exchange rate and U.S. dollar to China yuan renminbi, will all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities, including the impact of derivative instruments). There is no impact on the Company's equity.

	Appreciation (Depreciation) of $	Effect on Income Before Tax	Appreciation (Depreciation) of $	Effect on Income Before Tax
		(In Thousands)		*(In Thousands)*
2017	**1.50**	**₱36,534**	**1.50**	**(¥112,622)**
	1.00	**24,356**	**1.00**	**(75,082)**
	(1.50)	**(36,534)**	**(1.50)**	**112,622**
	(1.00)	**(24,356)**	**(1.00)**	**75,082**
2016	1.50	(₱129,862)	1.50	¥–
	1.00	(86,574)	1.00	–
	(1.50)	129,862	(1.50)	–
	(1.00)	86,574	(1.00)	–

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstance.

The Company seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Company intends to use internally generated funds and proceeds from debt and equity issues.

As part of its liquidity risk management program, the Company regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans and debt capital and equity market issues.

The Company's financial assets, which have maturities of less than 12 months and used to meet its short-term liquidity needs, include cash and cash equivalents, investments held for trading and current AFS investments amounting to ₱44,372 million, ₱731 million and ₱641 million, respectively, as at December 31, 2017 and ₱25,201 million, ₱919 million and ₱665 million, respectively, as at December 31, 2016 (see Notes 6, 7 and 11). The Company also has readily available credit facility with banks and affiliates to meet its long-term financial liabilities.

The tables below summarize the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments as at December 31:

	2017			
	Within 1 Year	**More than 1 Year to 5 Years**	**More than 5 Years**	**Total**
		(In Thousands)		
Loans payable	**₱744,400**	**₱–**	**₱–**	**₱744,400**
Accounts payable and other current liabilities*	**49,795,359**	**–**	**–**	**49,795,359**
Long-term debt (including current portion)	**33,076,813**	**138,804,369**	**54,768,749**	**226,649,931**
Derivative liabilities	**–**	**777,408**	**–**	**777,408**
Liability for purchased land - net of current portion	**–**	**2,170,998**	**–**	**2,170,998**
Tenants' and customers' deposits - net of current portion	**–**	**16,177,190**	**198,834**	**16,376,024**
Other noncurrent liabilities**	**–**	**5,126,222**	**–**	**5,126,222**
	₱83,616,572	**₱163,056,187**	**₱54,967,583**	**₱301,640,342**

	2016			
	Within 1 Year	More than 1 Year to 5 Years	More than 5 Years	Total
		(In Thousands)		
Loans payable	₱840,000	₱–	₱–	₱840,000
Accounts payable and other current liabilities*	39,597,433	–	–	39,597,433
Long-term debt (including current portion)	11,923,309	131,233,080	45,794,878	188,951,267
Liability for purchased land - net of current portion	–	1,211,658	–	1,211,658
Tenants' and customers' deposits - net of current portion	–	14,613,446	198,834	14,812,280
Other noncurrent liabilities**	–	4,190,112	–	4,190,112
	₱52,360,742	₱151,248,296	₱45,993,712	₱249,602,750

* *Excluding nonfinancial liabilities amounting to ₱1,289 million and ₱727 million as at December 31, 2017 and 2016, respectively.*
** *Excluding nonfinancial liabilities amounting to ₱2,498 million and ₱1,625 million as at December 31, 2017 and 2016, respectively.*

Credit Risk

The Company trades only with recognized, creditworthy related and third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a regular basis which aims to reduce the Company's exposure to bad debts at a minimum level. Given the Company's diverse base of customers, it is not exposed to large concentrations of credit risk.

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash and cash equivalents, investments held for trading, AFS investments and certain derivative instruments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The fair values of these instruments are disclosed in Note 29.

Since the Company trades only with recognized related and third parties, generally there is no requirement for collateral except for "Receivable from sale of real estate" which has minimal credit risk and is effectively collateralized by respective unit sold since title to the real estate properties are not transferred to the buyers until full payment is made. The fair value of the respective units sold is sufficient to cover the credit risk arising from the "Receivable from sale of real estate". The Company has no other significant terms and conditions associated with the use of collateral.

As at December 31, 2017 and 2016, the financial assets, except for certain receivables, are generally viewed by management as good and collectible considering the credit history of the counterparties (see Note 8). Past due or impaired financial assets are very minimal in relation to the Company's consolidated total financial assets.

Credit Quality of Financial Assets. The credit quality of financial assets is managed by the Company using high quality and standard quality as internal credit ratings.

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

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

As at December 31, 2017 and 2016, the credit quality of the Company's financial assets is as follows:

	2017			
	Neither Past Due nor Impaired		**Past Due**	
	High Quality	**Standard Quality**	**but not Impaired**	**Total**
		(In Thousands)		
Loans and Receivables				
Cash and cash equivalents*	**₱44,285,071**	**₱–**	**₱–**	**₱44,285,071**
Receivables**	**300,363**	**26,288,547**	**7,685,839**	**34,274,749**
Cash in escrow (included under "Prepaid expenses and other current assets")	**50,881**	**–**	**–**	**50,881**
Real estate receivable - noncurrent (included under "Other noncurrent assets")	**15,854,070**	**–**	**–**	**15,854,070**
Time deposits (included under "Other noncurrent assets")	**3,800,809**	**–**	**–**	**3,800,809**
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	**731,076**	**–**	**–**	**731,076**
Derivative assets	**3,546,694**	**–**	**–**	**3,546,694**
AFS Investments				
Shares of stocks	**31,090,564**	**15,581**	**–**	**31,106,145**
	₱99,659,528	**₱26,304,128**	**₱7,685,839**	**₱133,649,495**

** Excluding cash on hand amounting to ₱86 million*
*** Excluding nonfinancial assets amounting to ₱2 million*

	2016			
	Neither Past Due nor Impaired		Past Due	
	High Quality	Standard Quality	but not Impaired	Total
		(In Thousands)		
Loans and Receivables				
Cash and cash equivalents*	₱25,102,744	₱–	₱–	₱25,102,744
Receivables**	17,796,336	7,386,567	7,530,830	32,713,733
Cash in escrow (included under "Prepaid expenses and other current assets")	209,974	–	–	209,974
Real estate receivable - noncurrent (included under "Other noncurrent assets")	10,526,627	–	–	10,526,627
Time deposits (included under "Other noncurrent assets")	3,955,706	–	–	3,955,706
Financial Assets at FVPL				
Investments held for trading - Bonds and shares	918,702	–	–	918,702
Derivative assets	5,102,735	–	–	5,102,735
AFS Investments				
Shares of stocks	21,202,713	10,012	–	21,212,725
	₱84,815,537	₱7,396,579	₱7,530,830	₱99,742,946

** Excluding cash on hand amounting to ₱98 million*
*** Excluding nonfinancial assets amounting to ₱119 million*

Equity Price Risk

Equity price risk arises from the changes in the levels of equity indices and the value of individual stocks traded in the stock exchange.

As a policy, management monitors its equity price risk pertaining to its investments in quoted equity securities which are classified as AFS investments in the interim consolidated balance sheets based on market expectations. Material equity investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management.

The effect on equity after income tax (as a result of change in fair value of AFS investments as at December 31, 2017 and 2016) due to a possible change in equity indices, based on historical trend of PSE index, with all other variables held constant is as follows:

	2017	
	Change in Equity Price	**Effect on Equity After Income Tax**
		(In Millions)
AFS investments	**+7.87%**	**₱159**
	-7.87%	**(159)**

	2016	
	Change in Equity Price	Effect on Equity After Income Tax
		(In Millions)
AFS investments	+3.04%	₱160
	-3.04%	(160)

Capital Management

Capital includes equity attributable to the owners of the Parent.

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

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Company monitors capital using gearing ratio, which is interest-bearing debt divided by total capital plus interest-bearing debt and net interest-bearing debt divided by total capital plus net interest-bearing debt. Interest-bearing debt includes all short-term and long-term debt while net interest-bearing debt includes all short-term and long-term debt net of cash and cash equivalents and investments held for trading.

As at December 31, 2017 and 2016, the Company's gearing ratios are as follows:

Interest-bearing Debt to Total Capital plus Interest-bearing Debt

	2017	2016
	(In Thousands)	
Loans payable	**₱744,400**	₱840,000
Current portion of long-term debt	**25,344,035**	7,154,151
Long-term debt - net of current portion	**167,509,484**	156,383,534
Total interest-bearing debt (a)	**193,597,919**	164,377,685
Total equity attributable to equity holders of the parent	**258,957,221**	231,481,032
Total interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱452,555,140**	₱395,858,717
Gearing ratio (a/b)	**43%**	42%

Net Interest-bearing Debt to Total Capital plus Net Interest-bearing Debt

	2017	2016
	(In Thousands)	
Loans payable	**₱744,400**	₱840,000
Current portion of long-term debt	**25,344,035**	7,154,151
Long-term debt - net of current portion	**167,509,484**	156,383,534
Less cash and cash equivalents and investments held for trading	**(45,102,610)**	(26,119,684)
Total net interest-bearing debt (a)	**148,495,309**	138,258,001
Total equity attributable to equity holders of the parent	**258,957,221**	231,481,032
Total net interest-bearing debt and equity attributable to equity holders of the parent (b)	**₱407,452,530**	₱369,739,033
Gearing ratio (a/b)	**36%**	37%

29. **Financial Instruments**

Fair Values

The following table sets forth the carrying values and estimated fair values of financial assets and liabilities, by category and by class, other than those whose carrying values are reasonable approximations of fair values, as at December 31:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial assets at FVPL:				
Investments held for trading	**₱731,076**	**₱731,076**	₱918,702	₱918,702
Derivative assets	**3,546,694**	**3,546,694**	5,102,735	5,102,735
	4,277,770	**4,277,770**	6,021,437	6,021,437
Loans and receivables:				
Noncurrent portion of receivable from sale of real estate	**15,854,070**	**14,478,480**	10,526,627	10,150,249
Time deposits (included under "Other noncurrent assets")	**3,800,809**	**3,699,811**	3,955,706	3,814,271
AFS investments - Shares of stocks	**31,106,145**	**31,106,145**	21,212,725	21,212,725
	₱55,038,794	**₱53,562,206**	₱41,716,495	₱41,198,682
Financial Liabilities				
Financial liabilities at FVPL - Derivative liabilities	**₱777,408**	**₱777,408**	₱–	₱–
Other financial liabilities:				
Liability for purchased land - net of current portion	**₱2,170,998**	**₱2,107,453**	₱1,211,658	₱1,168,296
Long-term debt - net of current portion	**167,509,484**	**166,129,172**	156,383,534	156,560,822
Tenants' and customers' deposits - net of current portion	**16,376,024**	**15,906,569**	14,812,280	14,282,675
Other noncurrent liabilities*	**5,126,222**	**4,912,244**	4,190,112	4,040,296
	191,182,728	**189,055,438**	176,597,584	176,052,089
	₱191,960,136	**₱189,832,846**	₱176,597,584	₱176,052,089

**Excluding nonfinancial liabilities amounting to ₱2,498 million and ₱1,625 million as at December 31, 2017 and 2016, respectively.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Investments Held for Trading. The fair values are based on the quoted market prices of the instruments.

Derivative Instruments. The fair values are based on quotes obtained from counterparties.

Noncurrent Portion of Receivable from Sale of Real Estate. The estimated fair value of the noncurrent portion of receivables from real estate buyers is based on the discounted value of future cash flows using the prevailing interest rates on sales of the Company's accounts receivable. Average discount rates used is 4.72% and 4.39% as at December 31, 2017 and 2016, respectively.

AFS Investments. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business.

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

Debt Type	Fair Value Assumptions
Fixed Rate Loans	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 3.14% to 6.86% and from 2.49% to 5.92% as at December 31, 2017 and 2016, respectively.
Variable Rate Loans	For variable rate loans that re-price every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate loans that re-price every six months, the fair value is determined by discounting the principal amount plus the next interest payment amount using the prevailing market rate for the period up to the next repricing date. Discount rates used was 3.38% to 6.37% and 2.33% to 4.55% as at December 31, 2017 and 2016, respectively.

Tenants' and Customers' Deposits, Liability for Purchased Land and Other Noncurrent Liabilities. The estimated fair value is based on the discounted value of future cash flows using the applicable rates. The discount rates used range from 4.47% to 4.97% and 3.79% to 4.98% as at December 31, 2017 and 2016, respectively.

The Company assessed that the carrying values of cash and cash equivalents, receivables, cash in escrow, bank loans and accounts payable and other current liabilities approximate their fair values due to the short-term nature and maturities of these financial instruments. For AFS investments related to unlisted equity securities, these are carried at cost less allowance for impairment loss since there are no quoted prices and due to the unpredictable nature of future cash flows and lack of suitable methods for arriving at reliable fair values.

There were no financial instruments subject to an enforceable master netting arrangement that were not set-off in the consolidated balance sheets.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities, except for related embedded derivatives which are either classified as Level 2 or 3;

Level 2: Those measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and,

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables show the fair value hierarchy of Company's financial instruments as at December 31:

		2017	
	Level 1	**Level 2**	**Level 3**
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading -			
Shares	**₱731,076**	**₱–**	**₱–**
Derivative assets	–	**3,546,694**	–
	731,076	**3,546,694**	–
Loans and receivables:			
Noncurrent portion of receivable from sale of real estate	–	–	**14,478,480**
Time deposits (included under "Other noncurrent assets")	–	**3,699,811**	–
AFS investments -			
Shares of stocks	**31,090,564**	–	**15,581**
	₱31,821,640	**₱7,246,505**	**₱14,494,061**
Financial Liabilities			
Financial liabilities at FVPL -			
Derivative liabilities	**₱–**	**₱777,408**	**₱–**
Other financial liabilities:			
Liability for purchased land - net of current portion	**₱–**	**₱–**	**₱2,107,453**
Long-term debt - net of current portion	–	–	**166,129,172**
Tenants' and customers' deposits	–	–	**15,906,569**
Other noncurrent liabilities*	–	–	**4,912,244**
	–	–	**189,055,438**
	₱–	**₱777,408**	**₱189,055,438**

**Excluding nonfinancial liabilities amounting to ₱2,495 million as at December 31, 2017.*

	2016		
	Level 1	Level 2	Level 3
		(In Thousands)	
Financial Assets			
Financial assets at FVPL:			
Investments held for trading:			
Bonds	₱296,596	₱–	₱–
Shares	622,106	–	–
Derivative assets	–	5,102,735	–
	918,702	5,102,735	–
Loans and receivables:			
Noncurrent portion of receivable from sale of real estate	–	–	10,150,249
Time deposits (included under "Other noncurrent assets")	–	3,814,271	–
AFS investments -			
Shares of stocks	21,202,713	–	10,012
	₱22,121,415	₱8,917,006	₱10,160,261
Financial Liabilities			
Other financial liabilities:			
Liability for purchased land - net of current portion	₱–	₱–	₱1,168,296
Long-term debt - net of current portion	–	–	156,560,822
Tenants' and customers' deposits	–	–	14,282,675
Other noncurrent liabilities*	–	–	4,040,296
	₱–	₱–	₱176,052,089

**Excluding nonfinancial liabilities amounting to ₱1,625 million as at December 31, 2016.*

During the years ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2017, SM Land (China) Limited entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term loans (the hedged loans) obtained on May 8, 2017 and October 16, 2017 (see Note 19).

Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US$ for their agreed China renminbi equivalents (¥672 million for US$100 million) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.

- Pay fixed interest at the China renminbi notional amount and receives floating interest on the US$ notional amount, on a quarterly basis, simultaneous with the interest payments on the hedged loans at an interest rates ranging from 4.95% to 5.43%.

The outstanding cross-currency swaps has a negative fair value of ₱208 million.

In 2013, SMPH entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on its U.S. dollar-denominated five-year term syndicated loans (the hedged loans) obtained on January 29, 2013 and April 16, 2013 (see Note 19).

Details of the floating-to-fixed cross-currency swaps are as follows:

- Swap the face amount of the loans at US$ for their agreed Philippine peso equivalents (₱8,134 million for US$200 million on January 29, 2018 and ₱6,165 million for US$150 million on March 23, 2018) with the counterparty banks and to exchange, at maturity date, the principal amount originally swapped.

- Pay fixed interest at the Philippine peso notional amount and receives floating interest on the US$ notional amount, on a semi-annual basis, simultaneous with the interest payments on the hedged loans.

As at December 31, 2017, SMPH's outstanding cross-currency swaps have notional amounts totaling US$350 million or ₱14,299 million. Their floating interest rates of US LIBOR + spread were fixed at interest rates ranging from 3.70% to 3.90%. Fair value of the outstanding cross-currency swaps amounted to ₱3,213 million.

Principal only Swaps. In 2016, SM Land (China) Limited entered into principal only swap transactions (¥2,472 million for US$380 million) at a premium to hedge the foreign currency exposures on its U.S. dollar-denominated five-year term syndicated loan and advances (the hedged items) obtained on February 16, 2016 to March 22, 2016 (see Note 19).

As at December 31, 2017, SM Land (China) Limited's outstanding principal only swaps have notional amounts totaling US$320 million were fixed to US$:¥ exchange rates ranging from 6.458 to 6.889. Of the notional amounts, US$50 million and US$270 million will mature on March 23, 2018, and January 29, 2021, respectively. The outstanding principal swaps has a negative fair value of ₱569 million.

Interest Rate Swaps. In 2017 and 2016, SM Land (China) Limited entered into US$ interest rate swap agreement with notional amount of US$150 million and US$270 million, respectively. Under the agreement, SM Land (China) Limited effectively converts the floating rate U.S. dollar-denominated loan into fixed rate loan (see Note 19).

Fair value of the outstanding interest rate swaps amounted to ₱334 million.

As the terms of the swaps have been negotiated to match the terms of the hedged loans, the hedges were assessed to be highly effective. No ineffectiveness was recognized in the consolidated statement of income for the year ended December 31, 2017.

Hedge Effectiveness Results
As the terms of the swaps have been negotiated to match the terms of the hedged loan, the hedges were assessed to be highly effective. The fair value of the outstanding cross-currency swaps, principal only swaps and interest rate swaps amounting to ₱2,769 million gain and ₱5,103 million gain as at December 31, 2017 and 2016, respectively, was taken to equity under other comprehensive income. No ineffectiveness was recognized in the consolidated statement of income for the years ended December 31, 2017 and 2016. Foreign currency translation gain arising from the hedged loan amounting to ₱1,082 million in 2017 was recognized under other comprehensive income. Foreign currency translation loss arising from the hedged loan amounting to ₱2,119 million in 2016 and ₱819 million in 2015 was recognized under other comprehensive income. Foreign exchange gain equivalent to the same amounts were recycled from equity to the consolidated statement of income during the same year.

Other Derivative Instruments Not Designated as Hedges
Interest Rate Swaps. In 2013, SMPH entered into two floating to fixed Philippine peso interest rate swap agreements with a notional amount of ₱175 million each to offset the cash flows of the two fixed to floating Philippine peso interest rate swaps entered in 2010 to reflect SMPH's partial prepayment of the underlying Philippine peso loan (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱2 million gain in 2015.

In 2011, SMPH entered into floating to fixed US$ interest rate swap agreements with aggregate notional amount of US$145 million. Under the agreements, SMPH effectively converts the floating rate U.S. dollar-denominated term loan into fixed rate loan with semi-annual payment intervals up to March 21, 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱38 million gain in 2015.

In 2010, SMPH entered into the following interest rate swap agreements:

- A US$ interest rate swap agreement with nominal amount of US$30 million. Under the agreement, SMPH effectively converts the floating rate U.S. dollar-denominated five-year bilateral unsecured loan into fixed rate loan with semi-annual payment intervals up to November 30, 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱19 million gain in 2015.

- Two Philippine peso interest rate swap agreements with notional amount of ₱1,000 million each. The consolidated net cash flows of the two swaps effectively converts the Philippine peso-denominated five-year inverse floating rate notes into floating rate notes with quarterly payment intervals up to June 2015 (see Note 19). Fair value changes from the matured swap recognized in the consolidated statements of income amounted to ₱31 million loss in 2015.

As at December 31, 2017 and 2016, there were no outstanding interest rate swaps not designated as hedges.

Non-deliverable Currency Forwards and Swaps. In 2017 and 2016, SMPH entered into sell ₱ and buy US$ currency forward contracts. It also entered into sell US$ and buy ₱ currency forward and swap contracts with the same aggregate notional amount. Net fair value changes from the settled currency forward and swap contracts recognized in the consolidated statements of income amounted to ₱27 million gain, ₱25 million gain and ₱14 million gain in 2017, 2016 and 2015, respectively.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2017	2016
	(In Thousands)	
Balance at beginning of year	**₱5,102,735**	₱2,600,799
Net changes in fair value during the year	**(2,315,403)**	2,379,650
Fair value of settled derivatives	**(18,046)**	122,286
Balance at end of year	**₱2,769,286**	₱5,102,735

In 2017, the net changes in fair value amounting to ₱2,315 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱9 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market loss on derivative instruments accounted for as cash flow hedges amounting to ₱2,333 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱27 million, which is included under "Others - net" account in the consolidated statements of income.

In 2016, the net changes in fair value amounting to ₱2,380 million include net interest paid on interest rate swap and cross currency swap contracts amounting to ₱147 million, which is charged against "Interest expense" account in the consolidated statements of income, net mark-to-market gain on derivative instruments accounted for as cash flow hedges amounting to ₱2,502 million, which is included under "Net fair value changes on cash flow hedges" account in equity, and net mark-to-market gain on derivative instruments not designated as hedges amounting to ₱25 million, which is included under "Others - net" account in the consolidated statements of income.

30. EPS Computation

Basic/diluted EPS is computed as follows:

	2017	2016	2015
	(In Thousands, Except Per Share Data)		
Net income attributable to equity holders of the parent (a)	**₱27,573,866**	₱23,805,713	₱28,302,092
Common shares issued	**33,166,300**	33,166,300	33,166,300
Less weighted average number treasury stock (see Note 20)	**4,332,630**	4,332,692	4,332,755
Weighted average number of common shares outstanding (b)	**28,833,670**	28,833,608	28,833,545
Earnings per share (a/b)	**₱0.956**	₱0.826	₱0.982

31. Change in Liabilities Arising from Financing Activities

	Loans Payable (Note 17)	Long Term Debt (Note 19)
	(In Thousands)	
Balance at beginning of year	₱840,000	₱163,537,685
Availments	4,639,400	37,358,271
Payments	(4,735,000)	(10,002,390)
Cumulative translation adjustment		2,675,627
Foreign exchange movement	–	(800,490)
Others	–	84,816
Balance at end of year	₱744,400	₱192,853,519

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

32. Other Matters

Bases Conversion and Development Authority (BCDA) Case
In 2012, the Company filed Petition for Certiorari with prayer for issuance of a Temporary Restraining Order against BCDA and Arnel Paciano Casanova (Casanova), President and CEO of BCDA. On August 13, 2014, the Supreme Court promulgated its Decision granting the Petition and ordered BCDA and Casanova to conduct and complete the Competitive Challenge, among others.

On September 26, 2014, April 28, 2015, and December 7, 2015, BCDA filed Motions for Reconsideration of the August 13, 2014 Decision, which were denied by the Supreme Court on March 18, 2015, September 7, 2015, and March 7, 2016, respectively. Meanwhile, in a resolution issued on March 18, 2015, the Supreme Court ordered the issuance of an Entry of Judgment. Accordingly, an Entry of Judgment was issued and the Decision dated August 13, 2014 became final and executory on March 18, 2015.

Instead of complying with the Supreme Court's Decision, BCDA filed a Motion for Clarification dated December 1, 2016, which was denied through a Resolution dated April 17, 2017. On October 10, 2017, the Company wrote BCDA reiterating its demand to comply with the Supreme Court's Decision to immediately complete the Competitive Challenge in accordance with the 2008 NEDA Guidelines. BCDA has not yet responded to the October 10, 2017 letter as of February 19, 2018.

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SM Prime Holdings, Inc.
10th Floor Mall of Asia Arena Annex Building
Coral Way cor. J.W. Diokno Blvd.
Mall of Asia Complex
Brgy. 76, Zone 10, CBP-1A, Pasay City 1300

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Prime Holdings, Inc. and Subsidiaries as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated February 19, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Sherwin V. Yason
Partner
CPA Certificate No. 104921
SEC Accreditation No. 1514-A (Group A),
October 6, 2015, valid until October 5, 2018
Tax Identification No. 217-740-478
BIR Accreditation No. 08-001998-112-2015,
March 4, 2015, valid until March 3, 2018
PTR No. 6621349, January 9, 2018, Makati City

February 19, 2018

Schedule A

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Financial Assets
As at December, 2017
(Amounts in Thousands except for Number of Shares)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet as at December 31, 2017	Income Received and Accrued
Loans and Receivables*			
Temporary investments:			
Banco de Oro (BDO)	PHP 20,452,641	PHP 20,452,641	
China Banking Corporation	PHP 9,992,337	9,992,337	
China Construction Bank	RMB 557,013	4,274,239	
China Industrial Bank	RMB 244,000	1,872,334	
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	RMB 203,000	1,557,721	
Bank of East Asia Ltd	RMB 181,800	1,395,042	
China Citic Bank	RMB 105,000	805,718	
China Merchants Bank	RMB 94,950	728,599	
Standard Chartered Bank	RMB 52,000	399,022	
Industrial and Commercial Bank of China	RMB 45,580	349,758	
Bank of China	RMB 43,800	336,099	
Others	PHP 37,934	37,934	
		PHP 42,201,444	PHP 707,866
Financial Assets at FVPL			
Investments held for trading:			
China Banking Corporation	21,954,228 shares	PHP 731,076	
Derivative assets	PHP 3,546,694	3,546,694	
		PHP 4,277,770	PHP 31,153
Available -for-sale Investments			
BDO Unibank, Inc.	90,024,395 shares	PHP 14,764,001	
Ayala Corporation	8,581,204 shares	8,709,922	
China Banking Corporation	119,404,664 shares	3,976,175	
Belle Corporation	735,553,561 shares	2,853,948	
Shang Properties, Inc.	189,550,548 shares	593,293	
SM Investments Corporation	146,104 shares	144,643	
Republic Glass Holding Corporation	14,350,000 shares	37,310	
Picop Resources, Inc.	40,000,000 shares	8,200	
Tagaytay Midlands Golf Club, Inc.	13 shares	6,500	
The Country Club at Tagaytay Highlands	29 shares	5,800	
Philippine Long Distance Telephone Company	253,270 shares	2,533	
Export & Industry Bank	7,829,000 shares	2,036	
Benguet Corporation	266,757 shares	461	
Prime Media Holdings, Inc.	500,000 shares	575	
Others	852 shares	748	
		PHP 31,106,145	PHP 354,247
		PHP 77,585,359	**PHP 1,093,266**

**Excluding cash on hand and in banks.*

Schedule C

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements
As at December 31, 2017
(Amounts in Thousands)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period
SM Land (China) Limited and Subsidiaries	₱12,661,893	₱2,287,020	(₱10,950,836)	₱-	₱-	₱3,998,077	₱3,998,077
Costa del Hamilo, Inc. and Subsidiary	852,351	8,081	(19,764)	-	-	840,668	840,668
SM Prime Holdings, Inc.	122,857	4,517,868	(4,142,278)			498,447	498,447
San Lazaro Holdings Corporation	250,051	15,000	(20,001)	-	-	245,050	245,050
Associated Development Corporation	200,000	-	(20,500)	-	-	179,500	179,500
Prime Commercial Property Management Corp.	15,388	93,580	(22,646)	-	-	86,322	86,322
SM Development Corporation and Subsidiaries	62,595	208,270	(230,098)	-	-	40,767	40,767
Tagaytay Resort and Development Corporation	32,879	-	-	-	-	32,879	32,879
SM Hotels and Conventions Corp. and Subsidiaries	41,772	56,362	(68,013)	-	-	30,121	30,121
SM Arena Complex Corporation	16,428	33,324	(29,396)	-	-	20,356	20,356
Highlands Prime, Inc.	1	2,064	(1,983)	-	-	82	82
Prime Metroestate, Inc.	-	6,455	(6,417)	-	-	38	38
Premier Central, Inc.	494,547	4,017	(498,564)	-	-	-	-
CHAS Realty and Development Corporation and Subsidiaries	103,318	-	(103,318)	-	-	-	-
Consolidated Prime Dev. Corp.	59,353	4,260	(63,613)	-	-	-	-
Premier Southern Corp.	2,451	6	(2,457)	-	-	-	-
First Asia Realty Development Corporation	26,574	-	(26,574)	-	-	-	-
Magenta Legacy, Inc.	2,000	-	(2,000)	-	-	-	-
First Leisure Ventures Group, Inc.	1,531	-	(1,531)	-	-	-	-
MOA Esplanade Port Inc.	1,129	177	(1,306)	-	-	-	-
Southernpoint Properties Corp.	688	-	(688)	-	-	-	-
	₱14,947,806	₱7,236,484	(₱16,211,983)	₱-	₱-	₱5,972,307	₱5,972,307

Schedule H

SM PRIME HOLDINGS, INC.
Capital Stock
As at December 31, 2017
(Shares in Thousand)

Title of Issue	Number of Shares Authorized	Number of Shares Issued as Shown Under Related Balance Sheet Caption	Number of Shares Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common	40,000,000	33,166,300	28,879,232	17,418,309	3,434,016	8,026,907

Annex I

SM Prime Holdings, Inc.

10th Floor Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd.
Mall of Asia Complex, Brgy. 76 Zone 10, CBP-1A, Pasay City 1300

Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2017

Unappropriated retained earnings as at January 1, 2017		₱98,024,288,003
Less: Non-actual/unrealized income, net of applicable tax:		
Equity in net earnings of subsidiaries, associates and joint ventures	57,813,017,058	
Treasury stock	2,613,650,429	
Unrealized foreign exchange gain	31,352,228	60,458,019,715
Unappropriated retained earnings as at January 1, 2017, available for dividend declaration		37,566,268,288
Net income closed to retained earnings in 2017		27,505,860,517
Net income actually earned in 2017		65,072,128,805
Less: Equity in net earnings of subsidiaries, associates and joint ventures	12,670,241,650	
Cash dividends in 2017	7,508,600,225	
Unrealized foreign exchange loss	(116,173,982)	
		20,062,667,893
Retained earnings as at December 31, 2017 available for dividend declaration		**₱45,009,460,912**

Annex II

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
List of Philippine Financial Reporting Standards (PFRSs) and
Interpretations Effective as at December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as at December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Costs			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*	Not Early Adopted		
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓

** Standards and interpretations which will become effective subsequent to December 31, 2017.*

Note:Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the nine months ended December 31, 2017.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		**Adopted**	**Not Adopted**	**Not Applicable**
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9 with PFRS 4*	Not Early Adopted		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposals			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts			✓
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓

** Standards and interpretations which will become effective subsequent to December 31, 2017.*

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the nine months ended December 31, 2017.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		**Adopted**	**Not Adopted**	**Not Applicable**
	Amendments to PFRS 10, PFRS 12 and PAS 28 - Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not Early Adopted		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28 - Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12, Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*	Not Early Adopted		
PFRS 16	Leases*	Not Early Adopted		
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		

** Standards and interpretations which will become effective subsequent to December 31, 2017.*

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the nine months ended December 31, 2017.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as at December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment	✓		
	Amendment to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation / Amortization			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution	✓		
	Amendments to PAS 19: Regional Market Issue Regarding Discount Rate	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
‘PAS 23 (Revised)	Borrowing Costs	✓		
	Related Party Disclosures	✓		

** Standards and interpretations which will become effective subsequent to December 31, 2017.*

Note: Standards and interpretations tagged as “Not applicable” are those standards which were adopted but the entity has no significant covered transaction as at and for the nine months ended December 31, 2017.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 24 (Revised)	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28 - Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*	Not Early Adopted		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not Early Adopted		
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		

** Standards and interpretations which will become effective subsequent to December 31, 2017.*

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the nine months ended December 31, 2017.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as at December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation / Amortization	✓		
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		

** Standards and interpretations which will become effective subsequent to December 31, 2017.*

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the nine months ended December 31, 2017.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
	Amendments to PAS 40: Transfers of Investment Property*	Not Early Adopted		
PAS 41	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 15	Agreements for the Construction of Real Estate	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓

** Standards and interpretations which will become effective subsequent to December 31, 2017.*

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the nine months ended December 31, 2017.

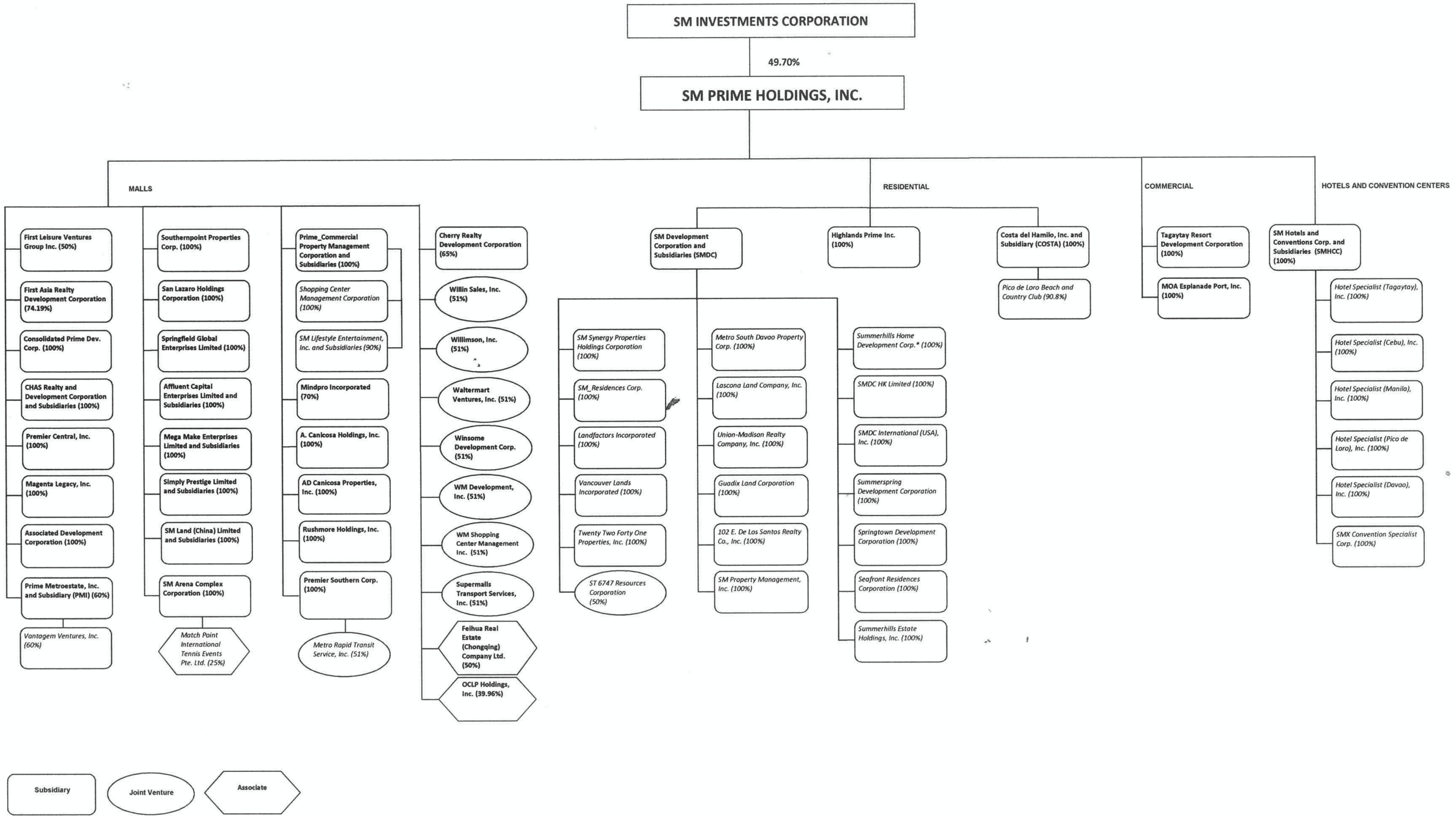
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration*	Not Early Adopted		
IFRIC 23	Uncertainty over Income Tax Treatments*	Not Early Adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

** Standards and interpretations which will become effective subsequent to December 31, 2017.*

Note: Standards and interpretations tagged as "Not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the nine months ended December 31, 2017.

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
As of December 31, 2017

Annex III



* Summerhills Home Development Corp. is 79.6% owned by SMDC and 20.4% owned by SMPH

Note: % Refers to Effective Ownership

Annex IV

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS
AS OF DECEMBER 31, 2017 and 2016

		December 31, 2017	December 31, 2016
i.	**Current ratio**		
	Total current assets / Total current liabilities	1.61	2.10
	Acid - Test Ratio		
	Total current assets less inventory and prepaid expenses / Total current liabilities	1.02	1.21
ii.	**Debt-to-equity ratio**		
	Total interest-bearing liabilities / Total equity attributable to equity holders of the parent	43:57	42:58
	Net debt-to-equity ratio		
	Total interest-bearing liabilities less cash and cash equivalents and investment securities / Total equity attributable to equity holders of the parent	36:64	37:63
	Solvency Ratio		
	Total assets / Total liabilities	1.95	2.02
iii.	**Asset to equity ratio**		
	Total assets / Total equity attributable to equity holders of the parent	2.08	2.01
iv.	**Interest Service Coverage**		
	Earnings before interest, income taxes, depreciation and amortization (EBITDA) / Interest expense	8.96	9.64
	Debt to EBITDA		
	Total interest-bearing liabilities / EBITDA	3.95	3.87
v.	**Return on equity**		
	Net income attributable to equity holders of the parent / Total average equity attributable to equity holders of the parent	11%	11%
	Return on investment properties		
	Net income attributable to equity holders of the parent / Total average investment properties (excluding shopping mall complex under construction)	12%	11%

SM PRIME HOLDINGS, INC. AND SUBSIDIARIES
Retail Bond – Series G
As of December 31, 2017

(1) Gross and Net Proceeds as Disclosed in the Final Prospectus

	₱15.0B Issue Size	₱5.0 B Over-Subscription Option	Total Proceeds (inclusive of Over-Subscription)
Gross Proceeds	₱15,000,000,000	₱5,000,000,000	₱20,000,000,000
Estimated Expenses	133,628,125	40,000,000	173,628,125
Net Proceeds	₱14,866,371,875	₱4,960,000,000	₱19,826,371,875

(2) Actual Gross and Net Proceeds

Gross Proceeds	₱20,000,000,000
Actual Expenses	189,831,852
Net Proceeds	₱19,810,168,148

(3) Each Expenditure Item where the Proceeds were Used

The net proceeds was used to finance capital expenditures of the following:

Projects	Amounts in million
SM Cagayan de Oro Premier	₱2,493
Three Ecom Center	1,590
SM Urdaneta Paurido	814
Cherry Antipolo	793
SM Telabastagan	732
Four Ecom Center	717
SM Puerto Princesa	714
SM Pulilan	664
SM Legazpi	652
SM MOA Expansion	545
SM Luna Tuguegarao	518
SM Lemery	500
SM Sta. Rosa BPO	497
SM Baguio Expansion	422
SM Olongapo 2	192
SM Ormoc	76
SM Tuguegarao 2	13
SM Roxas	9
SM Sorsogon	7
SM Butuan	6
SM Tagum	6
SM Grand Central Caloocan	5
TOTAL	**₱11,965**

(4) As of December 31, 2017, ₱11,965 million was used in financing capital expenditures for the expansion and construction of mall and commercial projects.

Republic of the Philippines)
Pasig City, Metro Manila) S.S.

CERTIFICATION

I, **ELMER B. SERRANO,** of legal age, Filipino and with office address at the 33rd Floor, The Orient Square, F. Ortigas, Jr. Road, Ortigas Center, Pasig City, after being duly sworn in accordance with law, hereby depose and state that:

1. I am the Corporate Secretary of **SM Prime Holdings, Inc.** (the **Corporation**), a corporation organized and existing under and by virtue of the laws of the Philippines, with office address at Mall of Asia Arena Annex Building, Coral Way cor. J.W. Diokno Blvd., Mall of Asia Complex, Brgy. 76, Zone 10, CBP-1A, Pasay City Philippines;

2. Based on corporate records and as of this date, none of the directors, independent directors and officers of the Corporation named in the Definitive Information Statement (SEC Form 20-IS) has been elected or appointed to, and is presently occupying a position in any government agency, bureau, department or office.

3. I am issuing this Certificate in compliance with the requirement of the Securities and Exchange Commission.

IN WITNESS WHEREOF, I have hereunto affixed my signature on this MAR 08 2018 at Pasig City.

ELMER B. SERRANO
Corporate Secretary

SUBSCRIBED AND SWORN to before me this MAR 08 2018 at Pasig City, affiant exhibited to me his Tax Identification No. [redacted]

Doc. No. 58;
Page No. 13;
Book No. I;
Series of 2018.

STEPHANIE M. GANDIA
Appointment No. 192 (2017-2018)
Notary Public for Pasig City
Until December 31, 2018
Attorney's Roll No. 64513
33rd Floor, The Orient Square
F. Ortigas, Jr. Road, Ortigas Center, Pasig City
PTR No. 3859430; 01.04.18; Pasig City
IBP No. 021163; 01.04.18; RSM
MCLE Compliance No. V-0018729; Valid Until 04.14.2019

REPUBLIC OF THE PHILIPPINES)
) S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JOSE L. CUISIA, JR.**, Filipino, of legal age, and a resident of [redacted] after having been duly sworn to in accordance with law hereby declare that:

1. I am a nominee for independent director of **SM Prime Holdings, Inc. (SM Prime)** and have been its independent director since 1994.

2. I am affiliated with the following company/ies or organization/s:

Company/Organization	Position/Relationship	Period of Service
PHINMA Corporation (*PLC*)	Regular Director	21 years
Manila Water Company, Inc. (*PLC*)	Independent Director	5 years
Century Properties Group, Inc. (*PLC*)	Independent Director	2 years
PHINMA, Inc.	Regular Director	3 years
The Covenant Car Company	Chairman of the Board	9 years
FWD Insurance	Chairman of the Board	Less than 1 year
Asian Breast Center, Inc.	Regular Director	1 year
Starr International Companies	Chairman of the Board	Less than 1 year
University of Asia & the Pacific And CRC Foundation	Vice Chairman of the Board of Trustees	1 year
Ramon V. del Rosario Center for Corporate Responsibility at AIM	Co-Chairman of the Advisory Board	1 year
Rizalino Navarro Center for Competitiveness at AIM	Chairman of the Advisory Board	1 year
Ramon Magsaysay Foundation	Member of the Board & Treasurer	1 year

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SM Prime, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. **(where applicable)**

NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP

N/A		

5. Directors of SM Prime, including myself, are involved in the following legal proceedings solely by virtue of and in connection with our directorship in SM Prime:

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
Other Deceits under Art. 318 of Revised Penal Code	Department of Justice	The City Government of Cebu filed a complaint against directors and officers of the SM Prime in their official capacities for alleged misrepresentations regarding the premises of SM Seaside City Cebu in connection with its real property tax assessment. The Complaint was dismissed due to insufficiency of evidence. The Cebu City Government filed a Motion for Reconsideration, now pending resolution by the Department of Justice-Manila.
Other Deceits under Art. 318 of Revised Penal Code	Department of Justice	The City Government of Cebu filed a complaint against directors and officers of SM Prime in their official capacities for alleged non-declaration of machineries of SM Seaside City Cebu in connection with its real property tax assessment. The Complaint was dismissed due to insufficiency of evidence. The Cebu City Government filed a Motion for Reconsideration which was denied by the Department of Justice-Manila.

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of SM Prime of any changes in the abovementioned information within five days from its occurrence.

IN WITNESS WHEREOF, I have hereunto set my hand on this FEB 20 2018 at MAKATI CITY, Metro Manila.

José L. Cuisia, Jr.

SUBSCRIBED AND SWORN TO before me this FEB 20 2018, at MAKATI CITY, affiant exhibiting to me his Tax Identification No. 1[redacted]

Notary Public
ATTY. REINIER S. QUIAMBAO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
PTR NO. 6657416 / 01.25.18 / MAKATI CITY
IBP NO. 025016 / 01.10.18 / TARLAC CITY
TIN 238-251-699 ROLL NO. 62283
MCLE NO. V - 0011532 / 10.06.15

Doc. No. 299;
Page No. 60;
Book No. 49;
Series of 2018.

REPUBLIC OF THE PHILIPPINES)
) S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JOSELITO H. SIBAYAN**, Filipino, of legal age and a resident of [redacted], after having been duly sworn to in accordance with law hereby declare that:

1. I am a nominee for independent director of **SM Prime Holdings, Inc. (SM Prime)** and have been its independent director since 2011.

2. I am affiliated with the following company/ies or organization/s:

Company/Organization	Position/Relationship	Period of Service
Mabuhay Capital Corporation	President and CEO	2006 to Present
Apex Mining Company, Inc.	Independent Director	2014 to Present
A Brown Company, Inc.	Regular Director	2017 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SM Prime, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. **(where applicable)**

NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A		

5. Directors of SM Prime, including myself, are involved in the following legal proceeding solely by virtue of and in connection with their directorship in SM Prime:

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
Other Deceits under Art. 318 of Revised Penal Code	Department of Justice	The City Government of Cebu filed a complaint against directors and officers of SM Prime in their official capacities for alleged non-declaration of machineries of SM Seaside City Cebu in connection with its real property tax assessment. The Complaint was dismissed due to insufficiency of evidence. The Cebu City Government filed a Motion for Reconsideration which was denied by the Department of Justice-Manila.

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of SM Prime of any changes in the abovementioned information within five days from its occurrence.

IN WITNESS WHEREOF, I have hereunto set my hand on this FEB 20 2018 at MAKATI CITY, Metro Manila.

Joselito H. Sibayan

SUBSCRIBED AND SWORN TO before me this FEB 20 2018, at MAKATI CITY, affiant exhibiting to me his Tax Identification No. [redacted]

Notary Public

ATTY. REINIER S. QUIAMBAO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
PTR NO. 6657416 / 01.25.18 / MAKATI CITY
IBP NO. 025016 / 01.10.18 / TARLAC CITY
TIN 238-251-699 ROLL NO. 62283
MCLE NO. V - 0011532 / 10.06.15

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Book No. 19;
Series of 2018.

REPUBLIC OF THE PHILIPPINES)
) S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **GREGORIO U. KILAYKO**, Filipino, of legal age and a resident of [redacted] after having been duly sworn to in accordance with law hereby declare that:

1. I am a nominee for independent director of **SM Prime Holdings, Inc. (SM Prime)** and have been its independent director since 2008.

2. I am affiliated with the following company/ies or organization/s:

Company/Organization	Position/Relationship	Period of Service
Belle Corporation	Independent Director	2003 to Present
Philequity Fund	Independent Director	2014 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SM Prime, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. **(where applicable)**

NAME OF DIRECTOR/OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A		

5. Directors of SM Prime, including myself, are involved in the following legal proceeding solely by virtue of and in connection with our directorship in SM Prime:

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
Other Deceits under Art. 318 of Revised Penal Code	Department of Justice	The City Government of Cebu filed a complaint against directors and officers of SM Prime in their official capacities for alleged non-declaration of machineries of SM Seaside City Cebu in connection with its real property tax assessment. The Complaint was dismissed due to insufficiency of evidence. The Cebu City Government filed a Motion for Reconsideration which was denied by the Department of Justice-Manila.

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of SM Prime of any changes in the abovementioned information within five days from its occurrence.

IN WITNESS WHEREOF, I have hereunto set my hand on this FEB 20 2018 at MAKATI CITY, Metro Manila.

Gregorio U. Kilayko

SUBSCRIBED AND SWORN TO before me this FEB 20 2018, at MAKATI CITY affiant exhibiting to me his Tax Identification No. [redacted]

ATTY. REINIER S. GUIAMBAO
Notary Public
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
PTR NO. 6657416 / 01.25.18 / MAKATI CITY
IBP NO. 025016 / 01.10.18 / TARLAC CITY
TIN 238-251-699 ROLL NO. 62283
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