COVER SHEET

SEC Registration Number

						1	6	3	4	2

Company Name

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

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

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

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
–	**857-0100**	**–**

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
1,251	**April 25, 2018**	**12/31**

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. Frederic C. DyBuncio	**–**	**857-0100**	**–**

Contact Person's Address

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

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.

INVESTMENTS
CORPORATION

Notice of Annual Stockholders' Meeting
April 25, 2018 at 2:30 p.m.
Forbes Ballroom, Conrad Manila, Seaside Boulevard corner Coral Way
Mall of Asia Complex, Pasay City 1300

To all Stockholders:

The 2018 Annual Stockholders' Meeting of SM Investments Corporation will be held on April 25, 2018 at 2:30 p.m. at the Forbes Ballroom, Conrad Manila, Seaside Boulevard corner Coral Way, Mall of Asia Complex, Pasay City. The agenda of the meeting is set forth below:

A G E N D A

1. Call to order
2. Certification of notice and quorum
3. Approval of minutes of Annual Stockholders' Meeting held on April 26, 2017
4. Annual Report for the Year 2017 (Open Forum)
5. Amendment of the Second Article of the Articles of Incorporation
6. 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
7. Election of directors for 2018-2019
8. Appointment of external auditors
9. Other Matters
10. Adjournment

Attached are the rationale for the above agenda items for reference.

The Board of Directors has fixed the end of trading hours of the Philippine Stock Exchange (PSE) on March 26, 2018 as the record date for the determination of stockholders entitled to notice of and to vote at such meeting and any adjournment thereof.

In case you cannot personally attend the meeting, you may accomplish the attached proxy form and submit the same to the office of the Corporate Secretary at the 33rd Floor, The Orient Square, F. Ortigas Jr. Road, Ortigas Center, Pasig City 1600 at least seven (7) business days (or until April 16, 2018) before the annual meeting, as provided in the By-laws.

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

Pasig City, March 14, 2018.

BY THE ORDER OF THE BOARD OF DIRECTORS

ELMER B. SERRANO
Corporate Secretary
SM INVESTMENTS CORPORATION

Rationale for Agenda Items:

Agenda Item 3: To acknowledge and consider for approval the Minutes of Annual Stockholders' Meeting (ASM) held on April 26, 2017.
The minutes of the ASM held on April 26, 2017 were made and submitted to the SEC within the period prescribed by pertinent laws, rules and regulations. The minutes were also posted on the website of SM Investments Corporation (**SMIC**). The Board of Directors recommends that the stockholders consider subject minutes for approval on April 25, 2018.

Agenda Item 4: To acknowledge and consider for approval the Annual Report of the Company for 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 2017. The AFS have been reviewed by the Audit Committee and the Board of Directors, and have been audited by the external auditors who expressed an unqualified opinion on the aforementioned financial statements. Any stockholder who would like to receive a hard copy of the 2017 Annual Report may request for a copy from the Investor Relations Office.

Agenda Item 5: To approve the amendment of the Second Article of the Articles of Incorporation.
The Company's Articles of Incorporation shall be amended to include in the Company's secondary purpose the ability to guarantee, for and on behalf of the Company, obligations of the Company or entities in which it has lawful interests. Such amendment will effectively give the Company better flexibility and leverage in the conduct of its business and transactions.

Agenda Item 6: To acknowledge and ratify all the acts of the Board of Directors and Management from the date of the last ASM 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.

Agenda Item 7: To elect the Board of Directors for 2018 to 2019.
Qualifications of the nominated Directors have been duly reviewed and based thereon, the nominated Directors are determined to be qualified and are being recommended by the Company's Corporate Governance Committee for election. Their proven competence, expertise and qualifications based on current regulatory standards and the Company's own norms, will help sustain the Company's solid performance for the benefit of all its stockholders.

Agenda Item 8: To consider and approve the Audit Committee's recommendation for the appointment of the external auditor.
Based on the recommendation of the Audit Committee, the Board nominates SyCip Gorres Velayo & Co. (SGV & Co.) as the Company's external auditor for 2018. SGV & Co. is one of the top auditing firms in the country which is duly accredited with the Securities and Exchange Commission. The stockholders are also endorsed to delegate approval authority to the Board to approve the appropriate audit fee for 2017.

Pasig City, March 14, 2018.

(SAMPLE PROXY FORM FOR INDIVIDUALS)

PROXY

The undersigned stockholder of SM Investments Corporation (the "**Company**") hereby appoints ______________________ or in his absence, the Chairman of the meeting, as attorney and proxy, with power of substitution, to represent and vote ______________________ shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 25, 2018 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous annual stockholders' meeting.
   ___ Yes ___ No ___ Abstain

2. Approval of 2017 Annual Report.
   ___ Yes ___ No ___ Abstain

3. Approval of the amendment of the Second Article of the Articles of Incorporation.
   ___ Yes ___ No ___ Abstain

4. Ratification of all acts and resolutions of the Board of Directors and Executive Officers.
   ___ Yes ___ No ___ Abstain

5. Election of Directors.
   ____ a) Vote for all nominees listed below:

   1. Teresita T. Sy
   2. Henry T. Sy, Jr.
   3. Harley T. Sy
   4. Jose T. Sio
   5. Joseph R. Higdon (Independent Director)
   6. Tomasa H. Lipana (Independent Director)
   7. Alfredo E. Pascual (Independent Director)
   8. Frederic C. DyBuncio

   ____ b) Withhold authority for all nominees listed above

   ____ c) Withhold authority to vote for the nominees listed below:

   __________________ __________________
   __________________ __________________
   __________________ __________________
   __________________ __________________

6. Election of SyCip Gorres Velayo & Co. as external auditor.
   ___ Yes ___ No ___ Abstain

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

____
Printed Name of Stockholder

____
Signature of Stockholder /
Authorized Signatory

____
Date

(SAMPLE PROXY FORM FOR CORPORATIONS)

SECRETARY'S CERTIFICATE

I, ____________________, Filipino, of legal age and with office address at ______________________________, do hereby certify that:

1. I am the duly appointed Corporate Secretary of ___________________________ (the "**Company**"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at _________________________;

2. As of record date, the Company holds ____ (_______________) shares in SM Investments Corporation;

3. Based on the records, during the lawfully convened meeting of the Board of Directors of the Company held on ______________________, the following resolution was passed and approved:

   > "RESOLVED, That ____________________ be authorized and appointed, as he is hereby authorized and appointed, as the Company's proxy (the "**Proxy**") to attend all meetings of the stockholders of SM Investments Corporation (**SMIC**) whether the meeting is regular or special, or at any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Company held in SMIC and to act upon all matters and resolution that may come before or presented during meetings, or any adjournments thereof, in the name, place and stead of the Company.
   >
   > "RESOLVED, FINALLY, That SMIC be furnished with a certified copy of this resolution and SMIC may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

4. The foregoing resolution has not been modified, amended or revoked in accordance with the records of the Company presently in my custody.

IN WITNESS WHEREOF, I have signed this instrument in ____________ on _______________.

____
Printed Name and Signature of the Corporate Secretary

SUBSCRIBED AND SWORN TO BEFORE ME on __________________ in _________________. Affiant exhibited to me his Competent Evidence of Identity by way of _____________________ issued on _______________ at ________________.

Doc. No. ______;
Page No. ______;
Book No. ______;
Series of ______.

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 16, 2018 (MONDAY)**, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, 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 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 BOARD OF DIRECTORS

HENRY SY, SR.
Chairman Emeritus

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

JOSE T. SIO
Chairman of the Board

Member, Audit Committee
Member, Risk Management Committee
Member, Compensation Committee
Member, Related Party Transaction Committee

EDUCATION/EXPERIENCE	Jose T. Sio is the Chairman of the Board of SMIC and Belle Corporation. He is also a Director of China Banking Corporation and Atlas Consolidated Mining and Development Corporation, and Adviser to the Board of Directors of BDO Unibank, Inc. and Premium Leisure Corporation. Mr. Sio holds a Master's Degree in Business Administration from New York University, is a certified public accountant, and was formerly a senior partner at Sycip Gorres Velayo & Co. Mr. Sio was voted CFO of the Year in 2009 by the Financial Executives of the Philippines (FINEX). He was also awarded as Best CFO (Philippines) in various years by several Hong Kong based business publications.
BOARD ATTENDANCE	100%; 5 of 5 meetings (as of election held on April 26, 2017)
DATE OF FIRST APPOINTMENT	May 2005
NO. OF YEARS ON THE BOARD	13 years
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	Belle Corporation – Chairman China Banking Corporation – Director Atlas Mining and Development Corporation – Director

TERESITA T. SY

Vice Chairperson of the Board

Chairperson, Compensation Committee
Chairperson, Executive Committee

EDUCATION/EXPERIENCE	Teresita T. Sy is the Co-Vice Chairperson of SMIC. She has varied experiences in retail merchandising, mall development, and banking businesses. A graduate of Assumption College, she is actively involved in the SM Group development. At present, she is the Chairperson of BDO Unibank, Inc. She also holds board positions in several companies within the SM Group.
BOARD ATTENDANCE	100%; 5 of 5 meetings (as of election held on April 26, 2017)
DATE OF FIRST APPOINTMENT	May 1979
NO. OF YEARS ON THE BOARD	38 years
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	BDO Unibank, Inc. — Chairperson

HENRY T. SY, JR.

Vice Chairman of the Board

EDUCATION/EXPERIENCE	Henry T. Sy, Jr. is the Co-Vice Chairman of SMIC and Chairman of SM Prime Holdings, Inc. and Highlands Prime, Inc. He is also the Chairman and Chief Executive Officer of SM Development Corporation. He is likewise the President of National Grid Corporation of the Philippines. He is responsible for the real estate acquisitions and development activities of the SM Group which include the identification, evaluation, and negotiation for potential sites as well as the input of design ideas. He graduated with a Management Degree from the De La Salle University.
BOARD ATTENDANCE	100%; 5 of 5 meetings (as of election held on April 26, 2017)
DATE OF FIRST APPOINTMENT	May 1979
NO. OF YEARS ON THE BOARD	38 years
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	SM Prime Holdings, Inc. — Chairman

FREDERIC C. DYBUNCIO

President/CEO

Member, Executive Committee

EDUCATION/EXPERIENCE	Frederic C. DyBuncio is the President and Chief Executive Officer of SMIC. Prior to joining SMIC, he was a career banker who spent over 20 years with JPMorgan Chase and its predecessor institutions. During his stint in the banking industry, he was assigned to various managerial/executive positions where he gained substantial professional experience in the areas of credit, relationship management and origination, investment banking, capital markets, and general management. He has worked and lived in several major cities including New York, Seoul, Bangkok, Hong Kong and Manila. He obtained his undergraduate degree in Business Management from the Ateneo de Manila University, and his Master's Degree in Business Administration from the Asian Institute of Management.
BOARD ATTENDANCE	100%; 5 of 5 meetings (as of election held on April 26, 2017)
DATE OF FIRST APPOINTMENT	April 2017
NO. OF YEARS ON THE BOARD	1 year
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	Atlas Mining and Development Corporation — Vice Chairman 2GO Group, Inc. — Director Phoenix Petroleum Philippines, Inc. — Director

HARLEY T. SY

Executive Director

Member, Executive Committee

EDUCATION/EXPERIENCE	Harley T. Sy is the Executive Director of SMIC. He is a Director of China Banking Corporation and other companies within the SM Group and Adviser to the Board of Directors of BDO Private Bank. He is the Co-Vice Chairman and Treasurer of SM Retail, Inc. He holds a degree in Bachelor of Science in Commerce, Major in Finance from the Dela Salle University.
BOARD ATTENDANCE	100%; 5 of 5 meetings (as of election held on April 26, 2017)
DATE OF FIRST APPOINTMENT	May 1993
NO. OF YEARS ON THE BOARD	24 years
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	China Banking Corporation — Director

JOSEPH R. HIGDON

Lead Independent Director

Chairman, Corporate Governance Committee
Chairman, Related Party Transaction Committee
Member, Risk Management Committee
Member, Compensation Committee

EDUCATION/EXPERIENCE	Joseph R. Higdon, an American, is Lead Independent Director of SMIC. Until his retirement, he was a Senior Vice-President of Capital Research and Management Company, a United States investment company. He joined Capital Research in 1974 and worked there until 2006. He analyzed Philippine Stocks from 1989 until 2006. He was a US Peace Corps volunteer in the Philippines from 1962 to 1964. He is also an Independent Director of International Container Terminal Services, Inc. and Security Bank Corporation. For six years until 2012, he served as a member of the Advisory Board for the Coca-Cola Bottling Company, Philippines.
BOARD ATTENDANCE	100%; 5 of 5 meetings (as of election held on April 26, 2017)
DATE OF FIRST APPOINTMENT	April 2010
NO. OF YEARS ON THE BOARD	8 years
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	Security Bank Corporation — Independent Director Philippine Equity Partners, Inc. — Independent Director International Container Terminal Services, Inc. — Independent Director

TOMASA H. LIPANA

Independent Director

Chairperson, Audit Committee
Member, Corporate Governance Committee

EDUCATION/EXPERIENCE	Tomasa H. Lipana is an independent director of SMIC. She was former Chairperson and Senior Partner of Isla Lipana & Co., the Philippine member firm of PricewaterhouseCoopers. She is an independent director and Audit Committee Chairperson of Flexo Manufacturing Corporation, Goldilocks Bakeshop, Inc., QBE Seaboard Insurance Philippines, Inc., and Trade and Investments Development Corporation of the Philippines (PhilExim), a government-owned and controlled corporation. She is also a trustee of several non-profit organizations including Shareholders' Association of the Philippines, Inc. She is a fellow of the Institute of Corporate Directors. Ms. Lipana took up Executive Education/Management Development Programs at Harvard Business School, University of Western Ontario, and Asian Institute of Management. She received the Outstanding CPA in the Public Practice Award from the Philippine Institute of Certified Public Accountants and the Outstanding Alumna Award from the University of the East where she graduated Cum Laude. She is also a CPA Board placer.
BOARD ATTENDANCE	100%; 5 of 5 meetings (as of election held on April 26, 2017)
DATE OF FIRST APPOINTMENT	April 2016
NO. OF YEARS ON THE BOARD	2 years
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	Currently no directorships in other reporting companies.

ALFREDO E. PASCUAL

Independent Director

Chairman, Risk Management Committee
Member, Corporate Governance Committee
Member, Audit Committee
Member, Related Party Transaction Committee

EDUCATION/EXPERIENCE	Alfredo E. Pascual is an independent director of SMIC. He recently assumed the CEO position at the Institute of Corporate Directors (ICD), following the completion of his six-year term as President of the University of the Philippines (UP) and Co-Chair of the UP Board of Regents. Prior to becoming an academic leader, Mr. Pascual worked at the Asian Development Bank (ADB) for 19 years in such positions as Director for Private Sector Operations, Director for Infrastructure Finance, and Advisor for Public-Private Partnership. Earlier on, he held senior executive positions in investment banking companies, such as First Metro Investment Corporation. He likewise took on an educator role as finance professor at the Asian Institute of Management (AIM) in the 1980s. Currently, Mr. Pascual also serves as a member of the Board of Trustees of the UP Foundation, Inc., and of the Institute for Solidarity in Asia. He is a Governor of the Management Association of the Philippines (MAP), a life member of the Financial Executives Institute of the Philippines (FINEX), and the President-elect of the Rotary Club of Makati.
BOARD ATTENDANCE	100%; 4 of 4 meetings (as of election held on April 26, 2017)
DATE OF FIRST APPOINTMENT	April 2017
NO. OF YEARS ON THE BOARD	1 year
DIRECTORSHIP/S IN OTHER REPORTING COMPANIES	Currently no directorships in other reporting companies.

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 INVESTMENTS CORPORATION**

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

4. SEC Identification Number: **0000016342**

5. BIR Tax Identification Code: **000-169-020-000**

6. Address of principal office: **10th Floor, OneE-com Center, Harbor Drive**
   Mall of Asia Complex, Pasay City
   Postal Code **1300**

7. Registrant's telephone number, including area code: **(632) 857-0100 / fax (632) 857-0132**

8. Date, time and place of the meeting of security holders: **April 25, 2018, 2:30 p.m.**
   Forbes Ballroom, Conrad Manila
   Seaside Boulevard corner Coral
   Way, Mall of Asia Complex
   Pasay City 1300

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **March 27, 2018**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the:

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common shares	**1,204,582,867**

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

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 25, 2018

Time : 2:30 p.m.

Place : Forbes Ballroom, Conrad Manila
Seaside Boulevard corner Coral Way
Mall of Asia Complex, Pasay City 1300

Mailing Address of Registrant : **SM Investments Corporation**
10th Floor, OneE-Com Center
Harbor Drive, Mall of Asia Complex
Pasay City 1300

(b) The approximate date on which the Information Statement will be sent or given to the stockholders is on March 27, 2018.

Statement that proxies are not solicited

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

Voting Securities

The record date for purposes of determining the stockholders entitled to vote is March 26, 2018. The total number of shares outstanding and entitled to vote in the stockholders' meeting is 1,204,582,867 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 Investments Corporation (SMIC or the "Company") respects the inherent rights of stockholders under the law. SMIC recognizes that all stockholders 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 in 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.

Procedure:

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 corporation 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 thereof; and
(d) Upon payment of the agreed or awarded price, the stockholder shall transfer his share to the corporation.

No matter will be presented for stockholders' approval during the stockholders' meeting that may occasion the exercise of the right of appraisal.

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

(a) No director or officer of the Company since the beginning of the last fiscal year, nominee for election as director, or associate of the foregoing persons, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election to office.

(b) No director of the Company has informed in writing that he intends to oppose any action to be taken by the Company at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. Voting Securities and Principal Holders Thereof

(a) Voting Securities

As of February 28, 2018, the total number of common shares outstanding and entitled to vote in the stockholders' meeting is 1,204,582,867 shares. Out of the aforesaid outstanding common shares, 395,283,034 shares or 32.81% are held by foreigners. Each share is entitled to notice of and to one vote at the Annual Stockholders' Meeting.

(b) Record Date

The record date for purposes of determining the stockholders entitled to notice and to vote is March 26, 2018.

(c) Voting Rights

Stockholders shall be entitled to vote in person or by proxy and, unless otherwise provided by law, he shall have one vote for each share of stock entitled to vote and recorded in his name in the books of the Corporation. At all meetings of the stockholders, all elections and all questions shall be decided by the plurality of vote of stockholders present in person or by proxy and entitled to vote thereat, a quorum being present, except in cases where other provision is made statute. Unless required by law, or demanded by a stockholder present in person or by proxy at any meeting, and entitled to vote thereat, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or in his name by proxy if there be by proxy, and shall state the number of shares voted by him.

Provided however, that in the election of Directors, each stockholder shall be entitled to cumulate his votes in the manner prescribed by Title III, Section 24 of the Corporation Code of the Philippines.

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

As of February 28, 2018, the following are the owners of the Company's common stock in excess of 5% of total outstanding shares:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent (%)
Common	Teresita T. Sy (Director and Vice Chairperson) Forbes Park, Makati City	Same as the Record Owner	Filipino	85,440,508	7.09%
-do-	Harley T. Sy (Executive Director) Forbes Park, Makati City	Same as the Record Owner	Filipino	87,604,771	7.27%
-do-	Henry T. Sy, Jr. (Director and Vice Chairman) Forbes Park, Makati City	Same as the Record Owner	Filipino	87,503,008	7.26%
-do-	Hans T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	98,769,136	8.20%
-do-	Herbert T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	98,753,008	8.20%
-do-	Elizabeth T. Sy (Stockholder of Issuer) Forbes Park, Makati City	Same as the Record Owner	Filipino	71,022,817	5.90%
-do-	PCD Nominee Corp. (Filipino)	Various clients [1]	Filipino	102,927,468	8.54%
-do-	PCD Nominee Corp. (Non-Filipino)	Various clients [1]	Foreign	395,097,150	32.80%

(1) The Company has no information as to the beneficial owners of the shares of stocks held by PCD Nominee Corp. The clients of PCD Nominee Corp. have the power to decide how their shares are to be voted.

Security Ownership of Management as of February 28, 2018

Title of Securities	Name of Beneficial Owner of Common Stock	Amount and Nature of Beneficial Ownership (D) direct / (I) indirect		Citizenship	Percent of Class
Common	Teresita T. Sy	P854,405,080	D	Filipino	7.09%
Common	Harley T. Sy	876,047,710	D	Filipino	7.27%
Common	Henry T. Sy, Jr.	875,030,080	D	Filipino	7.26%
Common	Jose T. Sio	210	D	Filipino	0.00%
Common	Frederic C. DyBuncio	100	D	Filipino	0.00%
Common	Tomasa H. Lipana	1,500	D	Filipino	0.00%
Common	Alfredo E. Pascual	1,000	D	Filipino	0.00%
Common	Joseph R. Higdon	1,870	D	American	0.00%
Common	Grace F. Roque	0		Filipino	0.00%
Common	Elizabeth Anne C. Uychaco	0		Filipino	0.00%
Common	Franklin C. Gomez	45,000	D	Filipino	0.00%
Common	Cecilia Reyes-Patricio	1,300	D	Filipino	0.00%
Common	Wilson H. Go	2,430	D	Filipino	0.00%
Common	Marcelo C. Fernando, Jr.	0		Filipino	0.00%
Common	Wellington L. Palmero	0		Filipino	0.00%
Common	Anastacio C. Balubar II	0		Filipino	0.00%
Common	Arthur A. Sy	13,430	D	Filipino	0.00%
Common	Elmer B. Serrano	0		Filipino	0.00%
		P2,605,549,710			21.62%

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

(a) Change in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

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

ITEM 5. Directors and Executive Officers of the Registrant

(a) The incumbent Directors and Executive Officers of the Company are as follows:

Officers	Name	Age	Citizenship
Chairman Emeritus	Henry Sy, Sr.	93	Filipino
Chairman	Jose T. Sio	78	Filipino
Vice Chairperson	Teresita T. Sy	67	Filipino
Vice Chairman	Henry T. Sy, Jr.	64	Filipino
Director, President, and Chief Executive Officer	Frederic C. DyBuncio	58	Filipino
Executive Director	Harley T. Sy	58	Filipino
Lead Independent Director	Joseph R. Higdon	76	American
Independent Director	Tomasa H. Lipana	69	Filipino
Independent Director	Alfredo E. Pascual	69	Filipino
Treasurer and Senior Vice President	Grace F. Roque	67	Filipino
Senior Vice President - Corporate Services	Elizabeth Anne C. Uychaco	62	Filipino
Senior Vice President - Finance	Franklin C. Gomez	48	Filipino
Senior Vice President - Corporate Tax Services	Cecilia Reyes-Patricio	60	Filipino
Senior Vice President - Information Technology	Wilson H. Go	55	Filipino
Senior Vice President - Group Treasury	Marcelo C. Fernando, Jr.	57	Filipino
Chief Risk & Compliance Officer and Senior Vice President	Wellington Palmero	57	Filipino
Chief Audit Executive and Vice President	Anastacio C. Balubar II	47	Filipino

MANAGEMENT

Board of Directors

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next annual meeting and until their respective successors are appointed or elected and qualified.

The following are the business experience/s of the Company's incumbent Directors during the last five years:

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

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

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

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

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

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

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

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

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

** Independent director – the Company has complied with the Guidelines set forth by SRC (Securities Regulation Code) Rule 38 regarding the Nomination and Election of Independent Director. 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.*

Period of Directorship

Name	**Period Served**
Henry Sy, Sr.	1960 to present
Jose T. Sio	2005 to present
Teresita T. Sy	1979 to present
Henry T. Sy, Jr.	1979 to present
Frederic C. DyBuncio	2017 to present
Harley T. Sy	1993 to present
Joseph R. Higdon	2010 to present
Tomasa H. Lipana	2016 to present
Alfredo E. Pascual	2017 to present

Directorships in Other Reporting Companies

The following are directorships held by Directors in other reporting companies during the last five years:

Name of Director	**Name of Reporting Company**	**Position Held**
Jose T. Sio	Belle Corporation	Chairman
	China Banking Corporation	Director
	Atlas Consolidated Mining and Development Corporation	Director

Name of Director	Name of Reporting Company	Position Held
Teresita T. Sy	BDO Unibank, Inc.	Chairperson
Henry T. Sy, Jr.	SM Prime Holdings, Inc.	Chairman
Frederic C. DyBuncio	Atlas Consolidated Mining and Development Corporation	Vice Chairman
	2Go Group, Inc.	Director
	Phoenix Petroleum Philippines, Inc.	Director
Harley T. Sy	Phoenix Petroleum Philippines, Inc.	Director
Joseph R. Higdon	Security Bank Corporation	Independent Director
	Philippine Equity Partners, Inc.	Independent Director
	International Container Terminal Services, Inc.	Independent Director

Nomination of Directors

The Corporate Governance Committee created by the Board under its Corporate Governance Manual has reviewed the credentials of, and qualified the following for election to the Board of Directors at the forthcoming Annual Stockholders' Meeting:

1. Jose T. Sio
2. Teresita T. Sy
3. Henry T. Sy, Jr.
4. Frederic C. DyBuncio
5. Harley T. Sy
6. Joseph R. Higdon (Independent Director)
7. Tomasa H. Lipana (Independent Director)
8. Alfredo E. Pascual (Independent Director)

Tony Ong King nominated to the Board, for inclusion in the Final List of Candidates for Independent Director, the following stockholders:

1. Joseph R. Higdon
2. Tomasa H. Lipana
3. Alfredo E. Pascual

Tony Ong King, Joseph R. Higdon, Tomasa H. Lipana, and Alfredo E. Pascual ***are*** not related either by consanguinity or affinity, nor has any other professional / business dealings with each other.

The Company has complied with the Guidelines set forth by SRC Rule 38 regarding the Nomination and Election of Independent Director. The same provision has been incorporated in the Amended By-Laws of the Company last April 27, 2006.

The Directors of the Company are elected at the Annual Stockholders' Meeting to hold office until the next annual meeting and until their respective successors are appointed or elected and qualified. The abovementioned nominated persons will be presented to the Company's shareholders for election at the annual stockholders' meeting. The nominated individuals possess all the qualifications and none of the disqualifications provided in the SRC and its Implementing Rules and Regulations. Further, no director has resigned or declined to stand for re-election to the Board of Directors since the date of the last Annual Shareholders' Meeting because of a disagreement with the Company on any matter relating to its operations, policies or practices.

The procedure for nomination of directors shall be as follows:

- Nomination of all directors shall be reviewed and qualified by the Corporate Governance Committee prior to the stockholders' meeting.

- The Corporate Governance Committee shall prepare a Final List of Candidates from those who have passed the Guidelines, Screening Policies and Parameters for nomination of Independent Directors and which list shall contain all the information about these nominees.

- Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director. No other 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 and only after notice has been made with the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Corporate Governance Committee otherwise, said vacancies 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.

- The Corporate Governance Committee is composed of the following members, all of whom are Independent Directors:

    1. Joseph R. Higdon - Chairman (Independent Director)
    2. Tomasa H. Lipana - Member (Independent Director)
    3. Alfredo E. Pascual - Member (Independent Director)

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, SMIC's strategic plans, enterprise risks, group structures, business activities, compliance programs, Code of Business Conduct and Ethics, Personal Trading Policy and Corporate Governance Manual.

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

<u>Officers</u>

Grace F. Roque is the Treasurer of SMIC. She is also the Director of Metro Manila Shopping Mecca Corp. and of Mercantile Stores Group, Inc. She is also the Treasurer and Director of Mindanao Shoppers Daily Destination Corp. She holds a Bachelor's Degree in Economics from Maryknoll College and a Master's Degree in Business Administration from the University of the Philippines.

Elizabeth Anne C. Uychaco is the Senior Vice President, Corporate Services of SMIC. She is currently a Board Director and Vice Chairperson of Belle Corporation and a Board Director of Republic Glass Holdings Corp., BDO Life Assurance Co., The Net Group, and ACE Hardware Philippines, Inc. She was formerly the Senior Vice President and Chief Marketing Officer of Philippine American Life and General Insurance Company and a Board Director of Philam Call Center. Prior to that, she was the Vice President of Globe Telecom, Inc., Kuok

Philippine Properties, Inc. and Transnational Diversified Corp. Ms. Uychaco graduated from St. Scholastica's College in 1978 with a Bachelor of Arts Degree. She obtained a Master's Degree in Business Economics from the University of Asia and the Pacific in 1988 and a Master's Degree in Business Administration from the Ateneo School of Business in 1992.

Franklin C. Gomez is the Senior Vice President for Finance of SMIC. Prior to joining SMIC in 2013, he spent over 20 years at Unilever where he held several senior positions, his last being Finance Director and Chief Financial Officer of Unilever Indonesia since May 2009. His previous senior posts in the same company include Chief Financial Officer at Unilever Philippines; Innovation and Learning Director at the Finance Excellence Centre in London; and Finance Director of Selecta Wall's Ice Cream, Philippines. Mr. Gomez holds a Bachelor of Arts Degree in Economics and Bachelor of Science Degree in Commerce Major in Accountancy from the De La Salle University, Manila.

Cecilia Reyes-Patricio is the Senior Vice President, Corporate Tax Services Department of SMIC. Prior to joining SMIC in 1988, she was a financial and tax auditor at SyCip, Gorres, Velayo & Co. She holds a Master of Science Degree (with highest honors) in Commerce, Major in Taxation, from the Manuel Luis Quezon University. A Certified Public Accountant, she graduated Magna Cum Laude with a Bachelor of Science Degree in Business Administration from the University of the East.

Wilson H. Go is the Senior Vice President for Information Technology of SMIC. He is also the President of LearningLitz, Inc. and of the Blue Genes. Prior to joining the company, Mr. Go held numerous senior level positions with IBM for a period of 30 years. His past designations include Country Manager – Global Technology Services, ASEAN Corporate Development Executive, Asia Pacific Intellectual Property Licensing Business Development Executive, and Chief Financial Officer to name a few. Mr. Go holds a Master's Degree in Business Economics from the University of Asia and the Pacific and a Bachelor's Degree in Commerce, Major in Accounting from De La Salle University, and is also a Certified Public Accountant.

Marcelo C. Fernando, Jr. is the Senior Vice President for Group Treasury of SMIC. Prior to joining the company, he spent a combined 31 years in the banking industry, 29 of them with Citibank, N.A. His banking experience was mainly in the Markets business which was involved in the sales, trading and structuring of currencies, fixed income, money markets and commodities products and their derivatives. He was also responsible for liquidity management and balance sheet funding and gapping activities as Country Treasurer in the Philippines and during his posting in Thailand. Mr. Fernando also had regional responsibilities as Citibank's Markets Head for the ASEAN cluster which covered Indonesia, Malaysia, Philippines, Thailand and Vietnam. He obtained his Bachelor of Arts Degree in Economics from the University of the Philippines, Diliman (Cum Laude), and graduated with Distinction from the Masters in Business Management program of the Asian Institute of Management.

Wellington Palmero is the Senior Vice President, Chief Risk and Compliance Officer of SMIC. Prior to joining SMIC, he was the Head of Citibank Compliance Service Center. He has also worked in several financial institutions and spent most of his working career with Goldman Sachs Hong Kong and New York. Mr. Palmero holds a Master's Degree in Business Administration from the University of Western Ontario.

Anastacio C. Balubar II (Sanz) is the Vice President / Chief Audit Executive of SMIC. He is a Certified Public Accountant with 28 years of solid international and multi-cultural audit experience, having worked in the Philippines and Dubai, UAE with various large conglomerates involved in key sectors such as airline, real estate/property development, hospitality and leisure, shopping malls, and retail amongst others. He managed overseas audit assignments in Asia, UK, USA, and Middle East. As a seasoned audit professional, he considers himself a catalyst for change and advocates transparent leadership, strong corporate governance, and business excellence. He graduated from Pamantasan Ng Lungsod Ng Maynila

(University of the City of Manila) with a Bachelor's Degree in Business Administration, Major in Accounting and obtained key certifications in various audit subjects as well as leadership and management masterclass.

Elmer B. Serrano is the Corporate Secretary of SMIC and Corporate Secretary of SM Prime Holdings, Inc. since November 2014. He is Name Partner of the law firm of Martinez Vergara Gonzalez & Serrano and has been practicing corporate law for over two decades. Atty. Serrano is currently the Corporate Information Officer of BDO Unibank, Inc. and 2GO Group, Inc. He is also the Corporate Secretary of Premium Leisure Corporation, Premium Leisure Amusement Incorporation, 2GO Group, Inc., Crown Equities, Inc., and Corporation Secretary of subsidiaries of BDO Unibank, Inc. namely, BDO Capital & Investment Corporation, BDO Securities Corporation, BDO Insurance Brokers, Inc., and Averon Holding Corporation. He was a director of OCLP Holdings, Inc. until November 2014. He is a graduate of the Ateneo Law School and holds a degree of B.S. Legal Management from the Ateneo de Manila University.

Arthur A. Sy is the Assistant Corporate Secretary and Vice President for Corporate Legal Affairs of SM Investments Corporation. He is likewise the currently appointed Assistant Corporate Secretary of SM Prime Holdings, Inc., Belle Corporation, and Premium Leisure Corp. He is currently the Corporate Secretary of various leading companies within the SM Group of Companies. He is likewise the Corporate Secretary of National University. Admitted to practice in the State of New York and the Philippines, 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.

Period of Officership

Name	Office	Period Served
Frederic C. DyBuncio	President and Chief Executive Officer	2017 to present
Grace F. Roque	Treasurer and Senior Vice President	2010 to present
Elizabeth Anne C. Uychaco	Senior Vice President - Corporate Services	2009 to present
Franklin C. Gomez	Senior Vice President - Finance	2013 to present
Cecilia Reyes-Patricio	Senior Vice President - Corporate Tax Services	2010 to present
Wilson H. Go	Senior Vice President - Information Technology	2015 to present
Marcelo C. Fernando, Jr.	Senior Vice President - Group Treasury	2015 to present
Wellington Palmero	Senior Vice President, Chief Risk and Compliance Officer	2017 to present
Anastacio C. Balubar II	Chief Audit Executive	2017 to present
Elmer B. Serrano	Corporate Secretary	2014 to present
Arthur A. Sy	Assistant Corporate Secretary and Vice President	2017 to present

Directorships in Other Reporting Companies

The following are directorships held by an Officer in other reporting companies during the last five years:

Name of Director	Name of Reporting Company	Position Held
Elizabeth Anne C. Uychaco	Belle Corporation	Vice Chairperson/Director
	Republic Glass Holdings Corp.	Director

<u>Nomination of Officers:</u>

Incoming officers will be appointed at the organizational meeting to be held immediately after the Annual Stockholders' Meeting.

(b) Significant Employees

The Company has no employee who is not an executive officer but is expected to make a significant contribution to the business.

(c) 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. There are no other family relationships known to the registrant other than the ones disclosed herein.

(d) Certain Relationships and Related Transactions

There are no known related party transactions other than those described in Note 22 (Related Party Transactions) of the Notes to the Consolidated Financial Statements incorporated herein by reference.

The members of the Related Party Transactions Committee are:

1. Joseph R. Higdon - Chairman (Independent Director)
2. Alfredo E. Pascual - Member (Independent Director)
3. Jose T. Sio - Member

(e) Involvement in Legal Proceedings

The Company is not aware of any of the following events having occurred during the past five years up to the date of this report that are material to an evaluation of the ability or integrity of any director, nominee for election as Director, executive officer, underwriter or controlling person of the Company:

(1) 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;
(2) 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;
(3) 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
(4) 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.
(5) a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Further, the Company is not involved in or aware of any material legal proceedings that may significantly affect the Company, or any of its subsidiaries or affiliates.

ITEM 6. Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer and executive officers of the Company are as follows:

Name and Position

1. Harley T. Sy
   Executive Director (2017 to 2018); President (2016)*
2. Frederic C. DyBuncio
   President (2017 to 2018); Executive Vice President (2016)*
3. Jose T. Sio
   Executive Vice President and Chief Finance Officer (2016)*
4. Elizabeth Anne C. Uychaco
   Senior Vice President - Corporate Services (2016 to 2018)*
5. Franklin C. Gomez
   Senior Vice President - Finance (2016 to 2018)*
6. Marcelo C. Fernando, Jr.
   Senior Vice President - Group Treasury (2017 to 2018)*

Summary Compensation Table (in million pesos)

	Year	Salary	Bonus	Other Annual Compensation
* CEO and four Most	2018 (estimate)	98	16	4
Highly Compensated	2017	89	15	4
Executive Officers	2016	93	15	4
All other officers and	2018 (estimate)	270	45	11
Directors as a group	2017	245	41	10
unnamed	2016	186	31	8

The members of the Board of Directors receive a total of P100,000.00 per diem per Board meeting and a total of P20,000.00 per diem per Board Committee meeting. Aside from the aforementioned compensation, these officers do not receive any other form of remuneration.

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.

The members of the Compensation Committee are:

1. Teresita T. Sy - Chairperson
2. Jose T. Sio - Member
3. Joseph R. Higdon - Member (Independent Director)

ITEM 7. Independent Public Accountants, External Audit Fees and Services

Sycip, Gorres, Velayo & Company (SGV & Co.) is the external auditor for the current year. The same external auditor will be recommended for re-appointment at the scheduled stockholders' meeting. Representatives of the said firm are expected to be present at the stockholders' meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

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. Julie Christine O. Mateo of SGV & Co. for the examination of the Company's financial statements starting 2016. Previously, the Company engaged Ms. Belinda Beng Hui, Mr. Ramon D. Dizon, Ms. Melinda G. Manto and Mr. Joel M. Sebastian of SGV & Co. for the examination of the Company's financial statements from 2013 to 2015, 2008 to 2012, 2006 to 2007 and 2001 to 2005, respectively. Ms. Belinda Beng Hui was also an other key audit partner (OKAP) of the Company for 7 years until 2015 for her involvement as an engagement partner in significant subsidiaries of the Company. In compliance with the local Code of Ethics which is based on the International Ethics Standards Board for Accountants (IESBA) Code of Ethics, an OKAP has to be rotated off after serving in that role for 7 years.

The aggregate fees of SGV & Co. for the audit of SMIC's annual financial statements in connection with the statutory and regulatory filings for the years ended December 31, 2017 and 2016 amounted to P2.2 million per year. Services rendered include the audit of yearend financial statements and supplementary schedules for submission to SEC and assistance in the preparation of annual income tax returns. There were no other professional services rendered by SGV & Co. during the period.

SMIC did not engage any other firm for tax accounting, compliance, advice, planning and any form of tax services covering the years 2017 and 2016.

The Audit Committee recommended to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approved the Committee's recommendation.

The members of the Audit Committee are:

1. Tomasa H. Lipana - Chairman (Independent Director)
2. Alfredo E. Pascual - Member (Independent Director)
3. Jose T. Sio - Member

The members of the Risk Management Committee are:

1. Alfredo E. Pascual - Chairman (Independent Director)
2. Joseph R. Higdon - Member (Independent Director)
3. Jose T. Sio - Member

ITEM 8. Compensation Plans

No action is to be taken 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 stockholders' approval at this year's annual 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 SMIC's securities, or the issuance of one class of SMIC's securities in exchange for outstanding securities of another class.

ITEM 11. Financial and Other Information

The Management Report and Audited Financial Statements of SMIC are incorporated herein by reference.

Representatives of SMIC's external auditor, SGV & Co., will be present at the annual meeting, and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from the stockholders. SMIC has had no material disagreement with SGV & Co. on any matter of accounting principle or practices or disclosures in SMIC's financial statements.

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 (1) the merger or consolidation of SMIC into or with any other person, or of any other person into or with SMIC, (2) acquisition by SMIC or any of its stockholders of securities of another person, (3) acquisition by SMIC of any other going business or of the assets thereof, (4) the sale or transfer or all or any substantial part of the assets of SMIC, or (5) liquidation or dissolution of SMIC.

ITEM 13. Acquisition or Disposition of Property

The Company and its subsidiaries purchased and sold parcels of land in the normal course of their business.

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

ITEM 14. Restatement of Accounts

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

D. OTHER MATTERS

ITEM 15. Action with Respect to Reports

There is no action to be taken with respect to any report of SMIC or of its directors, officers or committees, except for the approval of the minutes of the previous annual meeting of SMIC.

At the annual meeting, stockholders will be asked to approve and ratify the acts of the Board of Directors during their term of office. The matters for stockholders' ratification are acts of the Board, its Committees and Management for the previous year up to the date of the annual meeting which were entered into or made in the ordinary course of business, the significant acts or transactions of which are covered by appropriate disclosures with the Securities and Exchange Commission and Philippine Stock Exchange, Inc., including:

I. Ratification of the sale to ST 6747 Resources Corporation of the interest in a parcel of land located in Makati;
II. Ratification of the acquisition from Multi-Realty Development Corp. of property dividend;
III. Authority to participate in Stock Rights Offer of China Banking Corporation;
IV. Retirement of Corazon P. Guidote, Senior Vice President for Investor Relations; and,
V. Purchase from Federal Trade Development Center Corporation of parcels of land located at Barangay Bagong Bayan, Puerto Princesa City, Palawan.

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

Upon ratification by the stockholders, the Amended Articles of Incorporation of the Company will be amended to include the ability to guarantee, for and in behalf of the Company, obligations of the Company or entities in which it has lawful interests. Such amendment will effectively give the Company better flexibility and leverage in the conduct of its business and transactions.

ITEM 18. Other Proposed Action

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 the annual meeting.

ITEM 19. Voting Procedures

At each stockholders' meeting, holders of a majority of SMIC's issued and outstanding voting shares that are present or represented by proxy, shall constitute a quorum for the transaction of business, except where otherwise provided by law. A majority of votes shall decide any matter submitted to the stockholders at the meeting, except in those cases where the law requires a greater number.

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

All matters subject to 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.

SMIC's By-Laws does not prescribe a manner of voting. However, election of directors may be conducted by ballot as requested by voting stockholders.

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

SMIC's Corporate Secretary is tasked and authorized to count votes on any matter properly brought to the vote of the stockholders. The external auditor of the Company, SGV & Co. has been appointed to validate the ballots when necessary.

Stockholders holding SMIC common shares as of March 26, 2018 are entitled to vote on the following matters which are also indicated in the Notice and Agenda included in this Information Statement:

1. **Approval of the minutes of the previous annual meeting held on April 26, 2017**

   The stockholders' approval of the minutes of the meeting held on April 26, 2017 will be sought at this year's annual meeting. The following was the agenda of the said meeting.

   - Call to order
   - Certification of notice and quorum
   - Approval of minutes of annual meeting of stockholders held on April 27, 2016
   - Annual Report for the Year 2016 (Open Forum)
   - 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
   - Election of directors for 2017-2018
   - Appointment of external auditors
   - Other Matters
   - Adjournment

   Required vote: A majority vote of stockholders present or represented at the meeting.

2. **Audited Financial Statements as of December 31, 2017**

   SMIC's Audited Financial Statements as of December 31, 2017 is attached as Annex "A" to this Information Statement for review of the stockholders. This will enable the stockholders to assess the financial performance of SMIC for the period covered by said financial statements. Stockholders' approval of the financial statement will be sought at this year's annual meeting.

   Required vote: A majority vote of stockholders present or represented at the meeting.

3. **To approve the amendment of the Second Article of the Articles of Incorporation**

   The Company's Articles of Incorporation shall be amended to include in the Company's secondary purpose the ability to guarantee, for and in behalf of the Company, obligations of the Company or entities in which it has lawful interests. Such amendment will effectively give the Company better flexibility and leverage in the conduct of its business and transactions.

   Required vote: Affirmative vote of stockholders representing at least 2/3 of the outstanding capital stock.

4. **Approval and ratification of acts of the Board of Directors during their term of office**

   During their term, the Board approved resolutions and authorized actions in connection with their mandate to direct, manage and supervise the affairs and operations of SMIC. The acts of the Board of Directors, its Committees and management listed in Part D, Item 15, during their term of office, will be presented to the stockholders for approval and ratification. In compliance with the PSE Disclosure Rules, the Securities Regulation Code and its implementing rules, and in keeping with the policy on transparency as embodied in SMIC's Manual on Good Corporate Governance, SMIC regularly and promptly discloses actions taken by its Board and management. While stockholders' approval of such acts is not required under the Corporation Code and regulatory issuances, SMIC believes it to be sound corporate governance to present these to the stockholders for approval and ratification.

   Required vote: A majority vote of stockholders present or represented at the meeting.

5. **Election of Directors**

   At the annual meeting, stockholders will be asked to elect the directors for the ensuing year. As stated in Section 3 of Article IV of the Company's By-Laws, "At each meeting of the stockholders for the election of directors, at which a quorum is present, the persons receiving the highest number of votes of the stockholders present in person or by proxy and entitled to vote shall be the directors."

   Section 24 of The Corporation Code of the Philippines states that "At all elections of directors or trustees, there must be present, either in person or by representative authorized to act by written proxy, the owners of a majority of the outstanding capital stock… entitled to vote".

   Required vote: Candidates receiving the highest number of votes shall be declared elected.

6. Appointment of External Auditor

Pursuant to SMIC's By-laws, Manual on Corporate Governance, and Audit and Risk Management Committee Charter, the Board, upon the recommendation of the Board Audit Committee, shall recommend to the stockholders, appointment of an external auditor to undertake independent audit and provide objective assurance that the Company's financial reports are in compliance with pertinent accounting standards and regulatory requirements.

At the annual meeting, the stockholders will be requested to approve the re-appointment of SGV & Co. as external auditor of SMIC for the ensuing fiscal year.

Required vote: A majority vote of stockholders present or represented at the meeting.

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 Pasay City on March 14, 2018.

By: **SM INVESTMENTS CORPORATION**

ELMER B. SERRANO
Corporate Secretary

MANAGEMENT REPORT

A.i Audited Consolidated Financial Statements

The Company's audited consolidated financial statements for the year ended December 31, 2017 are incorporated herein by reference.

A.ii Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

A.iii Management's Discussion and Analysis or Plan of Operation

Calendar Years Ended December 31, 2017 and 2016

Results of Operation
(amounts in billion pesos)

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

SM Investments Corporation and Subsidiaries (the Group) reported P32.9 billion *Net Income Attributable to Owners of the Parent*, 5.5% higher than 2016, and P396.1 billion *Revenues*, 9.0% higher than 2016.

Income from Operations increased by 12.0% to P75.2 billion from P67.2 billion in 2016. *Operating Margin* and *Net Margin* is at 19.0% and 13.0%, respectively.

Merchandise Sales, which grew by 7.2% to P288.5 billion from P269.3 billion in 2016, accounts for 72.8% of total revenues in 2017. The increase is attributable to the opening of 2 *SM Stores*, 4 *SM Supermarkets*, 28 *Savemore* stores, 3 *SM Hypermarkets*, 7 *WalterMart* stores, and 159 Specialty stores.

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

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

Real Estate Sales increased by 17.6% to P29.6 billion from P25.1 billion in 2016 due primarily to higher construction accomplishments of projects launched from 2013 to 2016 namely, *Shore, Shore 2 and S Residences* in Pasay City, *Air Residences* in Makati, *Fame Residences* in Mandaluyong and *Silk Residences* in China and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects due to strong demand fueled by OFW remittances, sustained growth of the BPO sector, government spending and rising disposable income of the emerging middle class. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 12.9% to P42.4 billion from P37.5 billion in 2016. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2016 and 2017, namely, *SM City San Jose Del Monte*, *SM City Trece Martires, SM City East Ortigas, SM CDO Downtown Premier, SM City Puerto Princesa, SM Center Tuguegarao Downtown* and *S Maison* at the Conrad Manila as well as the expansion of shopping spaces in *SM City San Pablo*, *SM City Sucat* and *SM Center Molino*. Excluding the new malls and expansions, same-store rental growth is at 7%. Rentals from hotels and convention centers also contributed to the increase due to the opening of Conrad Manila in June 2016 and the improvement in average room and occupancy rates of the hotels and convention centers.

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

*Equity in Net Earnings of Associate Companies and Joint Venture*s increased by 11.1% to P16.6 billion from P15.0 billion in 2016 due mainly to the increase in net income of bank and property associates.

Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading (HFT) - net increased by 1591.5% to a gain of P110.2 million from P6.5 million in 2016 resulting primarily from the disposal of a portion of AFS investments in 2017.

Other Revenues, which comprise mainly of income from promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group, increased by 17.7% to P7.9 billion in 2017 from P6.8 billion in 2016.

Operating Expenses increased by 13.2% to P92.9 billion from P82.1 billion in 2016 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 26.2% to P9.9 billion from P7.8 billion in 2016. *Interest Expense* increased by 24.6 % to P15.0 billion from P12.0 billion in 2016 due mainly to new debt availments for working capital and capital expenditure requirements net of capitalized interest. *Interest Income* increased by 7.5% to P4.0 billion from P3.7 billion in 2016 due to higher average daily balance of temporary investments in 2017. *Gain on Disposal of Investments and Properties - net* decreased by 95.9% to P22.7 million from P559.0 million in 2016 due mainly to the sale of a certain investment property in 2016. *Gain (Loss) on Fair Value Changes on Derivatives - net* increased by 1845.5% to a gain of P296.3 million from P15.2 million in 2016 due mainly to certain non-deliverable forward transactions in 2017. *Foreign Exchange Gain (Loss) - net* increased by 510.7% to a gain of P698.7 million from a loss of P170.1 million in 2016. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP49.72 : USD1.00 in 2016 to PHP49.93 : USD1.00 in 2017.

Provision for Income Tax increased by 19.2% to P13.8 billion from P11.6 billion in 2016 due mainly to increase in taxable income. The effective income tax rate is 21.1% in 2017 and 19.5% in 2016.

Non-controlling interests increased by 12.3% to P18.6 billion from P16.6 billion in 2016 due to the increase in net income of certain partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

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

Total *Assets* increased by 11.4% to P960.1 billion from P861.5 billion in 2016. Likewise, total *Liabilities* increased by 13.3% to P506.3 billion from P446.7 billion in 2016.

Current Assets

Current Assets decreased by 3.0% to P212.5 billion from P219.1 billion in 2016.

Cash and Cash Equivalents decreased by 0.8% to P74.3 billion from P74.9 billion in 2016 due mainly to new investments in associate companies partly offset by remaining proceeds from debt drawn by SM Prime in 2017.

Investments Held for Trading and Sale decreased by 61.0% to P1.3 billion from P3.5 billion in 2016 due mainly to maturity of investments held for trading.

Merchandise Inventories increased by 7.6% to P27.8 billion from P25.8 billion in 2016. Bulk of the increase came from the Non Food Group.

Other Current Assets increased by 7.5% to P63.5 billion from P59.0 billion in 2016 due mainly to the increase in current portion of Land and development arising from land acquisitions and development costs, higher prepaid taxes and other prepayments, and current derivative assets in 2017.

Noncurrent Assets

Noncurrent Assets increased by 16.4% to P747.6 billion from P642.4 billion in 2016.

AFS Investments increased by 37.0% to P25.6 billion from P18.7 billion in 2016 due mainly to new investments and increase in the market value of certain AFS investments.

Investments in Associate Companies and Joint Ventures increased by 33.6% to P242.1 billion from P181.2 billion in 2016. The increase mainly represents equity in net earnings of associates in 2017, investments in new associates, additional investments in bank associates partly offset by dividends received from associate companies.

Time Deposits decreased by 36.5% to P26.7 billion from P42.0 billion in 2016 due mainly to reclassification and maturing time deposits. On the other hand, the current portion of *Time Deposits* decreased by 45.9% to P13.2 billion from P24.5 billion in 2016 due mainly to settlement of certain long-term debts and new investments in associate companies.

Investment Properties increased by 7.0% to P289.0 billion from P270.1 billion in 2016 due mainly to ongoing new mall projects located in Pangasinan, Pampanga, Zambales and Albay in the Philippines; expansions and renovations of *SM Mall of Asia*; costs incurred for landbanking; and ongoing projects of the commercial group namely *Three E-Com Center* and *Four E-Com Center*.

Land and Development increased by 68.6% to P40.2 billion from P23.8 billion in 2016 due mainly to landbanking and construction accomplishments during the period.

Other Noncurrent Assets increased by 30.2% to P74.6 billion from P57.3 billion in 2016. The increase mainly represents higher receivable from real estate buyers and deposits and advance rentals.

Current Liabilities

Current Liabilities increased by 30.4% to P175.9 billion from P134.8 billion in 2016.

Bank Loans increased by 72.8% to P24.2 billion from P14.0 billion in 2016 resulting from new loan availments, net of payments during the period.

Current Portion of Long-term Debt increased by 57.4% to P40.3 billion from P25.6 billion in 2016 due mainly to reclassification of maturing loans.

Accounts Payable and Other Current Liabilities increased by 19.4% to P106.6 billion from P89.3 billion in 2016 mainly from higher business volume.

Dividends Payable decreased by 11.0% to P2.9 billion from P3.3 billion in 2016. This represents dividends due to minority stockholders of certain subsidiaries.

Income Tax Payable decreased by 29.8% to P1.9 billion in 2017 from P2.7 billion in 2016 due mainly to net tax payments.

Noncurrent Liabilities

Noncurrent Liabilities increased by 5.9% to P330.4 billion from P311.9 billion in 2016.

Long-term Debt - Net of Current Portion increased by 4.4% to P292.6 billion from P280.3 billion in 2016 due mainly to new debt availments.

Tenants' Deposits and Others increased by 25.7% to P29.8 billion from P23.7 billion in 2016 due mainly to new malls and expansions.

Equity

Total *Equity* increased by 9.4% to P453.8 billion from P414.8 billion in 2016.

Equity Attributable to Owners of the Parent increased by 9.2% to P328.1 billion from P300.5 billion in 2016. This increase resulted mainly from (a) *Cumulative Translation Adjustment* which increased by 15.3% to P1.4 billion from P1.2 billion in 2016. This is related mainly to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso. (b) *Net Unrealized Gain on AFS Investments* which increased by 42.1% to P15.3 billion from P10.8 billion in 2016 due mainly to the appreciation in market value of certain AFS investments of the Group. These were partially offset by (e) *Re-measurement gain on defined benefit asset/obligation* which decreased by P0.8 billion as a result of the valuation of the Group's retirement plan.

Non-controlling Interests increased by 10.0% to P125.7 billion from P114.3 billion in 2016 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

Key Performance Indicators

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

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

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

Asset to equity ratio remained at 2.1 in both periods.

Gross debt-equity ratio remained at 52:48 in 2017 and 2016 but Net debt-equity ratio slid to 43:57 from 37:63 in 2016 due to mainly to higher increase in net debt of 39.4% from P174.8 billion to P243.7 billion in 2017.

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

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

EBITDA increased by 11.5% to P89.3 billion from P80.1 billion in 2016 due mainly to the 12.0% increase in income from operations.

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

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

1. Current Ratio — Current Assets / Current Liabilities

2. Asset to Equity Ratio — Total Assets / Total Equity

3. Debt – Equity Ratio

   a. Gross Basis — Total Interest Bearing Debt / (Total Equity Attributable to Owners of the Parent + Total Interest Bearing Debt)

   b. Net Basis — Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investment in bonds held for trading and available for sale / (Total Equity Attributable to Owners of the Parent + Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available for sale)

4. Revenue Growth — Total Revenues (Current Period) / Total Revenues (Prior Period) - 1

5. Net Margin — Net Income After Tax / Total Revenues

6. Net Income Growth — Net Income Attributable to Owners of the Parent (Current Period) / Net Income Attributable to Owners of the Parent (Prior Period) - 1

7. Return on Equity — Net Income Attributable to Owners of the Parent / Average Equity Attributable to Owners of the Parent

8. EBITDA — Income from Operations + Depreciation & Amortization

9. Interest Cover — EBITDA / Interest Expense

Expansion Plans / Prospects for the Future

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

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

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

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

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

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

Calendar Years Ended December 31, 2016 and 2015

Results of Operation
(amounts in billion pesos)

Accounts	**12 / 31 / 2016**	**12 / 31 / 2015**	**% Change**
Revenue	**P 363.4**	**P 333.6**	**8.9%**
Cost and Expenses	296.2	272.0	8.9%
Income from Operations	**67.2**	**61.6**	**9.2%**
Other Charges	7.8	7.2	10.1%
Provision for Income Tax	11.6	10.7	7.9%
Net Income After Tax	**47.8**	**43.7**	**9.4%**
Non-controlling Interests	16.6	14.8	11.9%
Net Income Attributable to Owners of the Parent	**P 31.2**	**P 28.9**	**8.1%**

SM Investments Corporation and Subsidiaries (the Group) reported P31.2 billion *Net Income Attributable to Owners of the Parent*, 8.1% higher than 2015, and P363.4 billion *Revenues*, 8.9% higher than 2015.

Income from Operations increased by 9.2% to P67.2 billion from P61.6 billion in 2015. *Operating Margin* and *Net Margin* is at 18.5% and 13.1%, respectively.

Merchandise Sales, which grew by 8.5% to P269.3 billion from P248.1 billion in 2015, accounts for 74.1% of total revenues in 2016. The increase is attributable to the opening of 4 *SM Stores*, 3 *SM Supermarkets*, 1 *SM Hypermarket*, 22 *Savemore* stores, and 153 Specialty stores in 2016.

The *Non-Food* and *Food Group* comprised 49% and 51%, respectively, of merchandise sales in 2016 and 2015.

As of December 31, 2016, *SM Retail* had 1,900 stores nationwide, namely: 57 *SM Stores*, 48 *SM Supermarkets*, 156 *Savemore* stores, 44 *SM Hypermarkets*, 39 *WalterMart* stores and 1,556 Specialty stores.

Real Estate Sales increased by 11.5% to P25.1 billion from P22.5 billion in 2015 due primarily to higher construction accomplishments of projects launched from 2013 to 2015 namely, *Shore 2 Residences* in Pasay City, *Grass Residences* in Quezon City*, Air Residences* in Makati and *South Residences* in Las Piñas and continued increase in sales take-up of Ready-for-Occupancy (RFO) projects namely *Princeton Residences, M Place Residences and Mezza II Residences* in Quezon City and *Jazz Residences* in Makati City due to sales promotions. Actual construction of projects usually starts within twelve to eighteen months from launch date and revenues are recognized based on percentage of completion.

Real Estate Gross Margin improved to 47.5% from 45.7% in 2015. This is attributable to efficient management and tighter monitoring and control of construction costs.

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 12.2% to P37.5 billion from P33.5 billion in 2015. The increase in *Rent Revenue* is primarily due to the new malls which opened in 2015 and 2016, namely, *SM Seaside City Cebu*, *SM City Cabanatuan*, *SM City San Mateo*, *SM San Jose Del Monte*, *SM Trece Martires* and S Maison in SM Mall of Asia as well as the expansion of shopping spaces in *SM Center Sangandaan*, *SM City Iloilo and SM Center Molino*. In addition, retail podiums of *Light*, *Shine, Shell and Green Residences* opened in 2015 and 2016. Excluding the new malls and expansions, same-store rental growth is at 7%. Rentals from commercial operations also increased due to the opening of *Five E-com Center* as well as the expansion of *SM Clark* office tower in 2015. Rentals from hotels and convention centers also contributed to the increase due to improvement in average room and occupancy rates and the opening of *Park Inn Clark* in December 2015 and Conrad Manila in June 2016.

As of December 31, 2016, *SM Prime* had 60 malls in the Philippines with total GFA of 7.7 million square meters and 7 malls in China with total GFA of 1.3 million square meters.

Cinema Ticket Sales, *Amusement and Others* increased by 1.6% to P6.5 billion from P6.4 billion in 2015.

*Equity in Net Earnings of Associate Companies and Joint Venture*s increased by 4.7% to P15.0 billion from P14.3 billion in 2015.

Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading (HFT)-net increased by 220.3% to gain of P6.5 million in 2016 from loss of P5.4 million in 2015 due primarily to the gain on sale of AFS investments and favorable changes in the fair value of HFT investments in 2016.

Dividend Income decreased by 38.9% to P0.2 billion in 2016 from P0.3 billion in 2015.

Other Revenues, which comprise mainly of income for promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group increased by 22.5% to P6.8 billion in 2016 from P5.5 billion in 2015.

Operating Expenses increased by 10.4% to P82.1 billion from P74.4 billion in 2015 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 10.1% to P7.8 billion from P7.2 billion in 2015. *Interest Expense* increased by 14.8% to P12.0 billion from P10.5 billion in 2015 due mainly to new availments for working capital and capital expenditure requirements net of capitalized interest. *Interest Income* increased by 15.9% to P3.7 billion from P3.2 billion in 2015 due to higher average balance of temporary investments. *Gain (Loss) on Disposal of Investments and Properties - net* increased to a gain of P0.6 billion from a loss of P0.1 billion in 2015. *Gain (Loss) on Fair Value Changes on Derivatives - net* increased by 114.6% to a gain of P15.2 million from a loss of P104.0 million in 2015 which pertains to the US$250.0 million convertible bonds of SMIC that was settled in April 2015. *Foreign Exchange Gain - net* decreased by 170.7% to a loss of P170.1 million from a gain of P240.8 million in 2015. This is due mainly to the unfavorable PHP to USD foreign exchange rate, that is, from PHP47.06 : USD1.00 in 2015 to PHP49.72 : USD1.00 in 2016.

Provision for Income Tax increased by 7.9% to P11.6 billion from P10.7 billion in 2015 due mainly to increase in taxable income. The effective income tax rate is 19.5% in 2016 and 19.7% in 2015.

Non-controlling interests increased by 11.9% to P16.6 billion in 2016 from P14.8 billion in 2015 due to the increase in net income of certain partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2016	12 / 31 / 2015	% Change
Current Assets	P 219.1	P 174.2	25.8%
Noncurrent Assets	642.4	611.3	5.1%
Total Assets	**P 861.5**	**P 785.5**	**9.7%**
Current Liabilities	P 134.8	P 126.8	6.3%
Noncurrent Liabilities	311.9	274.7	13.5%
Total Liabilities	**446.7**	**401.5**	**11.3%**
Total Equity	**414.8**	**384.0**	**8.0%**
Total Liabilities and Equity	**P 861.5**	**P 785.5**	**9.7%**

Total *Assets* increased by 9.7% to P861.5 billion from P785.5 billion in 2015. Likewise, total *Liabilities* increased by 11.3% to P446.7 billion from P401.5 billion in 2015.

<u>*Current Assets*</u>

Current Assets increased by 25.8% to P219.1 billion from P174.2 billion in 2015.

Cash and Cash Equivalents increased by 28.6% to P74.9 billion from P58.3 billion in 2015 due mainly to proceeds from issuance of retail bonds by SM Prime and SMIC.

Time Deposits increased by 154.6% to P24.5 billion from P9.6 billion in 2015 due mainly to reclassification of maturing deposits from noncurrent to current.

Investments Held for Trading and Sale increased by 214.0% to P3.5 billion from P1.1 billion in 2015 due mainly to reclassification of maturing available-for-sale (AFS) investments from noncurrent to current, partially offset by maturity of certain investment in bonds.

Merchandise Inventories increased by 19.6% to P25.8 billion from P21.6 billion in 2015. Bulk of the increase came from the Food Group.

Other Current Assets increased by 13.5% to P59.0 billion from P52.0 billion in 2015 due mainly to the increase in current portion of Land and development arising from land acquisitions and development costs partially offset by cost of real estate sold.

<u>Noncurrent Assets</u>

Noncurrent Assets increased by 5.1% to P642.4 billion from P611.3 billion in 2015.

AFS Investments decreased by 11.8% to P18.7 billion from P21.2 billion in 2015 due mainly to the reclassification of maturing bonds to current and the decrease in the market value of certain AFS investments.

Investments in Associate Companies and Joint Ventures increased by 6.2% to P181.2 billion from P170.6 billion in 2015. The increase mainly represents equity in net earnings of associates in 2016 partially offset by dividends received from these associate companies.

Time Deposits decreased by 20.9% to P42.0 billion from P53.1 billion in 2015 due mainly to the reclassification of maturing time deposits to current.

Investment Properties increased by 8.2% to P270.1 billion from P249.6 billion in 2015 due mainly to ongoing new mall projects located in Cagayan de Oro, Puerto Princesa, Olongapo and Tuguegarao in the Philippines; expansions and renovations of *SM Mall of Asia, SM City Sucat* and *SM Xiamen*; and ongoing projects of the commercial and hotel groups namely *Three E-Com Center*, *Four E-Com Center* and *Conrad Manila*.

Land and Development decreased by 13.0% to P23.8 billion from P27.4 billion in 2015 due mainly to reclassification of launched projects to current.

Intangibles decreased by 0.5% to P25.7 billion from P25.8 billion in 2015 resulting from the amortization of Trademarks acquired in 2015.

Other Noncurrent Assets increased by 41.9% to P57.3 billion from P40.4 billion in 2015. The increase mainly represents additional loans to an associate company, new derivative assets to hedge the Group's foreign exchange and interest rate risk, additional bonds and deposits for real estate acquisitions, and construction accomplishments of sold units as well as new sales for the period.

<u>Current Liabilities</u>

Current Liabilities increased by 6.3% to P134.8 billion from P126.8 billion in 2015.

Bank Loans increased by 33.3% to P14.0 billion from P10.5 billion in 2015 resulting from new availments net of payments during the period.

Current Portion of Long-term Debt decreased by 1.5% to P25.6 billion from P26.0 billion in 2015 due mainly to payments of maturing loans.

Accounts Payable and Other Current Liabilities increased by 4.7% to P89.3 billion from P85.3 billion in 2015 mainly from higher business volume.

Dividends Payable increased by 28.4% to P3.3 billion from P2.6 billion in 2015. This represents dividends due to minority stockholders of certain subsidiaries.

Income Tax Payable increased by 8.9% to P2.7 billion in 2016 from P2.5 billion in 2015 due mainly to higher taxable income in 2016.

Noncurrent Liabilities

Noncurrent Liabilities increased by 13.5% to P311.9 billion from P274.7 billion in 2015.

Long-term Debt - Net of Current Portion increased by 14.3% to P280.3 billion from P245.2 billion in 2015 due mainly to new availments.

Tenants' Deposits and Others increased by 13.1% to P23.7 billion from P21.0 billion in 2015. The increase is attributable to new malls and expansions as well as increase in customers' deposits from residential buyers.

Deferred Tax Liabilities, which arose mainly from appraisal increment on investment property, trademarks and brand names, capitalized interest and unrealized gross profit on sale of real estate, decreased by 7.8% to P7.9 billion from P8.6 billion in 2015.

Equity

Total *Equity* increased by 8.0% to P414.8 billion from P384.0 billion in 2015.

Equity Attributable to Owners of the Parent increased by 7.3% to P300.5 billion from P280.0 billion in 2015. This increase resulted mainly from (a) *Capital Stock* which increased by 50% to P12.0 billion from P8.0 billion as a result of the declaration of 50% stock dividends in 2016, (b) *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso which increased by 15.0% to P1.2 billion from P1.1 billion in 2015. These were partially offset by (c) *Net Unrealized Gain on AFS Investments* which decreased by 15.3% to P10.8 billion from P12.7 billion in 2015 due mainly to the depreciation in market value of AFS investments of subsidiaries and associates, (d) *Equity adjustment from common control transactions which* increased by 1.6% to P5.4 billion from P5.3 billion in relation to the Retail merger, and (e) *Re-measurement gain on defined benefit asset/obligation* which decreased by P0.2 billion as a result of valuation of the Group's retirement plan.

Non-controlling Interests increased by 9.9% to P114.3 billion from P104.0 billion in 2015 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

Key Performance Indicators

The following are the key financial ratios of the Group for the years ended December 31, 2016 and 2015:

Accounts	12 / 31/ 2016	12 / 31/ 2015
Current Ratio	1.6	1.4
Asset to Equity	2.1	2.0
Debt-equity Ratios:		
On Gross Basis	52 : 48	50 : 50
On Net Basis	37 : 63	36 : 64
Revenue Growth	8.9%	7.4%
Net Margin	13.1%	13.1%
Net Income Growth	8.1%	1.7%
Return on Equity	10.7%	10.8%
EBITDA *(In Billions of Pesos)*	80.1B	P73.4B
Interest Cover	6.7x	7.0x

Current Ratio increased to 1.6 from 1.4 in 2015 due mainly to 25.8% increase in *Current Assets* with only 6.3% increase in *Current Liabilities.*

Asset to equity ratio slightly increased to 2.1 from 2.0 in 2015.

Gross debt-equity ratio slid to 52:48 in 2016 from 50:50 in 2015 due to higher increase in gross debts of 13.6% compared to increase in *Equity Attributable to Owners of the Parent* of only 7.3%.

Net debt-equity ratio slid to 37:63 from 36:64 in 2015 due to higher increase in net debts of 11.5% from P156.7 billion to P174.8 billion in 2016.

Revenue growth increased to 8.9% from 7.4% in 2015 due mainly to higher growth of *Merchandise* and *Real Estate Sales* and *Rent Income*.

Net income growth increased to 8.1% from 1.7% in 2015 due mainly to the one-time gain on sale of investment in 2014.

Return on equity slightly decreased to 10.7% from 10.8% in 2015.

EBITDA increased by 9.2% to P80.1 billion from P73.4 billion in 2015 due mainly to the 9.2% increase in income from operations.

Interest Cover slightly decreased to 6.7x from 7.0x in 2015 due to 14.8% increase in interest expense.

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

1. Current Ratio — $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

2. Asset to Equity Ratio — $\dfrac{\text{Total Assets}}{\text{Total Equity}}$

3. Debt – Equity Ratio

   a. Gross Basis — $\dfrac{\text{Total Interest Bearing Debt}}{\text{Total Equity Attributable to Owners of the Parent + Total Interest Bearing Debt}}$

   b. Net Basis — $\dfrac{\text{Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investment in bonds held for trading and available for sale}}{\text{Total Equity Attributable to Owners of the Parent + Total Interest Bearing Debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available for sale}}$

4. Revenue Growth — $\dfrac{\text{Total Revenues (Current Period)}}{\text{Total Revenues (Prior Period)}} - 1$

5. Net Margin — $\dfrac{\text{Net Income After Tax}}{\text{Total Revenues}}$

6. Net Income Growth — $\dfrac{\text{Net Income Attributable to Owners of the Parent (Current Period)}}{\text{Net Income Attributable to Owners of the Parent (Prior Period)}} - 1$

7. Return on Equity — $\dfrac{\text{Net Income Attributable to Owners of the Parent}}{\text{Average Equity Attributable to Owners of the Parent}}$

8. EBITDA — Income from Operations + Depreciation & Amortization

9. Interest Cover — $\dfrac{\text{EBITDA}}{\text{Interest Expense}}$

Expansion Plans / Prospects for the Future

Malls
In 2017, SM Prime will be opening at least 4 new malls in the Philippines. By yearend, SM Prime will have a total of 71 malls, 64 in the Philippines and 7 in China with an estimated combined gross floor area of 9.3 million square meters.

Residential
In 2017, SM Prime plans to launch about 15,000 to 18,000 residential condominium units in the cities of Parañaque, Makati, Pasay, Quezon City in Metro Manila and in the provinces of Cainta, Cavite, Pampanga, Bacolod, Iloilo, Davao Laguna, Bulacan and Tagaytay. These are a combination of new projects and expansion of existing projects.

Commercial
SM Prime is currently constructing Three E-Com Center and Four E-Com Center in the Mall of Asia Complex. These are scheduled for completion in 2018 and 2020, respectively.

Hotels and Convention Centers
SM Prime 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 square meters of leasable space.

The Property Group's land banking initiatives will continue in 2017.

The Retail Group will be opening 2 *SM Stores*, 2 *SM Supermarkets*, 3 *SM Hypermarkets*, 15 *Savemore* stores, and 109 specialty stores.

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

Calendar Years Ended December 31, 2015 and 2014

Results of Operation
(amounts in billion pesos)

Accounts	**12 / 31 / 2015**	**12 / 31 / 2014**	**% Change**
Revenue	**P 333.6**	**P 310.7**	**7.4%**
Cost and Expenses	272.0	254.5	6.9%
Income from Operations	**61.6**	**56.2**	**9.5%**
Other Charges	7.2	5.9	20.7%
Provision for Income Tax	10.7	8.7	22.7%
Net Income After Tax	**43.7**	**41.6**	**5.1%**
Non-controlling Interests	14.8	13.2	12.4%
Net Income Attributable to Owners of the Parent	**P 28.9**	**P 28.4**	**1.7%**

SM Investments Corporation and Subsidiaries (the Group) reported P28.9 billion *Net Income Attributable to Owners of the Parent*, 1.7% higher than 2015, and P333.6 billion *Revenues*, 7.4% higher than 2014.

Income from Operations increased by 9.5% to P61.6 billion from P56.2 billion in 2014. *Operating Margin* and *Net Margin* is at 18.5% and 13.1%, respectively.

Merchandise Sales, which grew by 7.4% to P248.1 billion from P230.9 billion in 2014, accounts for 74.4% of total revenues in 2015. The increase is attributable to the opening of 3 *SM Stores*, 5 *SM Supermarkets*, 3 *SM Hypermarkets*, 148 Specialty stores in 2015.

The *Non-Food* and *Food Group* comprised 49% and 51%, respectively, of merchandise sales in 2015 and 2014.

As of December 31, 2015, *SM Retail* had 1,729 stores nationwide, namely: 53 *SM Stores*, 45 *SM Supermarkets*, 136 *Savemore* stores, 44 *SM Hypermarkets*, 32 *WalterMart* stores and 1,419 Specialty stores.

Real Estate Sales slightly decreased to P22.5 billion from P22.6 billion in 2014 or 0.4% due primarily to lower revenues recognized from larger projects launched in 2010 and 2011 as these were mostly completed in 2015. The bulk of revenues to be recognized for projects launched in 2013 and 2014, which enjoyed brisk sales, will begin in 2016 when actual construction begins. The actual construction of a project usually starts within 12 to 18 months from launch date and revenue is recognized based on percentage of completion.

Real Estate Gross Margin improved to 45.7% from 44.6% in 2014. This is attributable to efficient management and tighter monitoring and control of construction costs.

Rent Revenues, derived mainly from the mall operations of SM Prime Holdings, Inc. (SM Prime), increased by 10.0% to P33.5 billion from P30.4 billion in 2014. The increase in *Rent Revenues* is primarily due to the new malls which opened in 2013, 2014 and 2015, namely, *SM Aura Premier* in Taguig, *SM City BF Parañaque* and *SM City Cauayan* in Isabela province as well as the expansion of shopping spaces in Mega Fashion Hall in *SM Megamall* in Mandaluyong*, SM Center Angono and SM City San Mateo* in Rizal province, and *SM City Bacolod* in Negros Occidental province for a total gross floor area (GFA) addition of 728,000 square meters. Excluding the new malls and expansions, same-store rental growth is 7%. Rent from commercial operations also increased due to the opening of SM Cyber West and Five E-Com Center with an average occupancy rate of 98%. Rentals from hotels and convention centers also contributed to the increase due to improvement in average room rates and occupancy rates.

As of December 31, 2015, *SM Prime* had 56 malls in the Philippines with total GFA of 7.3 million square meters and 6 malls in China with total GFA of 0.9 million square meters.

*Equity in Net Earnings of Associate Companies and Joint Venture*s increased by 6.7% to P14.3 billion from P13.4 billion in 2014. This is attributable mainly to the 9.7% increase in net income of BDO.

*Cinema Ticket Sale*s, *Amusement and Others* increased by 11.4 % to P6.4 billion from P5.8 billion in 2014 due to blockbuster movies shown in 2015 and increase in amusement revenues due mainly to the opening of *Sky Ranch* Pampanga.

Management and Service Fees, which is computed based on percentage of sales, increased by 22.7% to P3.0 billion from P2.4 billion in 2014.

Gain (Loss) on Sale of Available-for-sale (AFS) Investments and Fair Value Changes on Investments Held for Trading - net decreased by 111.2% to loss of P5.4 million in 2015 from gain of P48.5 million in 2014 due primarily to the gain on sale of AFS investments in 2014.

Dividend Income increased by 225.1 % to P0.3 billion in 2015 from P0.1 billion in 2014 due to higher dividends received from certain investees.

Other Revenues, which comprise mainly of income for promotional activities highlighting products, commission from bills payment, prepaid cards and show tickets, advertising income and sponsorship revenues, food and beverage income of the Hotel Group increased by 11.1% to P5.5 billion in 2015 from P5.0 billion in 2014.

Operating Expenses increased by 5.7% to P74.4 billion from P70.3 billion in 2014 due mainly to additional operating expenses associated with new or renovated retail stores and malls and new real estate projects.

Other Charges (net) increased by 20.7% to P7.2 billion from P5.9 billion in 2014. *Interest Expense* decreased by 12.1% to P10.5 billion from P11.9 billion in 2014 due mainly to loan payments during the year and capitalized interest taken up on new loans availed for capital expenditure requirements. *Interest Income* increased by 3.8% to P3.2 billion from P3.1 billion in 2014 due to higher average balance of temporary investments. *Gain (Loss) on Disposal of Investments and Properties - net* decreased by 101.8% to loss of P51.1 million from gain of P2.9 billion in 2014 resulting mainly from the sale of the Group's 2% stake in BDO in 2014. *Loss on Fair Value Changes on Derivatives* decreased by 45.1% to P0.1 billion from P0.2 billion in 2014. This fair value change pertains mainly to the US$250.0 million convertible bonds of SMIC which was fully settled in April 2015. *Foreign Exchange Gain - net* increased by 34.5% to P240.8 million from P179.1 million in 2014. This is due mainly to the favorable PHP to USD foreign exchange rate, that is, from PHP44.72 : USD1.00 in 2014 to PHP47.06 : USD1.00 in 2015.

Provision for Income Tax increased by 22.7% to P10.7 billion from P8.7 billion in 2014 due to increase in taxable income as well as expiration of income tax holiday incentives on a number of residential projects. The effective income tax rate is 19.7% in 2015 and 17.4% in 2014.

Non-controlling interests increased by 12.4% to P14.8 billion in 2015 from P13.2 billion in 2014 due to the increase in net income of certain partly-owned subsidiaries.

Financial Position
(amounts in billion pesos)

Accounts	12 / 31 / 2015	12 / 31 / 2014	% Change
Current Assets	P 174.2	P 193.8	-10.1%
Noncurrent Assets	611.3	531.9	14.9%
Total Assets	**P 785.5**	**P 725.7**	**8.2%**
Current Liabilities	P 126.8	P 110.3	15.0%
Noncurrent Liabilities	274.7	264.2	4.0%
Total Liabilities	**401.5**	**374.5**	**7.2%**
Total Equity	**384.0**	**351.2**	**9.3%**
Total Liabilities and Equity	**P 785.5**	**P 725.7**	**8.2%**

Total *Assets* increased by 8.2% to P785.5 billion from P725.7 billion in 2014. Likewise, total *Liabilities* increased by 7.2% to P401.5 billion from P374.5 billion in 2014.

<u>*Current Assets*</u>

Current Assets decreased by 10.1% to P174.2 billion from P193.8 billion in 2014.

Cash and Cash Equivalents decreased by 20.6% to P58.3 billion from P73.4 billion in 2014 due mainly to new investments in associates, capital expenditures, and payment of dividends.

Time Deposits increased by 6.8% to P9.6 billion from P9.0 billion in 2014 resulting mainly from the effect of restatement due to change in foreign exchange rates.

Investments Held for Trading and Sale decreased by 73.7% to P1.1 billion from P4.2 billion in 2014 due mainly to available-for-sale (AFS) investments which matured during the period and the reclassification of a certain investment to Investments in associate companies and joint ventures.

Receivables increased by 2.0% to P31.6 billion from P30.9 billion in 2014 due mainly to the increase in *Receivable from Real Estate Buyers* resulting from higher construction accomplishments of sold units and increase in *Receivable from Tenants.*

Merchandise Inventories increased by 11.0% to P21.6 billion from P19.4 billion in 2014. The increase is mainly attributable to the Food Group.

Other Current Assets decreased by 8.5% to P52.0 billion from P56.9 billion in 2014 due to the collection of receivable from sale of a portion of the Group's stake in an associate in 2014, partly offset by the increase in condominium units for sale due to completion of condominium towers M Place @ South Triangle, Jazz, Mezza II and Shell Residences and increase in *Advances and Deposits*.

Noncurrent Assets

Noncurrent Assets increased by 14.9% to P611.3 billion from P531.9 billion in 2014.

AFS Investments increased by 10.5% to P21.2 billion from P19.2 billion in 2014 due mainly to increase in market value of certain AFS investments and new AFS investments.

Investments in Associate Companies and Joint Ventures increased by 16.9% to P170.6 billion from P146.0 billion in 2014 due mainly to new investments plus one year *Equity in Net Earnings of Associate Companies and Joint Ventures*, net of *Dividend Income*.

Time Deposits increased by 11.7% to P53.1 billion from P47.6 billion in 2014. The increase pertains to the proceeds of certain AFS bonds which matured during the period and effect of restatement due to change in foreign exchange rates.

Property and Equipment decreased by 2.0% to P20.6 billion from P21.1 billion in 2014.

Investment Properties increased by 17.8% to P249.6 billion from P211.9 billion in 2014. The increase mainly represents mall-related investments in land and buildings 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; landbanking; and, construction costs incurred for ongoing projects of the Commercial and Hotel groups namely, Three E-com Center and Conrad Manila.

Land and Development increased by 2.8% to P27.4 billion from P26.6 billion in 2014 due mainly to landbanking and construction accomplishments during the period.

Intangibles increased by 10.3% to P25.8 billion from P23.4 billion in 2014 due mainly to Trademarks resulting from a new acquisition.

Deferred Tax Assets increased by 12.8% to P2.6 billion from P2.3 billion in 2014 due mainly to NOLCO, Accrued leases and Unrealized foreign exchange losses.

Other Noncurrent Assets increased by 19.1% to P40.4 billion from P33.9 billion in 2014 due mainly to additional bonds and deposits for real estate acquisitions, increase in *Derivative Assets* and *Deferred Input Vat*, and a new long-term note.

Current Liabilities

Current Liabilities increased by 15.0% to P126.8 billion from P110.3 billion in 2014.

Bank Loans decreased by 27.1% to P10.5 billion from P14.4 billion in 2014 resulting from net payments during the period.

Current Portion of Long-term Debt increased by 143.6% to P26.0 billion from P10.7 billion in 2014 due mainly to reclassification of maturing debts from noncurrent to current.

Accounts Payable and Other Current Liabilities increased by 7.1% to P85.3 billion from P79.6 billion in 2014 mainly from higher business volume.

Dividends Payable decreased by 30.0% to P2.6 billion from P3.7 billion in 2014. This represents dividends due to minority stockholders of certain subsidiaries.

Income Tax Payable increased by 27.8% to P2.5 billion in 2015 from P1.9 billion in 2014 due mainly to higher taxable income in 2015.

Noncurrent Liabilities

Noncurrent Liabilities increased by 4.0% to P274.7 billion from P264.2 billion in 2014.

Long-term Debt - Net of Current Portion increased by 3.4% to P245.2 billion from P237.1 billion in 2014 due mainly to new loan availments and bond issuances to fund capital expenditures and for working capital requirements.

Tenants' Deposits and Others increased by 9.6% to P21.0 billion from P19.1 billion in 2014. The increase pertains mainly to SM Prime's customers' deposits and deferred output vat.

Deferred Tax Liabilities increased by 8.2% to P8.6 billion from P7.9 billion in 2014 due mainly to unrealized gross profit on sale of real estate for tax purposes.

Noncurrent Derivative Liability is nil in 2015 and P58.7 million in 2014. All outstanding interest rate swaps matured in 2015.

Equity

Total *Equity* increased by 9.3% to P384.0 billion from P351.2 billion in 2014.

Equity Attributable to Owners of the Parent increased by 11.1% to P280.0 billion from P252.2 billion in 2014. This increase resulted mainly from (a) *Additional Paid-in Capital* which increased by 6.2% to P76.4 billion from P72.0 billion in 2014 due to the conversion of US$ bonds to SMIC common shares (b) *Net Unrealized Gain on AFS Investments* which increased by 24.7% to P12.7 billion from P10.2 billion in 2014 due mainly to the appreciation in market value of AFS investments of subsidiaries and associates, (c) *Re-measurement Gain (Loss) on Defined Benefit Asset/Obligation* which increased by P0.3 billion as a result of valuation of the Group's retirement plan, and (d) *Cumulative Translation Adjustment* relating to the translation of the financial accounts of *SM China* malls from China Yuan Renminbi to Philippine Peso which increased by 22.1% to P1.1 billion from P0.9 billion in 2014.

Non-controlling Interests increased by 4.9% to P104.0 billion from P99.1 billion in 2014 due mainly to the increase in net assets of certain subsidiaries that are not wholly owned.

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

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

Key Performance Indicators

The following are the key financial ratios of the Group for the years ended December 31, 2015 and 2014:

Accounts	12 / 31/ 2015	12 / 31/ 2014
Current Ratio	1.4	1.8
Asset to Equity	2.0	2.1
Debt-equity Ratios:		
On Gross Basis	50 : 50	51 : 49
On Net Basis	36 : 64	34 : 66
Revenue Growth	7.4%	7.6%
Net Margin	13.1%	13.4%
Net Income Growth	1.7%	5.5%
Return on Equity	10.8%	12.1%
EBITDA *(In Billions of Pesos)*	P73.4B	P67.6B
Interest Cover	7.0x	5.7x

Current Ratio decreased to 1.4 from 1.8 in 2014 due mainly to 10.1% decrease in *Current Assets* coupled with a 15.0% increase in *Current Liabilities.*

Asset to equity ratio slightly decreased to 2.0 from 2.1 in 2014.

Gross debt-equity ratio improved to 50:50 in 2015 from 51:49 in 2014 due to higher increase in *Equity Attributable to Owners of the Parent* by 11.1% compared to only 7.4% increase in gross debt.

Net debt-equity ratio slid to 36:64 from 34:66 in 2014 due to higher increase in net debt of 22.9% from P127.5 billion to P156.7 billion in 2015.

Revenue growth slightly decreased to 7.4% from 7.6% in 2014.

Net income growth decreased to 1.7% in 2015 due mainly to the one-time gain on sale of investment in 2014.

Return on equity decreased to 10.8% from 12.1% in 2014 due mainly to lower net income growth and higher equity growth in 2015.

EBITDA increased by 8.6% to P73.4 billion from P67.6 billion in 2014.

Interest Cover improved to 7.0x from 5.7x in 2014 due to 12.1% lower interest expense.

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

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

Expansion Plans / Prospects for the Future

Malls
In 2016, SM Prime will be opening 5 new malls in the Philippines. It also plans to expand *SM City Calamba* in Laguna and *SM City Naga* in Bicol province. By yearend, SM Prime will have a total of 67 malls, 61 in the Philippines and 6 in China with an estimated 8.6 million square meters of gross floor area.

Residential
In 2016, SM Prime plans to launch about 11,000 to 14,000 residential units 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.

Commercial
SM Prime is currently constructing Three E-Com Center and Four E-Com Center in the Mall of Asia Complex. These are scheduled for completion in 2017 and 2019, respectively.

Hotels and Convention Centers
Conrad Manila in the Mall of Asia Complex is expected to open in the first half of 2016.

The Property Group's land banking initiatives will continue in 2016.

The Retail Group will be opening 3 *SM Stores*, 2 *SM Supermarkets*, 2 *SM Hypermarkets*, 18 *Savemore* stores, and 139 specialty stores.

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

A.iv Brief Description of the General Nature and Scope of the Company's Business, Its Subsidiaries and Associates

SM Investments Corporation ("SMIC") is the holding company of the SM Group with interests in Retail, Property and Banking. Its Retail arm, SM Retail Inc., operates department stores under the SM Store brand, and several food retail formats including Supermarkets, Hypermarkets and Savemore Stores. It also operates specialty stores focused on DIY, furniture, appliances and toys among others. Its Property arm, SM Prime Holdings Inc., is engaged in building and operating shopping malls both in the Philippines and China. It is also engaged in residential property development under its subsidiary, SM Development Corporation, commercial property development, as well as various hotels and convention centers. The Banking Group is comprised of BDO Unibank, Inc., the country's largest bank by resources, and China Banking Corporation. SMIC also has Equity Investments in other sectors such as premium commercial buildings, leisure, logistics and mining.

The Group places a high degree of importance on its adherence to global Environmental, Social and Governance (ESG) standards, as detailed in its annual ESG report. The SM Group seeks alignment of its sustainability programs to the 17 United Nations Sustainable Development Goals, embraces the UN Global Compact's 10 Principles and publishes its reports in accordance to GRI Standards.

Business of Issuer

SM Retail, Inc. ("SM Retail") is the holding company of the Group's retail and merchandising operations where SMIC has a 77% effective stake. SM Retail organizes its operations into three categories: Non-Food, Food and Specialty:

Non-Food Retail

"The SM Store", in operation since January 2008, is SM Retail's department store format, a leading player in the Philippines and an anchor tenant in SM malls nationwide. The SM Store serves a wide customer base and is committed to providing an extensive range of up to date fashion.

SM Retail currently has 59 department stores located in Mero Manila and key provincial cities. Of these, 54 stores are based inside SM malls and five stores in Makati, Cubao, Quiapo, Harrison and Delgado are stand-alone stores.

In 2017, two new stores were opened in Cagayan de Oro Downtown and Puerto Princesa, Palawan. These new stores contributed an additional 19,906 sqm, bringing the gross selling area (GSA) of The SM Store to 765,556 sqm.

Specialty Stores

In July 2016, several leading specialty retail stores were merged with SM Retail. These include ACE Hardware, SM Appliances, Homeworld, Our Home, Toy Kingdom, Kultura, Baby Company, Sports Central, and others.

Specialty stores provide SM Retail with a range of leading brands in various fast growing categories of discretionary spending. All formats operate as tenants in SM malls with several brands such as ACE Hardware, also growing outside malls.

As of December 31, 2017, there are 1,299 specialty stores in operation.

Food Retail

SM Retail has five Food retail formats varying by size, namely SM Supermarket, SM Hypermarket, Savemore, Waltermart and Alfamart. These formats enable SM Retail to serve many different local markets nationwide.

SM Supermarket is a large format anchor tenant in SM malls. It has been in operation since 1985. There are currently 52 stores nationwide totaling to 345,661 sqm of GSA with each store carrying 30,000 to 35,000 SKUs. In 2017, it opened four stores in Cagayan, Puerto Princesa, Antipolo and the Podium.

SM Hypermarket is a large format food retailer store with both stand-alone and in-mall locations. It has been in operation since 2001 and provides a shopping experience that combines the features of a supermarket with those of a department store. There are currently 47 stores in operation totaling 335,009 sqm of GSA with each store carrying over 35,000 SKUs. In 2017. SM Hypermarket opened three stores in Tuguegarao, Pulilan and Lemery.

Savemore is a mid-sized format introduced in 1998. It is located in community malls or as a stand-alone store. Savemore is a neighborhood format, providing food and grocery items in residential locations with extended opening hours. Among SM Retail's Food formats, Savemore has the largest footprint with 506,834 sqm of GSA across 181 stores as of end 2017. These stores carry 20,000 to 25,000 SKUs. In 2017, they opened twenty-eight stores nationwide.

Waltermart Supermarket is a mid-sized format that provides food and non-food shopping as an anchor tenant in Waltermart community malls, primarily in Luzon, and operated by SM Prime. SM Retail acquired a controlling stake in Waltermart Supermarket, Inc. in 2013. It has a network of 46 stores as at end 2017, each carrying 20,000-25,000 SKUs and with an aggregate GSA of 125,550 sqm. In 2017, they opened 7 stores in Balayan, Batangas; Concepcion, Tarlac; Nasugbu, Batangas; and Kawit, Cavite.

Alfamart is a small format minimart grocery store situated primarily in residential neighborhoods and offering a range of essential groceries and prepared food. It is a joint venture with Indonesia-based minimart operator, PT Sumber Alfaria Trijaya Tbk, which started operations in the Philippines in 2014. Alfamart Philippines has a network of 348 stores as of end 2017, mostly located outside Metro Manila, each carrying 2,500 to 3,500 SKUs. In 2017, they opened 138 new stores within Metro Manila, Cavite, Batangas, Rizal, Bulacan and Laguna.

Property

SM Prime Holdings, Inc. ("SM Prime") is one of the largest integrated property developers in Southeast Asia that develops innovative and sustainable lifestyle cities, comprising of malls, residences, offices, hotels and convention centers. It was incorporated in the Philippines in 1994 and SMIC has a 50% effective ownership in the company.

Malls

SM Prime's mall business unit operates and maintains modern commercial shopping malls. Its main sources of revenue include rental income from leased shopping spaces, cinema tickets sales and other amusement income. SM Prime has 67 malls in the Philippines with a total gross floor area (GFA) of 8 million sqm and seven shopping malls in China with a total GFA of 1.3 million sqm.

In 2017, SM Prime's mall business unit opened 7 new malls in the Philippines namely, SM Center Lemery in Batangas, SM Center Pulilan in Bulacan, SM Center Tuguegarao Downtown in Cagayan, SM City Puerto Princesa in Palawan, SM Cherry Antipolo in Rizal, S Maison at

Conrad Manila in Pasay City and SM CDO Downtown Premier in Cagayan de Oro. These new malls added 0.4M sqm of GFA.

Residential

SM Prime's residential development arm, **SM Development Corporation** ("SMDC"), derives development revenues largely from the sales of condominium units. As of December 31, 2017, the primary residential business unit had 38 residential projects in the market worth P294 billion.

SMDC's primary residential business unit typically launches 12,000 to 15,000 units annually, including high-rise, mid-rise and single detached housing. Projects are located in Metro Manila and key provincial cities.

In secondary residential business, SM Prime owns properties in the vicinity of Tagaytay Highlands and Tagaytay Midlands Golf Clubs and other leisure and resort developments in Laguna, Tagaytay City and Batangas. It is also the developer of Pico de Loro Cove residential community within Hamilo Coast.

Commercial

SM Prime's commercial properties business unit is engaged in the development and leasing of office buildings in prime locations in Metro Manila. As of December 31, 2017, the Company has seven office buildings with a total GFA of 456,000 sqm. These are located in the cities of Quezon, Pasay and Makati. SM Prime is constructing two more office buildings namely the ThreeE-com and FourE-com Centers in Mall of Asia Complex, Pasay City. These are scheduled to open in 2018 and 2020, respectively.

Hotels and Convention Centers

SM Prime's hotel and convention centers business unit manages six hotels located in Tagaytay City, Batangas, Pampanga, Cebu City, Davao City and Pasay City with over 1,500 rooms. It also operates four convention centers located in the Mall of Asia Complex in Pasay City, SM Lanang Premier in Davao City, SM Aura in Taguig City and SM City Bacolod in Bacolod City, and three trade halls located in SM Megamall, SM City Cebu and SM Seaside City Cebu.

Financial Services

BDO Unibank, Inc. ("BDO") is a full-service universal bank in the Philippines. It provides a complete array of industry-leading products and services including lending, deposit-taking, foreign exchange, brokering, trust and investments, credit cards, corporate cash management and remittances. Through its local subsidiaries, it offers leasing and financing, investment banking, private banking, rural banking, life insurance, insurance brokerage and stock brokerage services. BDO has one of the largest distribution networks of over 1,100 operating branches and more than 4,000 ATMs nationwide.

As of 31 December 2017, BDO is the country's largest bank in terms of consolidated resources, customer loans, deposits, assets under management and capital, as well as branch and ATM network.

In 2017 BDO undertook a P60 billion capital raising through a rights offering to strengthen its balance sheet and support growth opportunities in the Philippines. As at end 2017, BDO had a strong balance sheet with total resources of P2,668 billion and CET1 ratio of 12.9%.

SMIC has an effective ownership of 45% in BDO.

The China Banking Corporation ("China Bank") was incorporated in 1920 as the first privately owned local commercial bank in the Philippines. It has historical strength in catering to the Chinese-Filipino commercial sector, as well as local corporate and retail banking segments. China Bank offers a complete range of deposit, lending, international and investment products. Through its local subsidiaries, it offers investment banking, securities broking, insurance broking, and thrift bank services China Bank services its customers through its 596 bank branches with 888 ATMs nationwide.

In 2017 China Bank raised P15 billion of capital through a rights offering to support the growth opportunities in the Philippine economy. The Bank boasts a strong balance sheet, with total resources at P693 billion and Capital Adequacy Ratio of 14.65% as at December 31, 2017.

SMIC has an effective stake of 20% in China Bank.

Equity Investments

SMIC invests in ventures that capture high growth opportunities in the emerging Philippine economy, looking for market leaders that offer synergies, attractive returns and cash flows.

Belle Corporation ("Belle") is a developer of tourism and leisure destinations in the Philippines.

Its principal asset is the City of Dreams Manila in PAGCOR Entertainment City by Manila Bay, which is leased on a long-term basis to Melco Resorts and Entertainment (Philippines) Corporation ("Melco"). In addition to lease income, Belle is accorded a share in revenues or earnings from City of Dreams Manila's gaming operations through the operating agreement between its 78.7%-owned subsidiary, Premium Leisure Corporation ("PLC"), and Melco.

South of Metro Manila, Belle owns significant real estate assets and develops premium residential resort projects around Tagaytay City. Among its exclusive destinations are the club and golf facilities and residential communities of Tagaytay Highlands and Tagaytay Midlands, as well as a further 800 hectares intended for future development.

SMIC's effective ownership in Belle is 28%.

Atlas Consolidated Mining & Development Corporation ("Atlas Mining") is primarily engaged in metallic mineral exploration and mining.

It operates the Toledo copper mine in the province of Cebu through its wholly-owned subsidiary Carmen Copper Corporation ("Carmen Copper"). The Toledo copper mine is one of the Philippines' largest exporters of copper concentrate and also markets by-products from copper concentrate processing such as magnetite and pyrite.

Atlas Mining also has a stake in the nickel laterite mining project of Berong Nickel Corporation ("Berong Nickel") in Palawan. Berong Nickel has been engaged in the direct shipping of nickel laterite ore since 2007.

SMIC effectively owns 34% of Atlas Mining.

BGC Commercial Properties. SM Investments has an effective 90% ownership over five commercial buildings managed by The Net Group and located within the largest and only PEZA certified IT park in Bonifacio Global City, Metro Manila. Its tenant base includes top tier local and multinational companies. Its gross lot areas is 13,300 sqm and gross leasable area is 147,000 sqm. The occupancy rate as of December 31, 2017 was 100%.

2GO Group, Inc. ("2GO") is the country's largest integrated supply chain operator whose businesses include shipping, freight forwarding, warehousing and express delivery services. As of end 2017, 2GO's shipping arm accounted for approximately 90% market share in passenger shipping and 40% in domestic cargo in the Philippines.

In 2017, SMIC acquired 30.5% effective ownership of 2GO.

Philippine Urban Living Solutions ("PULS") is a dormitory developer and operator specializing in the development of rental housing communities under the MyTown brand. It provides affordable living spaces to young urban professionals within walking distance of the central business districts of Metro Manila. It currently has four buildings in operation with 12 more buildings under development.

SMIC effectively owns 61.2% in PULS.

CityMall Commercial Centers Inc. ("CityMalls") is a mall developer and operator that specializes in developing community malls in second and third cities across the Philippines. SMIC acquired a 34% stake in CityMalls in 2014 with the balance owned by Double Dragon Properties Corporation. Currently, SM Retail occupies an average of 55% of the CityMalls' GFA across their 25 malls in operation.

A.v Company's Directors and Executive Officers

Please refer to Item 5 of the Information Statement for the discussion on the identity of each of the Company's directors and executive officers including their principal occupation or employment, name and principal business of any organization by which such persons are employed.

A.vi Market Price, Stockholder and Dividend Information

Market Information

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

	2017				2016			
Stock Prices		High		Low		High		Low
1st Quarter	₱	710.5	₱	599.0	₱	663.0	₱	493.3
2nd Quarter		809.5		698.5		670.7		608.7
3rd Quarter		883.0		788.0		684.0		655.0
4th Quarter		998.0		897.0		700.0		608.0

Note: The market prices in 2016 were revised to reflect retroactively the effect of the 50% stock dividends issued on August 18, 2016.

As of March 13, 2018, the closing price of the Company's shares of stock is ₱963.00/share

Stockholder and Dividend Information

The number of stockholders of record as of February 28, 2018 was 1,251. 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 P176.6 billion, representing accumulated equity in net earnings of subsidiaries. These earnings are not available for dividend distribution until such time that the Parent Company receives the dividends from the subsidiaries.

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

The cash dividends pertaining to the 2017 earnings will be discussed and determined at the next Board Meeting on April 25, 2018.

On April 26, 2017, the BOD approved the declaration of cash dividends of 77.7% of the par value or P7.77 per share for a total amount of P9,359.6 million in favor of stockholders on record as at May 11, 2017. This was paid on May 25, 2017.

On April 27, 2016, the BOD approved the declaration of cash dividends of 106.3% of the par value or P10.63 per share for a total amount of P8,536.5 million in favor of stockholders on record as at May 12, 2016. This was paid on May 26, 2016.

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

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

On April 29, 2015, the BOD approved the declaration of cash dividends of 106.1% of the par value or P10.61 per share for a total amount of P8,520.4 million in favor of stockholders on record as at May 14, 2015. This was paid on June 9, 2015.

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

	Name	No. of Shares Held	% to Total
1	PCD Nominee Corp. (Non-Filipino)	395,097,150	32.80%
2	PCD Nominee Corp. (Filipino)	102,927,468	8.54%
3	Hans T. Sy	98,769,136	8.20%
4	Herbert T. Sy	98,753,008	8.20%
5	Harley T. Sy	87,604,771	7.27%
6	Henry T. Sy, Jr.	87,503,008	7.26%
7	Teresita T. Sy	85,440,508	7.09%
8	Elizabeth T. Sy	71,022,817	5.90%
9	Syntrix Holdings, Inc.	46,875,000	3.89%
10	Felicidad T. Sy	38,595,259	3.20%
11	Sysmart Corporation	28,966,752	2.40%
12	Henry Sy Foundation, Inc.	22,500,000	1.87%
13	Tansmart Holdings, Inc.	22,500,000	1.87%
14	Felicidad T. Sy Foundation, Inc.	11,250,000	0.93%
15	Henry Sy, Sr.	4,773,825	0.40%
16	Susana Fong	452,998	0.04%
17	Value Plus, Inc.	152,119	0.01%
18	SM Prime Holdings, Inc.	146,104	0.01%
19	Belle Corporation	48,877	0.00%
20	Bernadette S. Go	39,402	0.00%

The following securities were issued as exempt from the registration requirements of the Securities Regulation Code (SRC) and therefore have not been registered with the Securities and Exchange Commission:

(1) On June 10, 2014, SMIC issued US$350 million senior bonds which bear a fixed interest rate of 4.875% per annum, payable semi-annually in arrears. The bonds will mature on June 10, 2024. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to 10.1 (l) of RA No. 8799. The underwriter is Citigroup Global Markets Limited and Standard Chartered Bank and the total underwriting fees and expenses amounted to US$1.749 million.

(2) On October 17, 2012, SMIC issued US$500 million senior bonds which bear a fixed interest rate of 4.250% per annum, payable semi-annually in arrears. The bonds will mature on October 17, 2019. The bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to Section 10.1 (k) and 10.1 (l) of RA No. 8799. The underwriter is Citibank N.A. London and the total underwriting fees and expenses amounted to US$2.5 million.

(3) On February 15, 2012, SMIC issued a US$250.0 million Convertible Bonds due on February 15, 2017. The Convertible Bonds, which was listed in the Singapore Stock Exchange, are considered exempt security pursuant to Section 10(g) of R.A. No. 8799. The lead underwriter is Citibank N.A. London and the total underwriting fees and expenses amounted to US$3.125 million. The bonds were fully converted into SMIC common shares as of April 9, 2015.

(4) On October 13, 2010, SMIC issued US$400 million bonds which bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears. The bonds will mature on October 13, 2017. Of this amount, US$82.9 million and US$130.8 million were exchanged from the existing US$350 million 6.75% bonds due 2013 and US$500 million 6.00% bonds due 2014, respectively. The balance of US$186.3 million represents the new money component. The bonds, which were listed in the Singapore Stock Exchange, are considered as exempt pursuant to Section 10 (1) of RA No. 8799. The underwriters are Citi, HSBC and BDO and the total underwriting fees and expenses amounted to US$1.7 million. At various dates in 2016 and 2015, SMIC retired/cancelled US$19.2 million and US$7.1 million bonds, respectively. The bonds matured in October 2017.

A.vii Corporate Governance

Corporate Governance

SM Investments Corporation (SMIC) recognizes the essential role that good governance plays in managing a world class organization. The Company is committed to driving best practice corporate governance throughout its businesses and to ensuring a culture of appropriate engagement with all its stakeholders.

SMIC's Board of Directors (the "Board") is fully committed to the principles of corporate governance and to ensuring that the long term financial success of the business is built on fairness, accountability and transparency. The Board is responsible for setting the high standard of integrity expected throughout the organization.

SMIC's Board is composed of eight directors, three of whom are non-executive independent directors. As required by the Company's Manual on Corporate Governance (the "Manual"), independent directors are independent of Management and do not have substantial shareholdings or material relations that could potentially impede the performance of their independent judgment.

In April 2017, Mr. Alfredo E. Pascual, former President of the University of the Philippines joined the SMIC Board. Mr. Pascual previously held senior posts with the Asian Development Bank (ADB) and other investment banking companies. Mr. Pascual joins Ms. Tomasa H. Lipana, a former Chairperson and Senior Partner of Isla Lipana & Co., and Mr. Joseph R. Higdon, an American with a lifetime of experience in investments and fund management, to form a diverse and experienced group of independent directors on the board of SMIC.

To ensure optimum Board performance, the Company conducts annual performance evaluations of the Board of Directors, its individual members and Board Committees. Through the evaluation process, directors identify areas for improvement, such as the quality and timeliness of information provided to them; the frequency and conduct of regular, special or committee meetings; directors' access to management, the Corporate Secretary and Board Advisors; as well as other forms of assistance that they may need in the performance of their duties. The Board reviews the results of these evaluations and agrees on clear action plans to address any issues raised. In addition the Board is asked to identify areas of continuing education on corporate governance topics they require.

The Company ensures that the Board and key officers are kept abreast of governance related developments through regular education programs. SMIC also facilitates annual training programs for the directors and officers of its subsidiaries and affiliates within the SM Group of Companies. These Group-wide training programs are conducted by providers accredited by the Securities and Exchange Commission and have recently included topics such as *Cyber-Security* and *Boards in Crisis*.

SMIC's Board Committees (namely the Audit Committee, Corporate Governance Committee, Compensation Committee, Risk Management Committee and Related Party Transactions Committee) are each guided by their respective Board Committee Charters which outline their purpose, composition, duties and responsibilities. All Board Committees' Charters are reviewed annually.

In 2017, the Company established a new Related Party Transactions Committee, tasked to review all material related party transactions of the Company and to ensure that all of SMIC's transactions are done at fair market prices.

SMIC maintains a Manual and Code of Ethics (the "Code"), which outlines the principles of good corporate governance expected throughout the organization. SMIC ensures that its directors, officers and employees are familiar with and adhere to this Code. The Code defines SMIC's compliance system and identifies the roles and responsibilities of the Board and Management in relation to corporate governance. It contains the Company's policies on disclosures and transparency, the communication and training programs related to corporate governance and the rights and protection of stakeholders.

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

The Code highlights the importance of integrity in the Company's dealings with its investors, creditors, customers, contractors, suppliers, regulators, employees and other relevant groups. It also outlines the Company's duties with regard to its employees, shareholders and the communities it operates in. The Manual is reviewed regularly and may be accessed via the Company's website.

In accordance with the Code, SMIC has established various governance-related policies, including the Conflict of Interest Policy, which requires SMIC personnel to disclose any actual or potential conflict of interest to the Company, and the Insider Trading Policy which prohibits directors, officers and employees from trading the Company's shares five days before and two trading days after the disclosure of any material stock price-sensitive information. Other existing governance related policies include the Guidelines on Acceptance of Gifts, Guidelines on Placement of Advertisements and the Policy on Accountability, Integrity and Vigilance which is SMIC's whistleblowing policy. SMIC's corporate governance-related policies and programs are regularly disseminated throughout the organization and are made public via the Company's website.

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

Going forward, SMIC will continue to support the initiatives of regulators and advocacy groups to enhance and promote corporate governance standards, while also further strengthening its own corporate governance culture.

A.viii Undertaking to provide without charge a copy of the Company's Annual Report

The Company will provide without charge a copy of the Company's Annual Report on SEC Form 17-A to its stockholders upon receipt of a written request addressed to the Investor Relations Department at 10th Floor, OneE-com Center, Harbor Drive, Mall of Asia Complex, Pasay City 1300.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017

Consolidated Financial Statements

A.	Statement of Management's Responsibility for Financial Statements	Attached
B.	Certificate on the Compilation Services for the Preparation of the Financial Statements and Notes to Financial Statements	Attached
C.	Independent Auditor's Report	Attached
D.	Consolidated Balance Sheets as at December 31, 2017 and 2016	Attached
E.	Consolidated Statements of Income For the years ended December 31, 2017, 2016 and 2015	Attached
F.	Consolidated Statements of Comprehensive Income For the years ended December 31, 2017, 2016 and 2015	Attached
G.	Consolidated Statements of Changes in Equity For the years ended December 31, 2017, 2016 and 2015	Attached
H.	Consolidated Statements of Cash Flows For the years ended December 31, 2017, 2016 and 2015	Attached
I.	Notes to Consolidated Financial Statements	Attached

Supplementary Schedules

	Independent Auditor's Report on Supplementary Schedules	Attached
	SRC Annex 68-E Schedules	
A.	Financial Assets	Attached
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)	*
C.	Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements	Attached
D.	Intangible Assets - Other Assets	Attached
E.	Long-term Debt	*
F.	Indebtedness to Related Parties	*
G.	Guarantees of Securities of Other Issuers	*
H.	Capital Stock	Attached

Additional Components

Computation of Public Ownership	Attached
Financial Ratios - Key Performance Indicators	Attached
Reconciliation of Retained Earnings Available for Dividend Declaration	Attached
Conglomerate Map	Attached
Tabular Schedule of Effective Standards and Interpretations under the PFRS	Attached

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

INVESTMENTS
CORPORATION

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

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

The management of SM Investments Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with Philippine Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Signed this 28st day of February 2018

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY CITY)

SUBSCRIBED AND SWORN to before this FEB 28 2018 at MAKATI CITY City, affiants exhibiting to me their Taxpayer Identification Number ID, as follows:

NAMES	TIN
JOSE T. SIO	103-433-285-000
FREDERIC C. DYBUNCIO	103-192-854-000
GRACE F. ROQUE	103-433-251-000

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. 178
PAGE No. 36
Book No. 20
SERIES of 2018

SM INVESTMENTS CORPORATION

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

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 Investments Corporation and Subsidiaries (the Group) as at December 31, 2017 and 2016, in accordance with Philippine Financial Reporting Standards, as required by accounting and auditing standards.

In discharging this responsibility, I hereby declare that I am the Accounting Manager of the Group.

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.

Crislyn N. Ariola

Crislyn N. Ariola
Accounting Manager
CPA Certificate No. 0124217
valid until October 03, 2018
BOA Accreditation No. 0238
valid until October 03, 2019

February 28, 2018

SUBSCRIBED AND SWORN to before this FEB 28 2018 at MAKATI CITY affiants exhibiting to me her Taxpayer Identification Number 262-083-679.

Doc No. 177
Page No. 36
Book No. 20
Series of 2018

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

SM Investments Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016
and Years Ended December 31, 2017, 2016
and 2015

and

Independent Auditor's Report

SGV

Building a better
working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
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 Board of Directors and Stockholders
SM Investments Corporation

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Goodwill

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

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

Audit Response

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

Accounting for Investments in Associate Companies

As at December 31, 2017, the Group's investments in associate companies amounted to ₱235,028.2 million, representing 31.4% and 24.5% of the Group's total noncurrent assets and total assets, respectively. The investments in associate companies are accounted for under the equity method and considered for impairment if there are indicators that such investments may be impaired. Given the magnitude of the carrying amount and share in equity on investments in associate companies, as well as the significant management judgments and estimates applied in determining the recoverable amount of these investments, we consider this matter significant to our audit.

The details of these investments are disclosed in Note 13 to the consolidated financial statements.

Audit Response

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

For the material associate company audited by other auditor, we sent audit instructions to the other auditor to perform an audit on the relevant financial information of the associate company for the purpose of the Group's consolidated financial statements. Our audit instructions detailed the other auditor's scope of work, audit strategy and reporting requirements. We discussed with the other auditor their key audit areas, including areas of significant judgments and estimates, and their audit findings. We focused on the other auditor's procedures on the impairment of loans and receivables. We reviewed the working papers of the other auditor on key inputs and assumptions underlying the impairment assessment of loans and receivables.

Revenue Recognition on Sale of Real Estate Units

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

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

Audit Response

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

Existence and Completeness of Merchandise Inventories

As at December 31, 2017, the merchandise inventories of certain subsidiaries of the Group amounted to ₱27,778.7 million, representing 13.1% and 2.9% of the Group's total current assets and total assets, respectively. The Group has several warehouses and operates multiple stores across the country. Since the merchandise inventories are material to the consolidated financial statements, and various warehouses and stores are geographically dispersed across the country, we consider this a key audit matter.

The disclosures about inventories are included in Note 23 to the consolidated financial statements.

Audit Response

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-AR-2 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621309, January 9, 2018, Makati City

February 28, 2018

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 29)	**₱74,318,190**	₱74,947,731
Time deposits (Notes 8 and 29)	**13,237,886**	24,473,541
Investments held for trading and sale (Notes 9, 12 and 29)	**1,347,926**	3,456,752
Receivables (Notes 10, 29 and 30)	**32,352,574**	31,346,702
Merchandise inventories - at cost (Note 23)	**27,778,741**	25,825,290
Other current assets (Notes 11 and 29)	**63,478,186**	59,044,139
Total Current Assets	**212,513,503**	219,094,155
Noncurrent Assets		
Available-for-sale investments (Notes 12 and 29)	**25,590,162**	18,675,233
Investments in associate companies and joint ventures (Note 13)	**242,114,427**	181,228,512
Time deposits (Notes 8 and 29)	**26,688,721**	42,041,227
Property and equipment (Note 14)	**21,339,407**	20,950,217
Investment properties (Note 15)	**289,018,265**	270,146,508
Land and development (Note 16)	**40,180,145**	23,825,558
Intangibles (Note 17)	**25,591,232**	25,711,767
Deferred tax assets (Note 27)	**2,489,814**	2,527,745
Other noncurrent assets (Notes 17 and 29)	**74,555,033**	57,261,459
Total Noncurrent Assets	**747,567,206**	642,368,226
	₱960,080,709	₱861,462,381

LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 18, 22 and 29)	**₱24,172,965**	₱13,987,765
Accounts payable and other current liabilities (Notes 19 and 29)	**106,561,455**	89,259,033
Income tax payable	**1,883,871**	2,683,715
Current portion of long-term debt (Notes 20, 22, 29 and 30)	**40,297,133**	25,601,582
Dividends payable (Note 29)	**2,939,590**	3,302,828
Total Current Liabilities	**175,855,014**	134,834,923
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 22, 29 and 30)	**292,555,868**	280,254,227
Deferred tax liabilities (Note 27)	**8,029,579**	7,888,395
Tenants' deposits and others (Notes 26, 28, 29 and 30)	**29,828,024**	23,737,574
Total Noncurrent Liabilities	**330,413,471**	311,880,196
Total Liabilities	**506,268,485**	446,715,119

(Forward)

	December 31	
	2017	2016
Equity Attributable to Owners of the Parent		
Capital stock (Note 21)	**₱12,045,829**	₱12,045,829
Additional paid-in capital	**76,439,288**	76,347,229
Equity adjustments from common control transactions (Note 21)	**(5,424,455)**	(5,424,455)
Cost of Parent common shares held by subsidiaries	**(25,386)**	(25,386)
Cumulative translation adjustment	**1,402,623**	1,216,718
Net unrealized gain on available-for-sale investments (Notes 12 and 13)	**15,324,123**	10,780,430
Re-measurement gain (loss) on defined benefit asset/obligation (Note 26)	**(701,255)**	34,895
Retained earnings (Note 21):		
Appropriated	**37,000,000**	36,000,000
Unappropriated	**192,071,968**	169,508,122
Total Equity Attributable to Owners of the Parent	**328,132,735**	300,483,382
Non-controlling Interests	**125,679,489**	114,263,880
Total Equity	**453,812,224**	414,747,262
	₱960,080,709	₱861,462,381

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands Except Per Share Data)

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

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(Amounts in Thousands Except Per Share Data)

	Equity Attributable to Owners of the Parent											
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2017	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)	₱1,216,718	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262
Net income	–	–	–	–	–	–	–	–	32,923,455	32,923,455	18,595,062	51,518,517
Other comprehensive income	–	–	–	–	185,905	4,543,693	(736,150)	–	–	3,993,448	872,399	4,865,847
Total comprehensive income	–	–	–	–	185,905	4,543,693	(736,150)	–	32,923,455	36,916,903	19,467,461	56,384,364
Reversal of appropriation (Note 21)	–	–	–	–	–	–	–	(27,800,000)	27,800,000	–	–	–
Appropriation (Note 21)	–	–	–	–	–	–	–	28,800,000	(28,800,000)	–	–	–
Sale of treasury shares held by subsidiary	–	78,810	–	–	–	–	–	–	–	78,810	79,506	158,316
Acquisition of non-controlling interests	–	13,249	–	–	–	–	–	–	–	13,249	(247,159)	(233,910)
Cash dividends - ₱7.77 per share (Note 21)	–	–	–	–	–	–	–	–	(9,359,609)	(9,359,609)	–	(9,359,609)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(6,709,448)	(6,709,448)
Decrease in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	(1,174,751)	(1,174,751)
As at December 31, 2017	₱12,045,829	₱76,439,288	(₱5,424,455)	(₱25,386)	₱1,402,623	₱15,324,123	(₱701,255)	₱37,000,000	₱192,071,968	₱328,132,735	₱125,679,489	₱453,812,224
As at January 1, 2016	₱8,030,554	₱76,399,625	(₱5,338,948)	(₱25,386)	₱1,057,751	₱12,724,360	₱242,740	₱36,000,000	₱150,940,847	₱280,031,543	₱103,956,317	₱383,987,860
Effect of common control business combination (Note 5)	–	–	120,078	–	–	–	5,792	–	(85,287)	40,583	79,451	120,034
As adjusted	8,030,554	76,399,625	(5,218,870)	(25,386)	1,057,751	12,724,360	248,532	36,000,000	150,855,560	280,072,126	104,035,768	384,107,894
Net income	–	–	–	–	–	–	–	–	31,204,304	31,204,304	16,554,024	47,758,328
Other comprehensive income	–	–	–	–	158,967	(1,943,930)	(213,637)	–	–	(1,998,600)	211,502	(1,787,098)
Total comprehensive income	–	–	–	–	158,967	(1,943,930)	(213,637)	–	31,204,304	29,205,704	16,765,526	45,971,230
Common control transactions	–	–	(205,585)	–	–	–	–	–	–	(205,585)	–	(205,585)
Stock dividends - 50% (Note 21)	4,015,275	(52,396)	–	–	–	–	–	–	(4,015,275)	(52,396)	–	(52,396)
Cash dividends - ₱10.63 per share (Note 21)	–	–	–	–	–	–	–	–	(8,536,467)	(8,536,467)	–	(8,536,467)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(6,358,868)	(6,358,868)
Decrease in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	(178,546)	(178,546)
As at December 31, 2016	₱12,045,829	₱76,347,229	(₱5,424,455)	(₱25,386)	₱1,216,718	₱10,780,430	₱34,895	₱36,000,000	₱169,508,122	₱300,483,382	₱114,263,880	₱414,747,262

	Equity Attributable to Owners of the Parent											
	Capital Stock	Additional Paid-in Capital	Equity Adjustments from Common Control Transactions	Cost of Parent Common Shares Held by Subsidiaries	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Re-measurement Gain (Loss) on Defined Benefit Asset/ Obligation	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2015	₱7,963,406	₱71,952,082	(₱5,367,433)	(₱25,386)	₱866,360	₱10,207,259	(₱30,183)	₱27,000,000	₱139,596,096	₱252,162,201	₱99,098,035	₱351,260,236
Net income	–	–	–	–	–	–	–	–	28,865,157	28,865,157	14,791,761	43,656,918
Other comprehensive income	–	–	–	–	191,391	2,517,101	272,923	–	–	2,981,415	(3,452,849)	(471,434)
Total comprehensive income	–	–	–	–	191,391	2,517,101	272,923	–	28,865,157	31,846,572	11,338,912	43,185,484
Common control transactions	–	–	28,485	–	–	–	–	–	–	28,485	–	28,485
Acquisition of non-controlling interests	–	(385,538)	–	–	–	–	–	–	–	(385,538)	–	(385,538)
Reversal of appropriation (Note 21)	–	–	–	–	–	–	–	(18,000,000)	18,000,000	–	–	–
Appropriation (Note 21)	–	–	–	–	–	–	–	27,000,000	(27,000,000)	–	–	–
Conversion of convertible bonds (Note 21)	67,148	4,833,081	–	–	–	–	–	–	–	4,900,229	–	4,900,229
Cash dividends - ₱10.61 per share (Note 21)	–	–	–	–	–	–	–	–	(8,520,406)	(8,520,406)	–	(8,520,406)
Cash dividends received by non-controlling interests	–	–	–	–	–	–	–	–	–	–	(3,377,213)	(3,377,213)
Decrease in previous year's non-controlling interests	–	–	–	–	–	–	–	–	–	–	(3,103,417)	(3,103,417)
As at December 31, 2015	₱8,030,554	₱76,399,625	(₱5,338,948)	(₱25,386)	₱1,057,751	₱12,724,360	₱242,740	₱36,000,000	₱150,940,847	₱280,031,543	₱103,956,317	₱383,987,860

See accompanying Notes to Consolidated Financial Statements.

SM INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

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

(Forward)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Long-term debt (Note 32)	**₱55,866,308**	₱62,564,105	₱32,888,435
Bank loans (Note 32)	**59,419,602**	20,841,800	19,450,894
Payments of:			
Bank loans (Note 32)	**(49,234,402)**	(17,385,450)	(23,385,210)
Long-term debt (Note 32)	**(31,640,120)**	(34,560,516)	(14,241,354)
Dividends (Note 32)	**(16,432,295)**	(14,417,931)	(12,999,334)
Interest (Note 32)	**(16,510,177)**	(13,561,377)	(11,998,012)
Reissuance by a subsidiary of treasury shares	**158,316**	–	–
Net cash provided by (used in) financing activities	**1,627,232**	3,480,631	(10,284,581)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,425,180)**	16,216,035	(15,012,922)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**795,639**	448,965	(73,984)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**74,947,731**	58,282,731	73,369,637
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱74,318,190**	₱74,947,731	₱58,282,731

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

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

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

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

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

2. Basis of Preparation and Statement of Compliance

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

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

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

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

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

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

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

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

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

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

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

		Percentage of Ownership			
		2017		2016	
Company	Principal Activities	**Direct**	**Indirect**	Direct	Indirect
Property					
SM Prime Holdings, Inc. (SM Prime) and Subsidiaries	Real estate development	**50**	–	50	–
SM Development Corporation and Subsidiaries (SMDC)	Real estate development	–	**100**	–	100
Highlands Prime, Inc. (HPI)	Real estate development	–	**100**	–	100
Costa del Hamilo, Inc. (Costa) and Subsidiary	Real estate development	–	**100**	–	100
Magenta Legacy, Inc.	Real estate development	–	**100**	–	100
Associated Development Corporation	Real estate development	–	**100**	–	100
Prime Metro Estate, Inc. and Subsidiary	Real estate development	**40**	**60**	40	60
Tagaytay Resort Development Corporation	Real estate development	–	**100**	–	100
SM Arena Complex Corporation (SM Arena)	Conventions	–	**100**	–	100
MOA Esplanade Port, Inc.	Port terminal operations	–	**100**	–	100
SM Hotels and Conventions Corp. and Subsidiaries	Hotel and conventions	–	**100**	–	100
First Asia Realty Development Corporation	Real estate development	–	**74**	–	74
Premier Central, Inc.	Real estate development	–	**100**	–	100
Consolidated Prime Dev. Corp.	Real estate development	–	**100**	–	100
Premier Southern Corp.	Real estate development	–	**100**	–	100
San Lazaro Holdings Corporation	Real estate development	–	**100**	–	100
Southernpoint Properties Corp.	Real estate development	–	**100**	–	100
First Leisure Ventures Group Inc.	Real estate development	–	**50**	–	50
CHAS Realty and Development Corporation and Subsidiaries	Real estate development	–	**100**	–	100
Affluent Capital Enterprises Limited and Subsidiaries (Affluent) *[British Virgin Islands (BVI)]	Real estate development	–	**100**	–	100

(Forward)

Company	Principal Activities	Percentage of Ownership **2017** Direct		2016	
		Direct	**Indirect**	Direct	Indirect
Mega Make Enterprises Limited and Subsidiaries *[BVI]	Real estate development	–	**100**	–	100
Springfield Global Enterprises Limited *[BVI]	Real estate development	–	**100**	–	100
Simply Prestige Limited and Subsidiaries *[BVI]	Real estate development	–	**100**	–	100
SM Land (China) Limited and Subsidiaries *[Hong Kong]	Real estate development	–	**100**	–	100
Rushmore Holdings, Inc.	Real estate development	–	**100**	–	100
Prime_Commercial Property Management Corporation and Subsidiaries (PCPMC)	Real estate development	–	**100**	–	100
Mindpro Incorporated (Mindpro)	Real estate development	–	**70**	–	70
A Canicosa Holdings, Inc. (ACHI)	Real estate development	–	**100**	–	70
AD Canicosa Properties, Inc. (ADCPI)	Real estate development	–	**100**	–	70
Cherry Realty Development Corporation	Real estate development	–	**65**	–	–
Rappel Holdings, Inc. and Subsidiaries	Real estate development	–	**100**	–	100
Mountain Bliss Resort & Development Corporation and Subsidiary	Real estate development	**100**	–	100	–
Intercontinental Development Corporation (ICDC)	Real estate development	**97**	**3**	97	3
Prime Central Limited and Subsidiaries *[BVI]	Investment	**100**	–	100	–
Bellevue Properties, Inc.	Real estate development	**62**	–	62	–
Net Subsidiaries [(a)]	Real estate development	**90**	–	90	–
Nagtahan Property Holdings, Inc. (formerly AD Farming)	Real estate development	**100**	–	100	–
Retail					
SM Retail Inc. (SM Retail) and Subsidiaries	Retail	**77**	–	77	–
Others					
Primebridge Holdings, Inc.	Investment	**80**	**20**	80	20
Asia-Pacific Computer Technology Center, Inc.	Education	**52**	–	52	–
Multi-Realty Development Corporation (MRDC)	Investment	**91**	–	91	–
Henfels Investments Corp.	Investment	**99**	–	99	–
Belleshares Holdings, Inc. and Subsidiaries	Investment	**59**	**40**	59	40
Sto. Roberto Marketing Corp.	Investment	**100**	–	100	–

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

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

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

The summarized financial information of SM Prime follows:

Financial Position

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

Statements of Income

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

Cash Flows

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

3. Summary of Significant Accounting Policies, Changes and Improvements

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

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

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

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

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

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

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

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

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

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

Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

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

De-recognition of Financial Assets and Liabilities

Financial Assets. A financial asset is derecognized when:

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

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

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

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

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

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

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

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

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

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

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

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

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

Land and Development and Condominium and Residential Units for Sale
Land or development and condominium and residential units for sale are stated at the lower of cost or net realizable value. Cost includes those costs incurred for development and improvement of the properties. Net realizable value is the selling price in the ordinary course of business less costs to complete and the estimated cost to make the sale.

Land and development includes properties held for future development and properties being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation. Cost incurred for the development and improvement of the properties includes the following:

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

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

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

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

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

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

a. goodwill relating to an associate or joint venture is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's or joint venture's profits or losses; and,

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and,

- is not larger than an operating segment as defined in PFRS 8, *Operating Segments*, before aggregation.

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

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

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

Intangible Assets

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

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

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

Land Use Rights

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

Impairment of Nonfinancial Assets

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

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

Capital Stock

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

Revenue and Cost Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pension Benefits

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

Foreign Currency-denominated Transactions

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

Foreign Currency Translation

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

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

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

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

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

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2018

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

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

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

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

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

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

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

- PFRS 9, *Financial Instruments*

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

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

  The Group is assessing the impact of adopting PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers*

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

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

  The Group is assessing the impact of PFRS 15.

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

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

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

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

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

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

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

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

The Group is assessing the impact of adopting IFRIC 22.

Effective beginning on or after January 1, 2019

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

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

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

- PFRS 16, *Leases*

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

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

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

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

  The Group is assessing the impact of adopting PFRS 16.

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

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

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

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

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

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

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

  The Group is assessing the impact of adopting this interpretation.

Deferred effectivity

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

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

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

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

4. **Significant Accounting Judgments, Estimates and Assumptions**

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

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

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

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

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

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

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

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

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

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

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

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

Assessing of Control or Significant Influence of Investees

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

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

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

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

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

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

Impairment of AFS Investments - Calculation of Impairment Losses. The assessment for impairment of AFS debt instruments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. In the case of AFS equity instruments, the Group considers changes in the investee's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Group's investments. See Note 12 for related balances.

Net Realizable Value of Merchandise Inventories, Condominium and Residential Units for Sale, and Land and Development. The Group recognizes an allowance for impairment of value of merchandise inventories, condominium and residential units for sale, and land and development to value these assets at net realizable value. Impairment may be due to damage, physical deterioration, obsolescence, changes in price levels or other causes. See Notes 16 and 23 for related balances.

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

The allowance account is reviewed on a regular basis. In 2017 and 2016, the Group assessed that the net realizable value of merchandise inventories, condominium and residential units for sale and land and land development is higher than cost, hence, the Group did not recognize any impairment loss.

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

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

Impairment of Goodwill and Trademarks and Brand Names with Indefinite Useful Lives. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. Fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculations is based on a discounted cash flow model. The cash flows are derived from the forecast for the relevant period and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets. The recoverable amount is most sensitive to the pre-tax discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. See Note 17 for related balances.

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

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

Purchase Price Allocation in Business Combinations. The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Group's acquisitions have resulted in goodwill and separate recognition of trademarks and brand names. See Note 17 for related balances.

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of excess MCIT and NOLCO is based on the projected taxable income in future periods. Based on the projection, not all deductible temporary differences and carryforward benefits of excess MCIT and NOLCO will be realized. Accordingly, only a portion of the Group's deferred tax assets is recognized. See Note 27 for related balances.

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

The Group determines the appropriate discount rate at the reporting date. In determining the discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based on current market conditions. Management believes that the assumptions used are reasonable and appropriate. However, significant differences in actual experience or significant changes in assumptions would materially affect the Group's pension and other pension obligations. See Note 26 for related balances.

Fair Value of Financial Assets and Liabilities. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would directly affect profit or loss and OCI. See Note 30 for related balances.

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

5. Business Combination

SM Retail Merger

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

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

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

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

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

Under the pooling of interests method:

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

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

6. Segment Information

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

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

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

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

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

Operating Segment Financial Data

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

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

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

7. Cash and Cash Equivalents

This account consists of:

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

Cash in banks earn interest at the respective bank deposit rates. Temporary investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group. These investments earn interest at prevailing rates (see Note 25).

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

8. Time Deposits

This account consists of:

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

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

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

Interest earned from time deposits is disclosed in Note 25.

9. Investments Held for Trading and Sale

This account consists of:

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

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

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

10. **Receivables**

This account consists of:

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

The terms and conditions of these receivables follow:

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

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

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

- The terms and conditions relating to Due from related parties are discussed in Note 22.

The movements in allowance for impairment loss follow:

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

The aging analyses of receivables follow:

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

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

11. **Other Current Assets**

This account consists of:

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

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

- Advances and deposits pertain to downpayments made to suppliers or contractors to cover preliminary expenses of the contractors in construction projects. The amounts are noninterest-bearing and are recouped upon every progress billing payment depending on the percentage of project accomplishment.

- Non-trade receivables include interest-bearing advances to third parties which are normally collectible within the next financial year (see Note 25).

- Notes receivable pertains to the loan extended by the Parent Company to Atlas Consolidated Mining and Development Corporation (Atlas) on September 17, 2015 amounting to ₱981.4 million. The loan bears interest at 5.0%, payable quarterly, and is renewable for

90-day periods for a maximum of five years at the option of the Parent Company (see Note 25). This note was settled in March 2017.

- Receivables from banks are noninterest-bearing and are normally collectible on 30- to 90-day terms.
- Accrued interest receivable relates mostly to time deposits and is normally collected within the next financial year.
- Escrow fund pertains to amounts deposited with an escrow agent, a requisite for the issuance of temporary license to sell by the Housing and Land Use Regulatory Board (HLURB), pending issuance of a license to sell and certificate of registration. Amounts deposited include all amounts received from buyers including down payments, reservation and monthly amortization, among others (see Note 25).

12. Available-for-sale Investments

This account consists of:

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

- Unlisted shares of stock pertain to stocks of private corporations. These are classified as AFS investments and are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is no market for these investments and the Group intends to hold these for the long-term.
- Investments in bonds and corporate notes as at December 31, 2017 and 2016 bear fixed interest rates ranging from 5.0% to 7.5%. These investments will mature on various dates beginning April 2016 to October 2023. The fair value of these investments amounted to US$15.0 million (₱746.8 million) and ₱2,496.5 million as at December 31, 2017 and US$98.4 million (₱4,893.3 million) as at December 31, 2016.

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

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

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

Interest earned from AFS investments is disclosed in Note 25.

13. Investments in Associate Companies and Joint Ventures

The movements in this account follow:

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

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

The associate companies and joint ventures of the Group follow:

	Percentage of Ownership				
	2017		2016		
Company	**Gross**	**Effective**	Gross	Effective	Principal Activities
Associates					
BDO Unibank, Inc. (BDO)	**46**	**45**	46	44	Financial services
China Banking Corporation (China Bank)	**23**	**20**	23	20	Financial services
Belle Corporation (Belle)	**32**	**28**	32	28	Real estate development and tourism
Atlas Consolidated Mining and Development Corporation	**34**	**34**	29	29	Mining
Sodexo Benefits and Rewards Services Phils., Inc. (formerly Sodexo Motivation Solutions Philippines, Inc.)	**40**	**40**	40	40	Retail
Fast Retailing Philippines, Inc.	**25**	**19**	25	19	Retail
CityMall Commercial Centers, Inc.	**34**	**34**	34	34	Real estate development and tourism
Premium Leisure Corp. (PLC)	**5**	**5**	4	4	Gaming
OCLP Holdings, Inc. (OHI)	**40**	**20**	40	20	Real estate development
Feihua Real Estate (Chongqing) Company Ltd. (FHREC)	**50**	**25**	50	25	Real estate development
Fitness Health & Beauty Holdings, Corp.	**40**	**31**	40	31	Retail
Philippines Urban Living Solutions, Inc. (PULSI)	**61**	**61**	–	–	Real estate development
Negros Navigation Co., Inc. (NENACO)	**35**	**35**	–	–	Integrated supply chain
Net Associates [(a)]	**34**	**34**	–	–	Real estate development
Joint Ventures					
Waltermart Mall [(b)]	**51**	**25**	51	25	Shopping mall development
Metro Rapid Transit Services, Inc.	**51**	**25**	51	25	Transportation
ST 6747 Resources Corporation	**50**	**25**	50	25	Real estate development

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. Property and Equipment

The movements in this account follow:

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

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

15. **Investment Properties**

The movements in this account follow:

	Land and Improvements	Buildings and Improvements	Building Equipment, Furniture and Others	Construction in Progress	Total
			(In Thousands)		
Cost					
As at December 31, 2015	₱65,246,048	₱175,926,710	₱29,094,102	₱32,295,808	₱302,562,668
Effect of common control business combination (Note 5)	34,819	–	102,634	–	137,453
Additions	5,860,299	7,008,421	3,584,292	10,316,258	26,769,270
Reclassifications	(1,521,882)	21,479,585	354,248	(17,633,329)	2,678,622
Translation adjustment	(18,575)	(271,994)	(30,711)	(162,890)	(484,170)
Disposals	(199,387)	(10,535)	(29,063)	(354,798)	(593,783)
As at December 31, 2016	69,401,322	204,132,187	33,075,502	24,461,049	331,070,060
Effect of common control business combination (Note 5)	–	1,047	929	–	1,976
Additions	3,766,662	4,279,223	1,776,554	15,984,057	25,806,496
Reclassifications	(4,912,312)	11,291,893	1,166,605	(7,702,271)	(156,085)
Translation adjustment	75,699	2,459,685	193,841	215,945	2,945,170
Disposals	(11,538)	(162,144)	(46,326)	–	(220,008)
As at December 31, 2017	**₱68,319,833**	**₱222,001,891**	**₱36,167,105**	**₱32,958,780**	**₱359,447,609**
Accumulated Depreciation, Amortization and Impairment Loss					
As at December 31, 2015	₱1,666,642	₱34,608,274	₱16,704,250	₱–	₱52,979,166
Effect of common control business combination (Note 5)	20,972	89,402	–	–	110,374
Depreciation and amortization (Note 24)	205,701	5,367,781	2,471,626	–	8,045,108
Reclassifications	(53,910)	84,058	(67,645)	–	(37,497)
Translation adjustment	(5,838)	(42,624)	(13,615)	–	(62,077)
Disposals	(78,986)	(10,535)	(22,001)	–	(111,522)
As at December 31, 2016	1,754,581	40,096,356	19,072,615	–	60,923,552
Effect of common control business combination (Note 5)	–	527	769	–	1,296
Depreciation and amortization (Note 24)	207,478	6,320,224	2,667,722	–	9,195,424
Reclassifications	–	1,697	–	–	1,697
Translation adjustment	37,530	325,992	95,175	–	458,697
Disposals	(11,538)	(94,504)	(45,280)	–	(151,322)
As at December 31, 2017	**₱1,988,051**	**₱46,650,292**	**₱21,791,001**	**₱–**	**₱70,429,344**
Net Book Value					
As at December 31, 2017	**₱66,331,782**	**₱175,351,599**	**₱14,376,104**	**₱32,958,780**	**₱289,018,265**
As at December 31, 2016	67,646,741	164,035,831	14,002,887	24,461,049	270,146,508

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

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

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

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

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

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

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

The significant assumptions used in the valuations follow:

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

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

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

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

Condominium and Residential Units for Sale

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

The movements in this account follow:

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

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

The movements in this account follow:

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

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

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

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

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

17. Intangibles and Other Noncurrent Assets

Intangible Assets
This account consists of:

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

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

Trademarks and brand names include the following:

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

b. Rights, title and interest in the trademark of Cherry Foodarama, Inc. that was acquired in 2015 and assessed to have a definite useful life of 20 years.

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

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

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

Pre-tax discount rates. Discount rates reflect the current market assessment of the risks to each CGU and are estimated based on the average percentage of weighted average cost of capital for the industry. The rates are further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted. Pre-tax discount rates applied to cash flow projections ranged from 13.4% to 14.4% and 11.6% to 12.3% as at December 31, 2017 and 2016, respectively.

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

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

Other Noncurrent Assets
This account consists of:

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

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

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

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

- Escrow fund pertains mainly to funds deposited by the Parent Company in the account of an escrow agent as required by the SEC in connection with the corporate restructuring in 2013. The escrow fund also includes deposits made by SMDC for payments of liability arising from acquisition of land (see Note 11).

18. Bank Loans

This account consists of:

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

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

These loans have maturities of less than one year.

Interest on bank loans is disclosed in Note 25.

19. **Accounts Payable and Other Current Liabilities**

This account consists of:

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

The terms and conditions of the above liabilities follow:

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

20. **Long-term Debt**

This account consists of:

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

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

Subsidiaries

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

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

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

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

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

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

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

21. **Equity**

Capital Stock

a. Common stock

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

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

- Increase in authorized capital stock from ₱12,000.0 million, consisting of 1,190.0 million common shares and 10.0 million redeemable preferred shares both with a par value of ₱10 per share, to ₱28,000.0 million, consisting of 2,790.0 million common shares and 10.0 million redeemable preferred shares both with a par value of ₱10 per share.
- Declaration of 50% stock dividends in favor of stockholders on record to be fixed by the Philippine SEC.

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

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

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

As at December 31, 2017 and 2016, the Parent Company is compliant with the minimum public float as required by the PSE.

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

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

The total number of shareholders of the Parent Company is 1,252 and 1,244 as at December 31, 2017 and 2016, respectively.

b. Redeemable preferred shares

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

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

Equity Adjustments from Common Control Transactions

Equity adjustments from common control transactions include the following:

- Acquisition of various SM China Companies by SM Prime in 2007.
- Acquisition of various service companies by SM Retail in 2009.
- Corporate restructuring to consolidate the Group's real estate subsidiaries and real estate assets in SM Prime in 2013.

- Merger of SM Retail with other retail affiliates in 2016 (see Note 5).
- SM Prime common control business acquisition in 2016 (see Note 5).

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

Retained Earnings

a. Appropriated

Following are the appropriations approved by the BOD:

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

Retained earnings appropriated as at December 31, 2017 is intended for the payment of certain long-term debts and new investments as follows:

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

b. Unappropriated

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

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

Unappropriated retained earnings include the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱176,587.5 million and ₱154,730.7 million as at December 31, 2017 and 2016, respectively, that is not available for distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

22. **Related Party Disclosures**

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

The significant transactions with related parties follow:

a. Rent

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

b. Management and Service Fees

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

c. Dividend Income

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

d. Cash Placements and Loans

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

e. Notes Receivable

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

f. Others

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

The related party transactions and outstanding balances follow:

	Transaction Amount			Outstanding Amount			
	2017	2016	2015	**2017**	2016	Terms	Conditions
			(In Thousands)				
Banking Group							
Cash placement and investment in marketable securities				**₱98,656,653**	₱130,427,891	Interest-bearing 0.5% to 4.9%	Unsecured; no impairment
Interest receivable				**329,829**	431,533	–	–
Interest income	**₱2,587,312**	₱2,401,642	₱2,407,497			–	–
Interest-bearing debt				**24,493,678**	9,831,165	Interest-bearing 1.8% to 5.3%	Unsecured
Interest payable				**59,429**	36,915	–	–
Interest expense	**984,569**	535,828	462,322			–	–
Rent receivable				**112,099**	110,669	Noninterest-bearing	Unsecured; no impairment
Rent income	**856,149**	769,720	679,691			–	–
Receivable financed	**4,923,847**	3,297,217	2,842,481			Without recourse	Unsecured
Dividend receivable				**–**	2,162	Noninterest-bearing	Unsecured; no impairment
Deposits and advance rentals				**17,475,500**	–	Interest-bearing 4.3%	No impairment
Management and service fee receivable				**23,933**	31,905	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**7,892**	4,368	6,793			–	–
Escrow fund				**183,341**	339,974	Interest-bearing 1.4% to 1.6%	Unsecured; no impairment
Retail and Other Entities							
Rent receivable				**507,849**	471,477	Noninterest-bearing	Unsecured; no impairment
Rent income	**1,746,184**	1,516,273	1,253,185			–	–
Management and service fee receivable				**275,148**	218,757	Noninterest-bearing	Unsecured; no impairment
Management and service fee income	**489,437**	393,564	279,110			–	–
Dividend receivable				**–**	24,000	Noninterest-bearing	Unsecured; no impairment
Dividend income	**–**	–	86,790			–	–
Due from related parties				**655,580**	631,342	Noninterest-bearing	Unsecured; no impairment
Due to related parties				**828,679**	708,767	Noninterest-bearing	Unsecured
Interest receivable				**8,888**	35,760	–	–
Interest income	**366,183**	316,633	53,882			–	–
Notes receivable				**6,399,410**	7,857,563	Interest-bearing 5.0% to 10.0%	Unsecured; no impairment

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

Compensation of Key Management Personnel
The aggregate compensation and benefits relating to key management personnel for the years ended December 31, 2017, 2016 and 2015 consist of short-term employee benefits amounting to ₱2,043.7 million, ₱1,740.2 million and ₱1,482.7 million, respectively, and post-employment benefits amounting to ₱279.9 million, ₱196.7 million and ₱156.3 million, respectively.

23. Cost of Merchandise Sales

This account consists of:

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

24. Selling, General and Administrative Expenses

This account consists of:

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

25. Interest Income and Interest Expense

The sources of interest income and interest expense follow:

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

26. Pension Benefits

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

<u>Net benefit expense (included under “Selling, general and administrative expenses”)</u>

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

Changes in the net defined benefit liability and asset

a. Net Defined Benefit Liability

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Amount not Recognized due to Asset Limit	Defined Benefit Liability (Asset)
			(In Thousands)	
As at December 31, 2015	₱1,077,678	₱909,439	₱–	₱168,239
Net benefit expense (Note 24):				
Current service cost	257,285	–	–	257,285
Net interest cost (income)	135,549	136,016	414	(53)
	392,834	136,016	414	257,232
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	–	(113,826)	–	113,826
Actuarial changes arising from:				
Changes in financial assumptions	(410,880)	–	–	(410,880)
Changes in demographic assumptions	7,708	–	–	7,708
Experience adjustment	783,793	–	–	783,793
Others	–	–	(8,615)	(8,615)
	380,621	(113,826)	(8,615)	485,832
Reclassifications from defined benefit assets	1,624,035	1,843,862	–	(219,827)
Actual contributions	–	104,221	–	(104,221)
Benefits paid	(247,337)	(247,111)	–	(226)
Transfer to (from) related parties	36,790	37,617	–	(827)
Other adjustments	–	–	8,201	8,201
As at December 31, 2016	3,264,621	2,670,218	–	594,403
Net benefit expense (Note 24):				
Current service cost	**338,845**	**–**	**–**	**338,845**
Net interest cost	**212,424**	**186,646**	**34**	**25,812**
	551,269	**186,646**	**34**	**364,657**
Re-measurements in other comprehensive income:				
Return on plan assets (excluding amount included in net interest)	**–**	**(51,791)**	**–**	**51,791**
Actuarial changes arising from:				
Changes in financial assumptions	**28,914**	**–**	**–**	**28,914**
Changes in demographic assumptions	**(15,578)**	**–**	**–**	**(15,578)**
Experience adjustment	**81,964**	**–**	**–**	**81,964**
Others	**4,078**	**–**	**(3,878)**	**200**
	99,378	**(51,791)**	**(3,878)**	**147,291**
Reclassifications from defined benefit assets	**330,208**	**384,068**	**–**	**(53,860)**
Actual contributions	**–**	**437,767**	**–**	**(437,767)**
Benefits paid	**(106,635)**	**(104,634)**	**–**	**(2,001)**
Transfer to related parties	**15,737**	**15,815**	**–**	**(78)**
Other adjustments	**–**	**–**	**3,844**	**3,844**
As at December 31, 2017	**₱4,154,578**	**₱3,538,089**	**₱–**	**₱616,489**

b. Net Defined Benefit Asset

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

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

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

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

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

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

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

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

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

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

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

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

The maturity analysis of the undiscounted benefit payments follows:

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

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

27. **Income Tax**

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

	2017	2016
	(In Thousands)	
Deferred tax assets:		
Excess of fair values over cost of investment properties	**₱1,184,476**	₱1,201,539
NOLCO	**563,576**	614,549
Accrued leases	**528,557**	528,960
Provision for doubtful accounts and others	**584,524**	332,046
Deferred rent expense	**114,973**	208,304
Unamortized past service cost and defined benefit liability	**139,653**	157,994
MCIT	**8,370**	13,963
	3,124,129	3,057,355

(Forward)

	2017	2016
	(In Thousands)	
Deferred tax liabilities:		
Appraisal increment on investment property	**₱3,162,858**	₱3,275,167
Trademarks and brand names	**1,879,000**	1,879,000
Capitalized interest	**1,840,286**	1,711,078
Unrealized gross profit on sale of real estate	**1,356,190**	1,063,613
Unamortized past service cost and defined benefit asset	**154,416**	261,941
Accrued/deferred rent income	**127,105**	174,436
Others	**144,039**	52,770
	8,663,894	8,418,005
Net deferred tax liabilities	**₱5,539,765**	₱5,360,650

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

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

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

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

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

28. **Lease Agreements**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest Rate Risk

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

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

As at December 31, 2017 and 2016, after taking into account the effect of the swaps, approximately 83.1% and 76.9%, respectively of the Group's borrowings is kept at fixed interest rates.

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

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

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

Foreign Currency Risk

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

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

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

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

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

	U.S. Dollar to Peso
December 31, 2017	**₱49.93**
December 31, 2016	49.72
December 31, 2015	47.06

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

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

Liquidity Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Equity Price Risk</u>

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

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

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

Capital Management

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

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

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

Net Gearing Ratio

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

Gross Gearing Ratio

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

30. **Financial Instruments**

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

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

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

			2016		
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Assets Measured at Fair Value					
Financial assets at FVPL -					
Derivative assets	₱6,757,361	₱6,757,361	₱–	₱6,757,361	₱–
Assets for which Fair Values are Disclosed					
Loans and receivables:					
Time deposits - noncurrent portion	42,041,227	45,124,026	–	–	45,124,026
Receivables - net (including noncurrent portion of receivables from real estate buyers)	41,873,329	41,496,950	–	–	41,496,950
Long-term notes (included under "Other noncurrent assets" account in the consolidated balance sheet)	6,876,128	7,160,804	–	–	7,160,804
	90,790,684	93,781,780	–	–	93,781,780
	₱97,548,045	₱100,539,141	₱–	₱6,757,361	₱93,781,780
Liabilities Measured at Fair Value					
Financial liabilities at FVPL -					
Derivative liabilities	₱9,931	₱9,931	₱–	₱9,931	₱–
Liabilities for which Fair Values are Disclosed					
Other Financial Liabilities:					
Long-term debt (noncurrent portion and net of unamortized debt issue cost)	280,254,227	290,118,678	–	–	290,118,678
Tenants' deposits and others*	21,518,256	20,841,472	–	–	20,841,472
	301,772,483	310,960,150	–	–	310,960,150
	₱301,782,414	₱310,970,081	₱–	₱9,931	₱310,960,150

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

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

The estimated fair value of the following financial instruments is based on the discounted value of future cash flows using the prevailing interest rates. Discount rates used follow:

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

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

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

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

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

Cross-currency swaps:

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

Principal only and interest rate swaps:

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

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

Other Derivative Instruments Not Designated as Accounting Hedges

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

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

31. EPS Computation

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

32. Change in Liabilities Arising From Financing Activities

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

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

33. Reclassification

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

SGV
Building a better working world

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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 ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
SM Investments Corporation
10th Floor, One E-Com Center
Harbor Drive, Mall of Asia Complex
CBP-1A, Pasay City 1300

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SM Investments Corporation and Subsidiaries as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and have issued our report thereon dated February 28, 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 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.

Julie Christine O. Mateo

Julie Christine O. Mateo
Partner
CPA Certificate No. 93542
SEC Accreditation No. 0780-AR-2 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 198-819-116
BIR Accreditation No. 08-001998-68-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621309, January 9, 2018, Makati City

February 28, 2018

SGVFS027101

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE A – FINANCIAL ASSETS
AS AT DECEMBER 31, 2017
(Amounts in Thousands Except Per Share Data)

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Temporary investments:				
BDO Unibank, Inc.		₱42,913,337	₱–	₱613,789
China Banking Corporation		9,992,337	–	39,692
Others		11,768,578	–	479,702
		64,674,252	–	1,133,183
Time deposits – current		13,237,886	–	470,031
Investments held for trading and sale:				
Bonds and Corporate Notes		706,626	706,625	48,606
Shares of Stock:				
Common shares:				
Shang Properties, Inc.	189,550,548 shares	593,293	593,293	13,269
Republic Glass Holdings Corporation	14,350,000 shares	37,310	37,310	1,076
PICOP Resources, Inc.	40,000,000 shares	8,200	8,200	–
Export and Industry Bank, Inc.	7,829,000 shares	2,036	2,036	–
Benguet Corporation	266,757 shares	461	461	–
		641,300	641,300	14,345
Total Current Financial Assets		**₱79,260,064**	**₱1,347,925**	**₱1,666,165**

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Available-for-sale investments – noncurrent:				
Shares of Stock				
Listed:				
Ayala Corporation	20,987,551 shares	₱21,302,364	₱21,302,364	₱140,257
Manila Electric Company	105,490 shares	7,613	7,613	–
Philippine Long Distance Telephone Company	292,531 shares	2,874	2,874	3
Philippine Bank of Communications	13,431 shares	322	322	–
Prime Media Holdings, Inc.	500,000 shares	575	575	–
The Philippine Stock Exchange, Inc.	3,595,639 shares	938,801	938,801	25,169
Unlisted:				
Ace Hardware International Holdings, Inc.	10,182 shares	47,997	47,997	–
Allfirst Equity Holdings, Inc.	95,000 shares	9,500	9,500	–
Heavenly Garden Development Corp.	25,000 shares	2,500	2,500	–
SM Insurance Brokers Services, Inc.	129,390 shares	150	150	–
Mutual Development Center, Inc.	4,633 shares	1,259	1,259	–
Manila North Tollways Corporation	732,600 shares	468,415	468,415	148,500
Wave Computing	4,764,700 shares	249,650	249,650	–
		23,032,020	23,032,020	313,929

(Forward)

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet	Value Based on Market Quotations at Balance Sheet Date	Interest and Dividend Income Received and Accrued
Bonds and corporate notes -		₱2,536,671	₱2,536,671	₱170,045
Club Shares				
Cebu Golf & Country Club	1 share	5,000	5,000	–
Baguio Country Club	1 share	2,400	2,400	–
Country Club of Tagaytay Highlands	5 shares	6,350	6,350	–
Mimosa Golf & Country Club, Inc.	1 share	400	400	–
Camp John Hay	2 shares	340	340	–
Subic Bay Yacht Club	1 share	300	300	–
Splendido Taal Golf Club	1 share	80	80	–
Calatagan Golf Club	1 share	50	50	–
Cresta del Mar	1 share	35	35	–
Ridge Resort	1 share	15	15	–
Tagaytay Midlands Golf Club	11 shares	6,500	6,500	–
		21,470	21,470	–
		25,590,161	**25,590,161**	**483,974**
Time Deposits – noncurrent		**26,688,721**	**–**	**1,497,598**
Total Noncurrent Financial Assets		**₱52,278,882**	**₱25,590,161**	**₱1,981,572**

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE C – 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 year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Accounts receivable – Tenants							
Sanford Marketing Corporation	₱56,873	₱430,516	₱424,413	₱–	₱62,976	₱–	₱62,976
Mainstream Business, Inc.	84,310	373,069	369,523	–	87,856	–	87,856
Market Strategic Firm, Inc.	87,710	333,679	335,012	–	86,377	–	86,377
Major Shopping Management Corporation	49,344	231,550	223,411	–	57,483	–	57,483
Metro Main Star Asia Corp.	73,820	294,559	291,035	–	77,344	–	77,344
Meridien Business Leader, Inc.	58,960	223,126	219,022	–	63,064	–	63,064
Madison Shopping Plaza, Inc.	71,070	277,563	271,125	–	77,508	–	77,508
Multi Stores Corporation	27,206	150,646	151,763	–	26,089	–	26,089
Mandurriao Star, Inc.	83,680	332,125	330,736	–	85,069	–	85,069
Metro Manila Shopping Mecca Corp.	62,836	265,265	258,489	–	69,612	–	69,612
Mercantile Stores Group, Inc.	84,273	334,230	330,279	–	88,224	–	88,224
Mindanao Shopping Destination Corp.	19,981	75,179	75,725	–	19,435	–	19,435
Manila Southern Associates, Inc.	71,343	284,209	281,192	–	74,360	–	74,360
My Shoppinglane Cebu Corp.	18,359	54,952	53,167	–	20,144	–	20,144
Mindanao Shoppers Daily Destination Corp.	21,220	78,081	76,544	–	22,757	–	22,757

(Forward)

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
SM Mart, Inc.	₱79,198	₱546,964	₱522,941	₱–	₱103,221	₱–	₱103,221
Supervalue, Inc.	434,092	3,188,508	3,132,447	–	490,153	–	490,153
Super Shopping Market, Inc.	236,237	1,793,532	1,776,763	–	253,006	–	253,006
Waltermart Supermarket	–	10,274	10,274	–	–	–	–
SM Retail, Inc.	7,594	119,618	119,822	–	7,390	–	7,390
Accessories_Management Corp.	335	2,341	2,339	–	337	–	337
CF_Mgt. Corp.	437	3,031	3,029	–	439	–	439
LF_Mgt. Corp.	526	3,596	3,582	–	540	–	540
Shoemart, Inc. (formerly LTBG_Mgmt. Corp.)	459	10,296	8,760	–	1,995	–	1,995
MF_Mgt. Corp.	438	3,329	3,327	–	440	–	440
MCLG_Mgmt. Corp.	221	1,533	1,531	–	223	–	223
Masters Shoppers Venue, Inc.	–	19,640	8,910	–	10,730	–	10,730
Main Shopping Princess Phils., Inc.	–	4,375	–	–	4,375	–	4,375
Miniso Philippines, Inc.	–	4,140	–	–	4,140	–	4,140
Mini Depato Corp.	–	26,122	4,252	–	21,870	–	21,870
MLC Shoes and Bags	–	1,593	1,115	–	478	–	478
Forever Agape and Glory, Inc.	32,429	198,381	201,548	–	29,262	–	29,262
Ace Hardware Philippines, Inc.	139,324	1,206,085	1,213,515	–	131,894	–	131,894
CK Fashion Collection Corp.	–	253	216	–	37	–	37
Homeworld Shopping Corporation	38,074	286,267	288,889	–	35,452	–	35,452
International Toy World, Inc.	51,430	283,701	289,278	–	45,853	–	45,853

(Forward)

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Kultura Store, Inc.	8,712	86,011	83,398	–	11,325	–	11,325
Nursery Care Corporation	5,437	37,938	39,070	–	4,305	–	4,305
Signature Lines, Inc.	3,637	29,384	28,568	–	4,453	–	4,453
Sports Central (Manila), Inc.	17,948	127,498	125,376	–	20,070	–	20,070
Star Appliance Center, Inc.	102,441	874,336	869,183	–	107,594	–	107,594
Supplies Station, Inc.	99	5,254	3,573	–	1,780	–	1,780
Premium Global Essences Stores Inc	4,146	35,213	33,807	–	5,552	–	5,552
Walk EZ Retail Corp.	5,482	29,706	31,398	–	3,790	–	3,790
Costa del Hamilo, Inc.	236	4,045	4,176	–	105	–	105
Summerhills Home Development Corp.	–	4,359	4,359	–	–	–	–
Manila Southcoast Development Corp.	109	946	928	–	127	–	127
SM Prime Holdings, Inc.	–	84,251	74,648	–	9,603	–	9,603
SM Hotels and Conventions Corp.	–	7,144	6,528	–	616	–	616
Highlands Prime, Inc.	341	4,583	4,352	–	572	–	572
Intercontinental Development Corp.	–	3,554	–	–	3,554	–	3,554
SM Investments Corporation	7,787	55,164	57,835	–	5,116	–	5,116
Total Accounts Receivable-Tenants	₱2,048,154	₱12,841,714	₱12,651,173	₱–	₱2,238,695	₱–	₱2,238,695

Name and Designation of Debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
<u>Due From Related Parties</u>							
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	₱518,577	₱1,199,285	₱–	₱–	₱1,717,862	₱–	₱1,717,862
Intercontinental Development Corporation	406,423	8,629	290,052	–	125,000	–	125,000
Mountain Bliss Resort and Development Corp. and a subsidiary	979,317	637,118	637,118	–	979,317	–	979,317
Manila Southcoast Development Corp.	2,204,468	140,299	–	–	2,344,767	–	2,344,767
SM Prime Holdings, Inc.	–	9,163	–	–	9,163	–	9,163
Multi Realty Development Corporation	10,108,839	1,375,000	–	–	11,483,839	–	11,483,839
Tagaytay Resort Development Corporation	–	–	–	–	–	–	–
Prime Central Limited	–	3,542,760	–	–	3,542,760		3,542,760
Sto. Roberto Marketing Corp.	12,500	–	–	–	12,500	–	12,500
Total Due From Related Parties	₱14,230,124	₱6,912,254	₱927,170	₱–	₱20,215,208	₱–	₱20,215,208

Schedule C

Accounts receivable–management and service fees	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Sanford Marketing Corporation	₱1,980	₱226,741	₱228,980	₱–	(₱259)	₱–	(₱259)
Mainstream Business, Inc.	–	161,701	161,701	–	–	–	–
Market Strategic Firm, Inc.	–	148,199	148,199	–	–	–	–
Major Shopping Management Corporation	–	110,959	110,959	–	–	–	–
Metro Main Star Asia Corp.	–	113,917	113,917	–	–	–	–
Meridien Business Leader, Inc.	3,195	76,848	80,043	–		–	
Madison Shopping Plaza, Inc.	–	114,708	114,708	–	–	–	–
Multi Stores Corporation	–	67,459	67,459	–	–	–	–
Mandurriao Star, Inc.	–	144,891	144,891	–	–	–	–
Metro Manila Shopping Mecca Corp.	–	99,945	99,945	–	–	–	–
Mercantile Stores Group, Inc.	–	150,728	150,728	–	–	–	–
My Shopping Lane Cebu Corp.	–	299	299	–		–	
Mindanao Shopping Destination Corp.	–	33,899	33,899	–	–	–	–
Mindanao Shoppers Daily Destination	–	21,867	(8,868)	–	30,735	–	30,735
Masters Shoppers Venue, Inc.	–	187	187	–	–	–	–
Main Shopping Princess Phils., Inc.	–	71	71	–	–	–	–
Accessories Management Corp.	–	7,198	7,198	–	–	–	–
Manila Southern Associates, Inc.	–	123,975	111,656	–	12,319	–	12,319
SM Mart, Inc.	–	284,342	284,342	–	–	–	–
Supervalue, Inc.	879	250,869	251,574	–	174	–	174
Super Shopping Market, Inc.	3,132	171,151	172,141	–	2,142	–	2,142

(Forward)

Accounts receivable–management and service fees	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Current
Ace Hardware Philippines, Inc.	–	1,293	1,293	–	–	–	–
CK Fashion Collection Corp.	–	38	38	–	–	–	–
Homeworld Shopping Corporation	–	780	780	–	–	–	–
International Toy World, Inc.	–	371	371	–	–	–	–
Kultura Store, Inc.	–	90	90	–	–	–	–
Nursery Care Corporation	–	234	234	–	–	–	–
Signature Lines, Inc.	–	117	117	–	–	–	–
Sports Central (Manila), Inc.	–	194	194	–	–	–	–
Supplies Station, Inc.	–	149	149	–	–	–	–
Star Appliance Center, Inc.	138,912	455,822	446,702	–	148,032	–	148,032
Premium Global Essences Stores Inc.	–	82	82	–	–	–	–
Walk EZ Retail Corp	–	92	92	–	–	–	–
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	6,862	–	–	–	6,862	–	6,862
SM Prime Holdings, Inc	18	5,157	5,175	–	–	–	–
Intercontinental Development Corp.	–	5,111	5,111	–	–	–	–
SM Development Corporation and Subsidiaries	–	221	221	–	–	–	–
SM Investments Corporation	34,726	50,734	81,060	–	4,400	–	4,400
Accounts receivable–management and service fees	₱189,704	₱2,830,439	₱2,815,738	₱–	₱204,405	₱–	₱204,405

Dividends Receivable	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of year
Multi-Realty Development Corporation	₱970,455	₱454,545	₱1,379,545	₱–	₱45,455	₱–	₱45,455
SM Retail, Inc	8,120,944	6,954,165	7,734,603	–	7,340,506	–	7,340,506
SM Prime Holdings, Inc.	–	3,731,901	3,731,901	–	–	–	–
Belleshares Holdings, Inc. (formerly SM Commercial Properties, Inc.)	1,188,000	247,500	1,435,500	–	–	–	–
Henfels Investments Corporation	–	2,970	2,970		–		–
Sto Roberto Marketing Corporation	194,000	286,000	480,000	–	–	–	–
Net Group	–	855,000	855,000	–	–	–	–
SM Investments Corporation	–	1,135	1,135	–	–	–	–
Total Dividends Receivable	₱10,473,399	₱12,533,216	₱15,620,654	₱–	₱7,385,961	₱–	₱7,385,961

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS – Other Assets
AS AT DECEMBER 31, 2017
(Amounts in Thousands)

Description	Balance at beginning of year	Additions at Cost	Charged to Cost and Expenses	Other changes Additions (Deductions)	Charged to Other Accounts	Balance at end of year
Goodwill	₱17,306,871	₱–	₱–	₱–	₱–	₱17,306,871
Trademarks and brand names	8,404,896	–	(120,535)	–	–	8,284,361
Total Intangible Assets	**₱25,711,767**	**₱–**	**(₱120,535)**	**₱–**	**₱–**	**₱25,591,232**

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
AS AT DECEMBER 31, 2017

Title of Issue	Number of Shares Authorized	Number of Shares Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held by Affiliates	Directors, Officers and Principal Stockholders	Others
Common Stock	2,790,000,000	1,204,582,867	–	98,538,381	572,472,516	533,571,970

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
COMPUTATION OF PUBLIC OWNERSHIP
AS AT DECEMBER 31, 2017

	"% to total I/O shares"	Number of Shares	Total
Number of Shares Issued and Outstanding (I/O)			**1,204,582,867**
Directors:			
Teresita T. Sy			
Direct	7.07%	85,127,731	
Indirect	0.03%	312,777	
Henry Sy, Jr.			
Direct	7.17%	86,375,415	
Indirect	0.09%	1,127,593	
Harley T. Sy			
Direct	7.21%	86,792,438	
Indirect	0.07%	812,333	
Jose T. Sio			
Direct	0.00%	21	
Frederick C. DyBuncio			
Indirect	0.00%	10	
Tomasa H. Lipana			
Direct	0.00%	150	
Alfredo E. Pascual			
Indirect	0.00%	100	
Joseph R. Higdon			
Direct	0.00%	187	
Subtotal	**21.64%**	**260,548,755**	

(Forward)

	"% to total I/O shares"	Number of Shares	Total
Officers -			
Franklin C. Gomez			
Indirect	0.00%	4,500	
Cecilia R. Patricio			
Direct	0.00%	130	
Atty. Arthur A. Sy			
Indirect	0.00%	4,843	
Wilson H. Go			
Indirect	0.00%	243	
Subtotal	**0.00%**	**9,716**	
Principal Stockholders:			
Henry Sy, Sr.			
Indirect	0.40%	4,773,825	
Felicidad T. Sy			
Direct	3.18%	38,283,090	
Indirect	0.02%	312,169	
Hans T. Sy			
Direct	6.27%	75,526,898	
Indirect	1.93%	23,242,238	
Herbert T. Sy			
Direct	8.17%	98,440,231	
Indirect	0.02%	312,777	
Elizabeth T. Sy			
Direct	5.82%	70,084,482	
Indirect	0.08%	938,335	
Subtotal	**25.89%**	**311,914,045**	

	"% to total I/O shares"	Number of Shares	Total
Affiliates:			
Multi-Realty Development Corporation			
Indirect	0.00%	1,648	
SM Prime Holdings, Inc.			
Indirect	0.01%	146,104	
Belle Corporation			
Direct	0.00%	48,877	
Syntrix Holdings, Inc.			
Direct	3.89%	46,875,000	
Sysmart Corporation			
Direct	2.40%	28,925,745	
Indirect	0.00%	41,007	
Tansmart Corporation			
Direct	1.87%	22,500,000	
Subtotal	**8.17%**	**98,538,381**	
Total Shares held by Directors, Officers, Principal Stockholders and Affiliates	**55.70%**		**671,010,897**
Total Number of Shares Owned by the Public	**44.30%**		**533,571,970**

SM INVESTMENTS CORPORATION AND SUBSIDIARIES
FINANCIAL RATIOS - KEY PERFORMANCE INDICATORS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

			2017	2016
i.	Current ratio	Current assets / Current liabilities	1.21 : 1	1.62 : 1
ii.	Debt-to-equity ratio	Total interest-bearing debt / Total equity attributable to equity holders of the parent + Total interest-bearing debt	52 : 48	52 : 48
	Net debt-to-equity ratio	Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available-for-sale / Total equity attributable to equity holders of the parent + Total interest-bearing debt less cash and cash equivalents (excluding cash on hand), time deposits, investments in bonds held for trading and available-for-sale	43 : 57	37 : 63
iii.	Asset to equity ratio	Total assets / Total equity	2.12	2.08
iv.	Interest rate coverage ratio	Income from operations + Depreciation and amortization / Interest expense	5.96	6.66
v.	Return on assets	Net income attributable to equity holders of the parent / Average assets	5.5%	5.9%
	Return on equity	Net income attributable to equity holders of the parent / Average equity attributable to equity holders of the parent	10.4%	10.7%

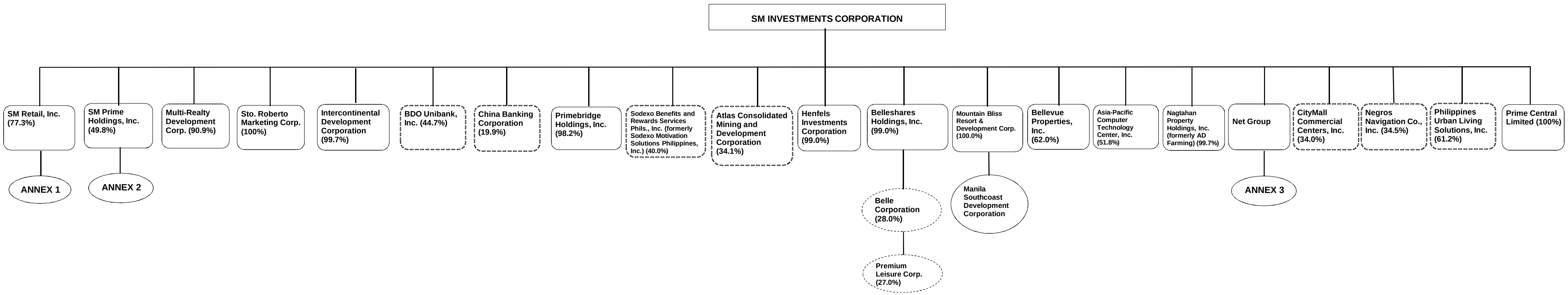
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As at December 31, 2017
(Amounts in Thousands)

SM Investments Corporation

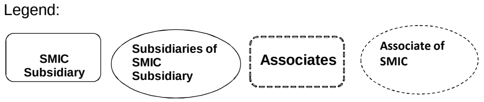
10th Floor, One E-Com Center, Harbor Drive,
Mall of Asia Complex, CBP-1A, Pasay City 1300

Unappropriated RE, December 31, 2016			**₱15,444,512**
Adjustments to beginning unappropriated RE:			
Rental income from straight-line amortization in excess of rental collections		(₱368,312)	
Actuarial loss at January 1, 2013 recorded as retirement expense		48,548	(319,764)
Unappropriated RE, as adjusted to available for dividend distribution, beginning			**15,124,748**
Net income during the period closed to Retained Earnings		11,066,595	
Less:	Rental income from straight-line amortization in excess of rental collections	103,161	
Net income actually earned/realized during the period			**11,169,756**
Add (Less):	Cash dividends declared during the period		(9,359,609)
	Appropriations of Retained Earnings during the period		(28,800,000)
	Reversals of appropriations		27,800,000
Unappropriated RE, as adjusted to available for dividend distribution, ending			**₱15,934,895**

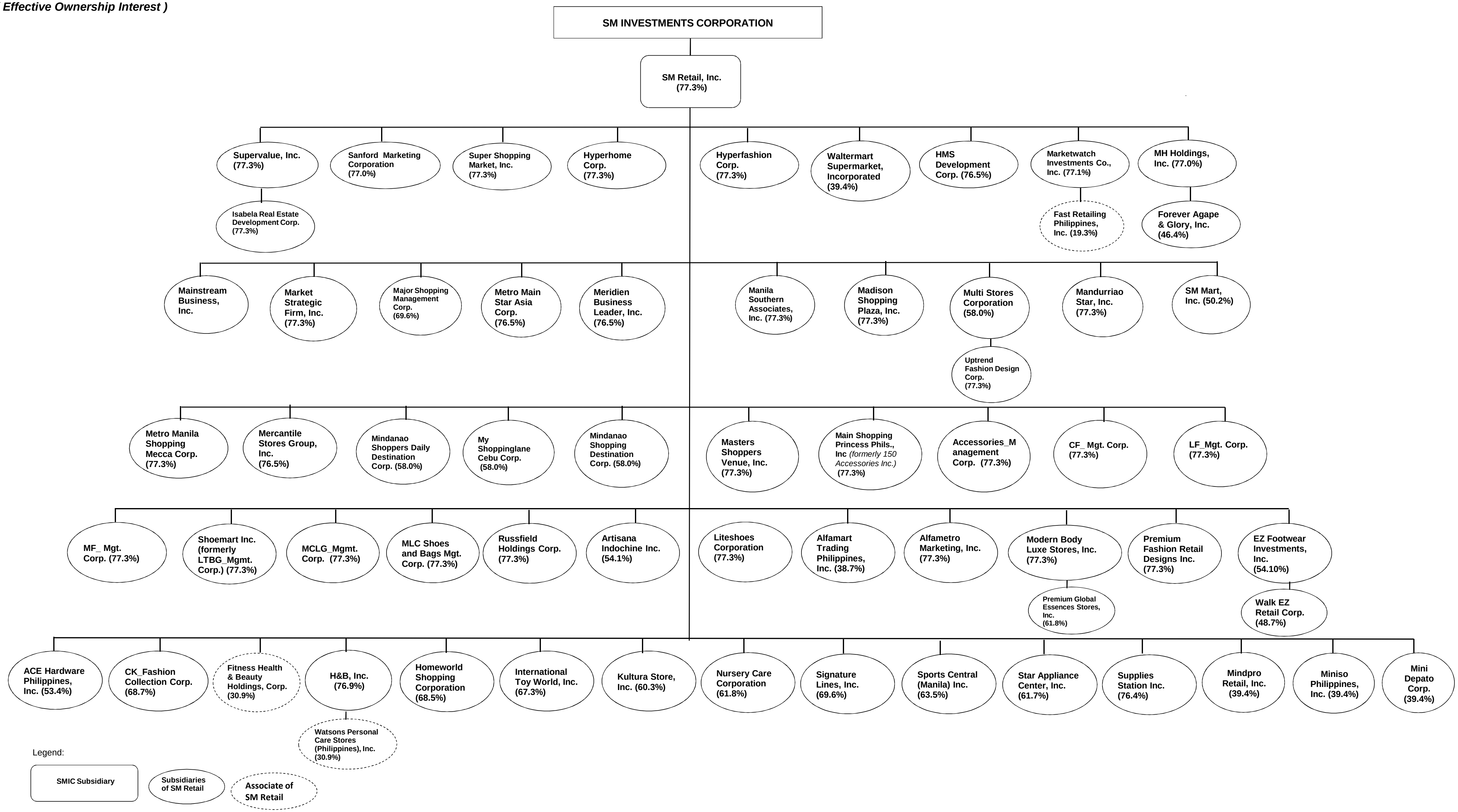
SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2017
(Effective Ownership Interest)



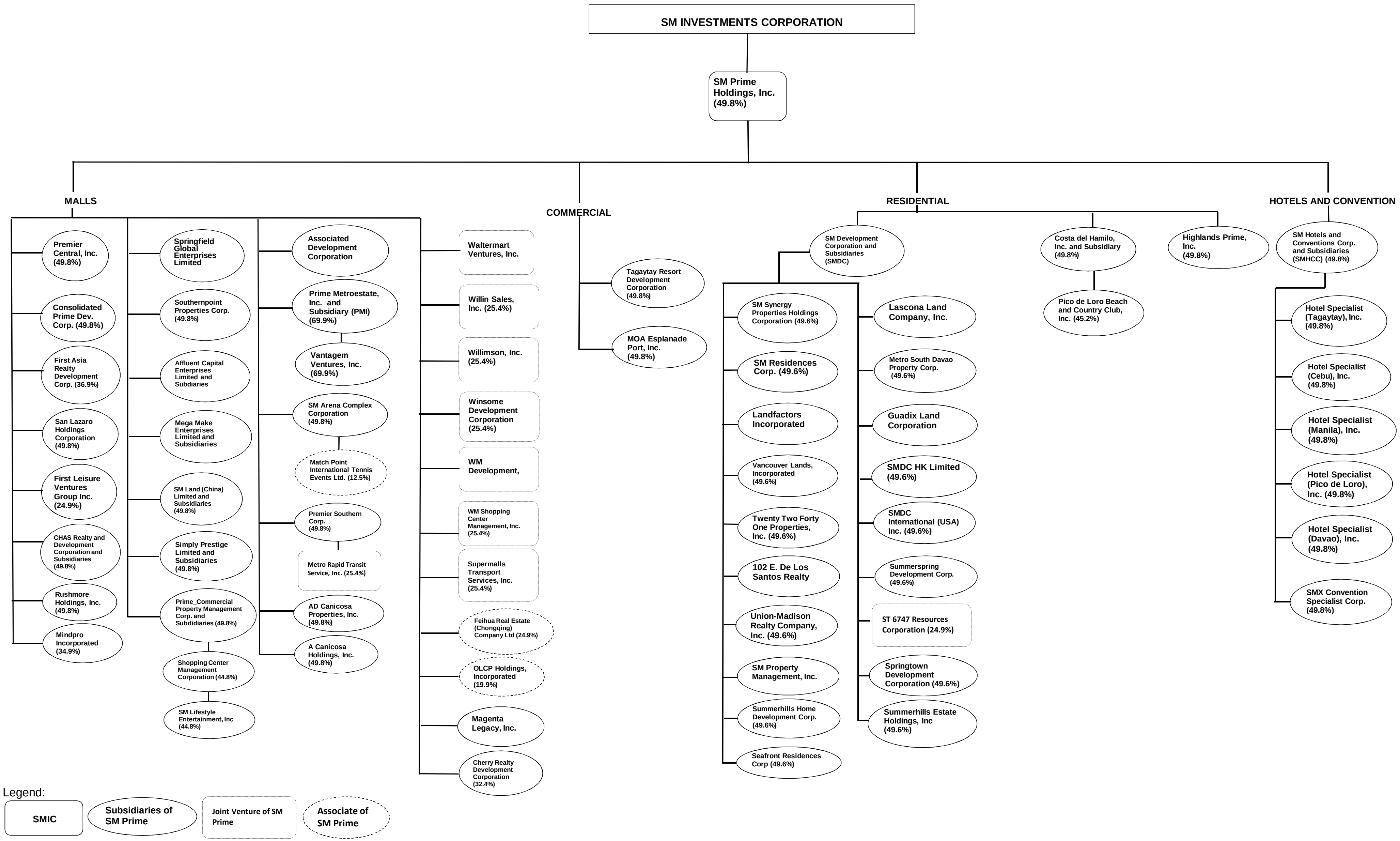
Legend:



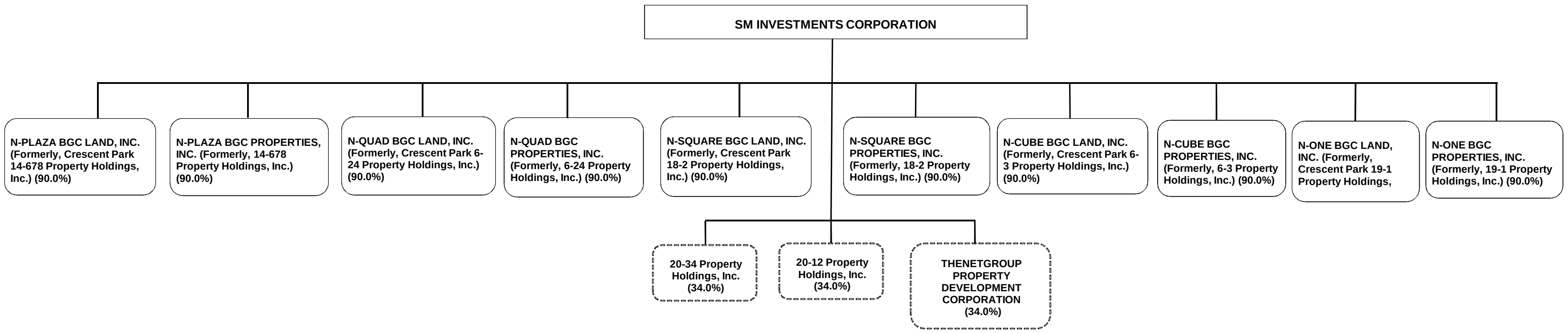
SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2017
(Effective Ownership Interest)



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2017
(Effective Ownership Interest)



SM INVESTMENTS CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAP
AS AT DECEMBER 31, 2017
(Effective Ownership Interest)



Legend:

SMIC Subsidiary

Associate of SMIC

SM INVESTMENTS CORPORATION 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: Share-based Payment, 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	✓		
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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
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		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	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 PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
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 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
	Amendments 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	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
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 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: Presentation of Financial Statements - Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Statement of Cash Flows - Disclosure Initiative	✓		
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			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments 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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
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	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	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 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *	Not Early Adopted		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value *	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 31	Interests in Joint Ventures	✓		
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	✓		
	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	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
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 Amortization			✓
	Amendments 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	✓		
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			✓
	Amendments 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 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
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*	Not Early Adopted		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
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-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
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 and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2017.